STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:

Hudson Yards Infrastructure Corp. New York City; Appropriations

Primary Credit Analyst:
Lindsay Wilhelm, New York (1) 212-438-2301; lindsay.wilhelm@standardandpoors.com

Secondary Contact:
Karl Jacob, Boston (1) 617-530-8134; karl.jacob@standardandpoors.com

Table Of Contents

Summary:

Hudson Yards Infrastructure Corp. New York City; Appropriations

Credit Profile		
Hudson Yards Infrastructure Corp., New York		
New York City, New York		
Hudson Yards Infrastructure Corp. (New York City) Hudson Yards sr rev bnds fiscal 2012 (New York City) ser A due 02/15/2047		
Long Term Rating	A/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'A' long-term and underlying rating, and stable outlook, on Hudson Yards Infrastructure Corp. (HYIC), N.Y.'s fiscal 2012 series A and fiscal 2007 series A senior revenue bonds. The rating is based on our assessment of the following credit factors:

- The multiple revenue streams pledged for repayment, both before and after the conversion date, which include recurring and nonrecurring HYIC revenue for principal and interest to the extent that it is sufficient, and the city's appropriation pledge for interest support payments to the extent that pledged revenues are insufficient;
- The city's overall commitment to the project including not only its interest support payment pledge, but also its assignment and appropriation of the pledged revenues to the corporation, its re-zoning of the project area, its participation on the board of HYIC and Hudson Yards Development Corp. (HYDC), and its overall investment in the infrastructure and commitment to real estate development within the project area. Standard & Poor's expects that New York City will continue to have the incentive and the capacity over a 40-year time period to ensure that sufficient development occurs in the project area to provide a viable revenue stream to retire the bonds or develop an alternative financing strategy to repay them;
- Our view that based on the current development status, repayment of full principal and interest on the senior bonds from pledged revenue is not inconsistent with the 2047 final maturity; and
- New York City's status as a major economic and employment center with a high-value real estate market that has experienced continued, albeit cyclical, investment and growth over time.

In our opinion, these strengths are partially offset by our view of the volatility of the pledged revenue, and the overall uncertainty in predicting real estate development over economic cycles and force majeure -- though this is partially mitigated by the long time horizon for bond repayment.

The bonds are special obligations of HYIC secured by and payable solely from the net revenues described in the indenture. HYIC itself does not have taxing power. All of the pledged revenues are either assigned to HYIC or appropriated pursuant to the support and development agreement by the city for payment to the corporation. There is no debt service reserve given the structure of the bonds. Although the amount included in the city's budget for interest support payments is a net amount, the mayor will take all actions required to seek an increase in the appropriation for interest costs due. As a practical matter, the city adjusts its budget throughout the year on a formal and established schedule, and revisions are common.

HYIC funds consist of revenues generated from new construction and development in the Hudson Yards Financing District (the project area) and include a combination of recurring revenue -- specifically, payments in lieu of city property tax (PILOTs) and tax-equivalency payments, during and after the construction period -- and other, nonrecurring, development-related revenues. To the extent that project area revenues are insufficient, the city has agreed, subject to annual appropriation, to make interest support payments to HYIC in amounts necessary to enable HYIC to pay interest through final maturity of the senior-lien bonds. The flow of funds -- both pre and post conversion -- stipulates that pledged revenues are first used to pay HYIC expenses up to an operating cap before payment on senior bonds.

HYIC is not obligated to make principal payments on the bonds prior to maturity unless revenues are sufficient, in accordance with the indenture. When net recurring revenue is sufficient to provide 125% of maximum annual debt service (MADS) on senior bonds and 105% MADS coverage on all outstanding bonds for the two immediately preceding fiscal years, conversion will occur as outlined under the terms of the indenture. HYIC is at the current maximum of $3 billion of interest-supported bonds imposed by the indenture, but could issue refunding bonds or up to an additional $500 million in additional senior bonds prior to conversion if the city council authorizes the additional principal to be subject to interest support payments. HYIC may issue subordinate bonds prior to the conversion date subject to the condition that the interest payable may not exceed $30 million. We understand, however, that the project is currently on budget and officials do not currently anticipate the need for additional bonds. After the conversion date, the additional bonds test is based on both historical and projected coverage and requires that: the preceding year's net recurring revenues provide at least 125% of the debt service payable on the senior-lien bonds then outstanding and 105% of the aggregate debt service on all outstanding bonds; and that net recurring revenues in the fiscal year of issuance provide at least 125% MADS on the outstanding and proposed senior bonds and 105% MADS on all outstanding and proposed bonds.

