STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

New York City; Appropriations; General Obligation

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Credit Profile		
US$315.0 mil go bnds ser 2015 I RMKTD dtd 06/18/2015 due 08/01/2024		
Long Term Rating	AA/Stable	New
US$300.0 mil GO Tax-exempt Fixed rate bnds ser 2015F-1 due 06/01/2037		
Long Term Rating	AA/Stable	New
US$195.0 mil GO Taxable Fixed rate bnds ser 2015F-3 due 06/01/2032		
Long Term Rating	AA/Stable	New
US$105.0 mil GO Taxable Fixed rate bnds ser 2015F-2 due 06/01/2032		
Long Term Rating	AA/Stable	New
US$50.0 mil go bnds ser 1995F-4 dtd 06/18/2015 due 02/15/2020		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating to New York City's fixed rate fiscal 2015 tax-exempt subseries F-1 and taxable subseries F-2 and F-3 general obligation (GO) bonds. We understand that officials plan to use F-1 bond proceeds for capital purposes and F-2 and F-3 bond proceeds for discrete capital purposes. At the same time, Standard & Poor's affirmed its 'AA' long-term rating on the city's GO debt outstanding and its 'AA-' rating on the New York City Educational Construction Fund (ECF's) and the Dormitory Authority of the State of New York's (DASNY) court facilities lease revenue bonds outstanding based on the city's appropriation pledge. A state aid intercept mechanism further secures the ECF and DASNY bonds. The outlook is stable.

In addition, Standard & Poor's has assigned its 'AA' long-term rating, and stable outlook, to New York City's fiscal 1995F, subseries F-4 GO bonds based upon their expected conversion on June 18, 2015 to the index rate mode (based off of SIFMA, with a maximum rate of 9%) with no put feature. Standard & Poor's also assigned its 'AA' rating to the city's fiscal 2015 series 1 bonds based upon the expected conversion of the following subseries to fixed-rate mode on June 18, 2015:

- Fiscal 1994 series A, subseries A-4;
- Fiscal 1994 series A, subseries A-6;
- Fiscal 1994 series A, subseries A-7;
- Fiscal 1995 series B, subseries B-4;
- Fiscal 1995 series B, subseries B-8;
- Fiscal 1995 series B, subseries B-9; and
- Fiscal 2003 series C, subseries C-2.

New York City's faith, credit, and unlimited ad valorem pledge secure the GO bonds. Bondholders also benefit from the security of the general debt service fund, with city real estate tax revenue deposited into the fund and retained under a statutory formula in an amount sufficient to cover debt service.

The 'AA' GO rating reflects our view of New York City's:

- Strong, broad, and diverse economy, given its status as the nation's largest city and economic center;
- Strong budgetary flexibility despite limitations on the city's ability to maintain general fund reserves under the Financial Emergency Act, which New York City has adjusted for by using surplus to prepay subsequent-year expenditures;
- Adequate budgetary performance in fiscal 2014, which we expect will continue based on the city's proposed fiscal 2015 budget and financial projections, and its history of closing out-year budget gaps;
- Very strong liquidity when considering highly liquid investments and exceptional access to external liquidity;
- Very strong management conditions, given New York City's well-established policies and practices;
- Very weak debt and contingent liability profile, with significant pension and other postemployment benefit (OPEB) liabilities that contribute to elevated fixed costs; and
- Very strong Institutional Framework.

Strong economy

In our opinion, New York City's economy is strong, broad, and diverse, given its status as the nation's largest city and economic center. With an estimated population of 8.4 million residents, the city is the most populous city in the nation and continues to grow. Its major employment sectors continue to comprise trade, financial activities, professional services, education, health services, and government. New York City's projected per capita effective buying income is 105.5% of that of the U.S. level, while market value per capita is $111,609 based on the 2015 market value. The financial activities sector continues to play a major role in the city economy, representing 26.5% of total city wages and 11.0% of total employment in 2013. New York City's unemployment rate continues to improve, averaging 7.4% in 2014 based on seasonally unadjusted data from the bureau of labor statistics.

Strong budgetary flexibility

The city's budgetary flexibility is strong, in our view. The Financial Emergency Act limits New York City's ability to maintain reserves from current-year revenue, translating into zero dollars in available general fund balance at fiscal year-end. In response, the city has historically used its surplus in the fourth quarter of each year to prepay subsequent-year expenditures (primarily debt service). We view these prepayments as a form of reserve balance and a source of budgetary flexibility. New York City also funds a discretionary reserve for future retirees' health insurance costs. Combined, the fiscal 2014 budget stabilization contributions ($1.98 billion) and the reserve for retirees' health insurance costs ($1.86 billion) represented 5.3% of adjusted general fund expenditures. In addition, we believe that, despite statutory limitations on its major revenue sources, New York City retains a degree of additional budgetary flexibility, based on its track record of receiving state legislative approval for proposed revenue increases. In our opinion, legislative approval has proven a lower hurdle than direct-voter approval. In addition, we believe the city has historically made these revenue requests sparingly and, as a result, has obtained legislative approvals or otherwise made adjustments when needed. Although the state did not agree to Mayor Bill de Blasio's proposed tax increase of 0.534% for households earning more than $500,000 per year, it did provide funding for New York City's universal pre-kindergarten initiative, which we believe supports this assessment.

