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Hudson Yards Infrastructure Corp., NY 2012 Ser A Bond Rating Raised Two Notches To 'AA-' On Higher Debt Service Coverage

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NEW YORK (S&P Global Ratings) May 18, 2017--S&P Global Ratings raised its rating on Hudson Yards Infrastructure Corp. (HYIC), N.Y.'s outstanding fiscal 2012 series A first-indenture senior revenue bonds two notches to 'AA-' from 'A'. At the same time, we assigned our 'A+' long-term and underlying ratings on HYIC's fiscal 2017 series A (tax exempt) and B (taxable) second-indenture revenue bonds. The outlook is stable.

"The upgrade on the series 2012 series A first-indenture senior revenue bonds reflects increased debt service coverage from multiple revenue streams pledged for repayment, as well as a closed first indenture," said S&P Global Ratings credit analyst Anne Cosgrove. We also note there has been significant development activity in Hudson Yards since the project's inception. HYIC has not had to rely on city interest support payments in fiscal years 2016 and 2017 and we expect recurring and nonrecurring revenues to be sufficient over the next few years to cover debt service. The series 2012 A first-indenture senior revenue bonds are being converted to principal amortizing with level debt service and a 2047 final maturity; the conversion is triggered by the two prior fiscal years' recurring revenues equaling at least 1.25x maximum annual debt service (MADS) coverage.

"The rating on the fiscal 2017 series A and B second-indenture revenue bonds reflects our opinion of strong recurring pledged revenues for debt service payment, as well as interest support payments from New York City that will remain available, subject to annual appropriation, to cover any interest shortfalls on the unrefunded first-indenture and series 2017 bonds," said Ms. Cosgrove.

Bond proceeds will redeem all of HYIC's $2 billion fiscal 2007 series A bonds and about $391 million of fiscal 2012 series A bonds; the taxable bonds are being issued to refinance private uses.

The bonds are special obligations of HYIC secured by and payable solely from the net revenues described in the first and second indentures. Pledged revenues include recurring revenues, which are commercial office payments in lieu of real estate taxes (PILOTs) and tax equivalency payments (TEPs), nonrecurring revenues include district improvement bonus payments, Eastern Rail Transferrable Development Rights (ERY TDRs), and payments in lieu of mortgage recording taxes (PILOMRTs). In addition, interest support payments from New York City will remain available, subject to annual appropriation, to cover any interest shortfalls on the unrefunded first-indenture bonds and the series 2017 bonds. The flow of funds stipulates that pledged revenues are first used to pay HYIC expenses before payment on the bonds. Under the first indenture, these expenses are capped before debt service; the second indenture does not cap operating expenses but we believe the allowable expenses will keep it to minimal levels. The series 2017 bonds are subordinate to the first-indenture bonds with respect to the right of payment from and priority of lien on revenues.

The 45-block Hudson Yards Development Area (or project area) extends from West 29th and West 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.

"The outlook is stable and we do not see the rating changing in the two-year outlook horizon," added Ms. Cosgrove, "and in our opinion, the accelerated pace of redevelopment is consistent with HYIC's ability to pay principal and interest on the bonds from recurring pledged and nonrecurring revenues." The stable outlook is based on our expectation of continued development of the HYIC, as well as growth in recurring revenues.

If recurring revenues continue to grow and increasingly cover debt service as the project continues to develop, we could raise the rating. Conversely, if underlying recurring revenues do not grow in line with expectations and HYIC needs to rely on interest support payments, we could lower the rating.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.