There is no legal requirement for New York City to fund the principal amount of the bonds. However, the city's covenant to appropriate interest support payments under the terms of the support and development agreement between the HYIC, the Hudson Yards Development Corp., and New York City to the extent that HYIC revenues are insufficient extends through final maturity (and does not necessarily conclude in 2047, if the bonds are refinanced). In addition, we believe that the city's strong commitment to the project should support pledged revenue growth in the project area, as evidenced by the following:

- The city used bond proceeds to fund a total of $3 billion of infrastructure within the development district to support the project;
- The city and other governmental agencies (including the state and the Metropolitan Transportation Authority [MTA]) have assigned or agreed to appropriate certain revenues to HYIC for repayment of the bonds;
- In January 2005, the city council adopted the Hudson Yards special district zoning ordinance by a vote of 46 to 1. The comprehensive rezoning plan for the project area was designed to provide for a mix of commercial and residential uses;
- New York City adopted a uniform tax-exempt policy that provides for various exemptions to encourage growth in the area;
- HYIC is a city component unit with a five-member board of directors that appoints the corporation's officers -- all of

whom are city employees. HYIC finances the operations of HYDC, which manages the implementation of the project and has its own staff. HYDC is governed by a 13-member board of directors, a majority of whom serve at the pleasure of the mayor;

- There has been widespread support and approval for major aspects of the project over time at all levels of government, in our opinion, including city elected officials, the state, and various government authorities; and
- The entire Hudson Yards project, including the financing plan, is a city initiative. As such, we believe that New York City has the incentive to see that the project area develops to ensure an adequate flow of revenues.

New York City's ongoing commitment to the project area will remain a major factor in our credit review process, given that future development is necessary to support the bonds and there are regular risks associated with real estate development.

The 45-block Hudson Yards Development Area (or project area) extends from West 29th and 30th streets on the southern end, 7th and 8th avenues on the east, West 43rd Street on the north, and 11th and 12th avenues on the west. The redevelopment of Hudson Yards is designed to allow for the expansion of the midtown central business district, as well as for the realization of the development potential of Manhattan's far west side. In our opinion, the Hudson Yards Financing District (the project area) benefits from its location adjacent to the city's strong midtown Manhattan business district, which will likely continue to support commercial and residential development over time. In addition to the favorable location, we believe the lack of available development capacity in midtown should support the demand for residential and commercial construction over a 40-year time period (2007-2047).

Officials report that despite the delayed opening of the No. 7-line extension, the city's investments within the project area remain under budget. In addition, we understand that the delay in the No. 7-line completion has not stymied private development within the project area. The city's economic and real estate history continues to suggest to us that the level of development necessary to support the bonds is not unrealistic or inconsistent with previous development/investment patterns. According to officials, the pace of development also is not inconsistent with that projected in Cushman & Wakefield's 2011 report, which the city forecasted as resulting in a 2026 bond conversion date.

Interest due on the HYIC bonds is approximately $153 million per year and cumulative interest due through fiscal 2016 (for which the city is currently developing the budget) totals $1.13 billion. Of this amount, cumulative city support through budget appropriations has totaled only $372 million. Tax-equivalency payments (recurring) and district improvement bonuses (DIB) and transferrable development rights payments (nonrecurring) payments have funded a majority of the remainder with PILOTs (recurring) and payment in lieu of mortgage recording tax (PILOMRT; nonrecurring) providing the remainder. The city has historically budgeted approximately $100 million in interest support payments but anticipates that payment will not be required in fiscal 2016 based on a DIB received in fiscal 2015 that is expected to eliminate the need for the appropriation, and reduce the fiscal 2017 interest support payment appropriation.

Outlook

The outlook is stable and we do not see the rating changing in the two-year outlook horizon. In our opinion, the early-but-accelerating pace of redevelopment is consistent with HYIC's ability to pay principal and interest on the bonds from interest support payments and net pledged revenues by final maturity. Although not anticipated within the two-year outlook horizon, should conditions suggest otherwise, we could re-evaluate the rating based on what we deem to be the volatility in the combined revenue streams.

Related Criteria And Research

Related Criteria

- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Non Ad Valorem Bonds, Oct. 20, 2006
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011

Ratings Detail (As Of March 25, 2015)		
Hudson Yards Infrastructure Corp., New York		
New York City, New York		
Hudson Yards Infrastructure Corp (New York City)		
Long Term Rating	A/Stable	Affirmed
Hudson Yards Infrastructure Corp (New York City) Hudson Yards sr rev (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Hudson Yards Infrastructure Corp. (New York City) sr rev bnds (AMBAC) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Hudson Yards Infrastructure Corp. (New York City) Hudson Yards sr fiscal 2007 ser A (wrap of insured) (FGIC & AGM) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Hudson Yards Infrastructure Corp. (New York City) Hudson Yards sr rev (wrap of insured) (FGIC) (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Hudson Yards Infrastructure Corp. (New York City) (wrap of insured) (MBIA) (National) (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Hudson Yards Infrastructure Corp. (New York City) (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Hudson Yards Infrastructure Corp (New York City) Hudson Yards fiscal 2007 ser A		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Hudson Yards Infrastructure Corp. (New York City) Hudson Yards Sr rev bnds		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.