We expect the city's budgetary flexibility to remain adequate-to-strong over the next two years. Based on projections in the mayor's proposed fiscal 2016 budget, officials are planning for a $3.04 billion fiscal 2015 budget-stabilization contribution (which will be offset by $2.01 billion in fiscal 2014 contributions in fiscal 2015, based on our budgetary flexibility analysis) and to increase the reserve for retirees' health insurance costs to $2.60 billion by fiscal 2016 year-end. In addition, we believe the budget-stabilization contribution could increase as the city's fiscal year progresses based on its past performance.

Adequate budgetary performance

We consider New York City's budgetary performance adequate, with nearly balanced general fund operations in 2014 after discretionary transfers -- in compliance with the Fiscal Emergency Act -- and a slight, 1.4% deficit in the city's total governmental fund performance after adjusting for reimbursements to the city's central treasury for capital expenditures. Fiscal 2014 results reflected a $1.98 billion debt prepayment for fiscal 2015 budget stabilization (relative to $2.7 billion in fiscal 2013), an $864 million increase in the reserve for future retirees' health insurance costs, and an approximately $1.9 billion in additional expenditures for costs associated with labor settlements.

Consistent with that of previous years, New York City's projections for fiscal 2015 year-end show continued improvement in the net budget stabilization contribution. In addition, we understand that the city and its collective bargaining units have identified sufficient initiatives to meet the agreed-upon target of $400 million in health cost savings. New York City's fiscal 2016 executive budget is balanced in accordance with generally accepted accounting principles (except for the application of the Governmental Accounting Standards Board Statement No. 49) at $78.3 billion, including the fiscal 2015 budget-stabilization prepayment, which closed the $1.8 billion gap identified in the November 2014 financial plan. The budget includes an increase in the general reserve to $1 billion, an increase in the retiree health benefits trust fund to $2.6 billion, and the creation of a $500 million capital-stabilization reserve New York City may use for debt service relief in the event of economic pressures, or to provide interim financing for project costs. The out-year gaps in the city's financial plan did increase relative to the February 2015 plan, partially due to an increase in the general reserve to $1 billion (from $750 million). However, they remain in line with historical averages at $1.57 billion in fiscal 2017, $1.97 billion in fiscal 2018, and $2.88 billion in 2019. In our view, New York City continues to use conservative revenue and expenditure growth assumptions, but we believe that future year gaps could be problematic if economic conditions were to deteriorate, given the city's fixed cost structure.

Very strong liquidity

We view New York City's liquidity position as very strong. Total governmental cash and liquid investments grew to 16.8% of total governmental fund expenditures in fiscal 2014, and 171% of debt service based on the city's strong revenue performance. In addition, New York City has demonstrated exceptional access to capital markets based on its frequent debt issues backed by multiple security types. In our opinion, the city has limited exposure to contingent liability risk, despite its variable-rate debt portfolio, based on our understanding that acceleration is not a permissible remedy in any of the liquidity facilities in an event of a default.

Very strong management conditions

We view New York City's management conditions as very strong, with strong policies and practices. These practices include detailed long-term financial plans shared with the public, annual audit reports, and frequent reporting to the city council and state authorities. We believe these practices are strong, well-embedded, and sustainable.

Very weak debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is very weak when considering its significant pension and OPEB costs. Total governmental funds debt service (including lease payments) represented 9.8% of governmental funds expenditures in 2014, while net direct debt is 88% of total governmental funds revenue. Amortization is average, in our view, with approximately 50% of debt retiring in 10 years. We estimate overall net debt at 7% of market value. While we understand that there are no term out provisions on New York City's variable-rate bonds, we believe it has some exposure to interest rate risk given maximum bank rates on its variable-rate debt of up to 25%.

The city's pension and OPEB fixed costs remain substantial, in our opinion, representing 14.7% of total governmental expenditures in fiscal 2014. We believe that this is a significant share of New York City's budget and remains a source of pressure. While the city is fully funding its annual required pension contribution, it funds OPEB costs on a pay-as-you-go basis. Although the health plan modifications agreed to with the Municipal Labor Committee could lead to a reduced OPEB liability, we believe the liability will remain substantial given the level of benefits, coupled with volatility in health care costs, unless further action is taken. We estimate that combined debt service, pension, and OPEB fixed costs were 24.5% of total governmental expenditures in fiscal 2014, which we consider elevated.

Very strong Institutional Framework

The institutional framework score for New York governments is very strong, reflecting the demonstrated success of the state's ad hoc, but tested, support mechanisms during the city's past periods of fiscal stress.

Outlook

The stable outlook reflects what we view as New York City's deep and diverse economy and status as the nation's largest employment center. Strong and tested financial management policies and practices further support the rating. We believe these factors, together with the city's very strong liquidity position -- but offset by its very weak debt and contingent liability profile -- will be stable during the two-year outlook horizon. In our view, New York City's projected budget gaps in fiscal years 2017-2019 are manageable relative to its historically projected gaps if favorable economic conditions continue. However, should economic conditions deteriorate significantly, we believe the city face problems adjusting its budget to maintain a stable financial position, given its fixed cost structure. An ongoing period of structural misalignment could lead to a downgrade. Conversely, a maintained stable financial position, improved flexibility in the city's cost structure, and a reduction in New York City's debt and contingent liability profile could lead to an upgrade.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New York Local Governments

Ratings Detail (As Of May 28, 2015)		
New York City GO		
Long Term Rating	AA/Stable	Affirmed
New York City Educl Const Fd, New York		
New York City, New York		
New York City Educl Const Fd (New York City) (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
New York City Educl Const Fd State Credit Enhancement (New York City)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
New York City Educl Const Fd (New York City) rev bnds		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
New York State Dorm Auth, New York		
New York City, New York		
DASNY (New York City) (Court Fac Prog)		
Long Term Rating	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

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