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Sales Tax Asset Receivable Corp.; Sales Tax

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Credit Profile		
US$2000.0 mil sales tax asset rev bnds ser 2015A due 10/15/2033		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Sales Tax Asset Receivable Corp.'s sales tax asset revenue bonds, fiscal 2015, series A.

We base the rating on the payment stream supporting the bonds, which consists of $170 million annually dedicated from a statewide 1% sales tax. The state public authorities law was amended in May 2003 to include a provision for the certification and transfer of $170 million from funds flowing to the Local Government Assistance Corp. (LGAC). The law authorized New York City to assign all or any portion of the $170 million to any not-for-profit corporation for the benefit of bondholders, and payments from the LGAC may be directed to the corporation. The city created a local development corporation -- Sales Tax Asset Receivable Corp. (STAR) in 2004 -- and transferred to it all of the city's rights in and to the $170 million annual payment from the LGAC.

We base the rating on what we view as the following factors:

- New York State's large and diverse economy of 19.65 million people that generates the pledged sales tax;
- Very high 5.38x maximum annual debt service coverage on combined LGAC first- and second-lien bonds, and the subordinate $170 million per year payment to STAR Corp. bonds, based on revenues collected in fiscal 2014;
- No additional debt authorization or payment obligations secured by the 1% sales tax, which is a credit strength and will lead to growing coverage levels; and
- The large magnitude of the sales tax set-aside in a sales tax fund held in the joint custody of the comptroller and commissioner of revenue that, in our view, effectively eliminates the risk of state non-appropriation due to the need to use excess revenues for state general fund operations.

We understand that bond proceeds will refund all of the fiscal 2005 series A and B bonds outstanding. The fiscal 2015 bonds are being issued pursuant to the original trust indenture, which will be amended and restated and is expected to eliminate the debt service reserve fund. We do not view this as a negative credit feature due to the credit structure in place and the timing of the flow of sales tax well in advance of the debt service payment date. The bonds are expected to generate interest cost savings and together with the funds released from the debt service reserve will be used to refund certain New York City Transitional Finance Authority bonds for debt service savings.

The public authorities law provides that the $170 million payment to New York City be included in the annual certification by the LGAC to the New York State comptroller and the governor. Under the LGAC legislation, the amounts transferred to the LGAC are subject to appropriation by the state. After the appropriation of revenues is made to LGAC, the remaining amounts flow to the state's general fund. Failure of the state to make appropriations will restrict use of designated sales tax receipts within the sales tax fund, which in our view creates a strong incentive for the state to appropriate the funds. The public authorities law provides that the $170 million payment is not considered LGAC debt service, but is a required payment under statute. If there are insufficient funds available from the 1% sales tax, the comptroller is authorized to make payments from general fund resources without further appropriation.

New York City used the original bond proceeds to retire debt outstanding issued by the Municipal Assistance Corp. (MAC). Proceeds of certain MAC issues were used to cover city deficits in the 1970s and other financing requirements. The original STAR financing represented a de facto significant extension of debt for the city, offset by a newly dedicated revenue source from the state.

Outlook

The stable outlook reflects our view of the strength of the credit structure supporting the bonds, a substantial revenue base supporting the payment to the city that secures debt, and very high debt service coverage that we expect to remain high due to the lack of additional debt authority on the bond program and the diversity in the economic base generating the sales tax which ultimately secures the bonds. A lower rating is unlikely given the expected growth in sales tax and lack of additional LGAC debt authorization but the rating could be pressured if there were significant changes to the sales tax base that affected collections in a negative way.

LGAC Bond Structure

The LGAC was established as part of the fiscal reform enacted in 1990 that bonded out the state's accumulated deficit to accelerate local government assistance payments in the fiscal year they are due. LGAC bondholders have a first lien on one cent of the state's four- cent sales tax. The statute requires that the chairman of the LGAC annually certify all amounts necessary to fund debt service and other requirements of the LGAC program. The rating on the STAR bonds is the same as that on the LGAC senior and subordinate bonds. Although debt service obligations for the LGAC bonds, as well as all other obligations of the LGAC, would be paid first, there is a high level of debt service coverage for the LGAC obligations, including the $170 million commitment to New York City. Coverage has expanded steadily due to the lack of additional debt authority for the LGAC bond program ($4.7 billion) and the capped amount of the distribution to New York City. The credit structure for the $170 million distribution of sales tax supporting the bonds is similar to that of the LGAC financing structure, although the $170 million has not been included in the state's debt service bill that is passed each year at the start of the fiscal year but has been included in the state's budget annually.

The $170 million payment to the city has been regularly certified by the LGAC and has been appropriated by the state.

The law provides that payment be made annually by the last day of the city's fiscal year (June 30), with certification having taken place by December of the previous calendar year. The first debt service payment on the refunding bonds is Oct. 15.

Bond Provisions

The public authorities law as amended provides that the $170 million payment to New York City be included in the annual certification by the LGAC to the New York State comptroller and the governor. Because the annual payment to the city is fixed at $170 million, the trust indenture will not include authorization for variable-rate debt or swaps. The amendments to the public authorities law remain in effect until July 1, 2034; LGAC bonds mature in 2025. The public authorities law provides that LGAC will remain in existence "until six months after all its liabilities have been met or otherwise discharged." While the term "liabilities" is not defined in the statute, the courts have upheld LGAC's payment obligation, subject to annual appropriation by the state. On this basis, LGAC would remain in existence until the STAR bonds mature. The legislation supporting the payment to the city securing the bonds was initially vetoed by Governor George Pataki. This veto was overridden by both houses of the state legislature during the 2003 legislative session. The state division of the budget then sued the city and the corporation challenging the constitutionality of the obligation of the LGAC to make the $170 million annual payment. The constitutionality of the statute that requires the annual payment has been held up through the highest level of the state court system. The legislation prohibits the state from impairing the rights of STAR bondholders.

Sales Tax And Pledged Revenues

STAR receives $170 million of a dedicated 1% statewide sales tax. The tax totaled $2.95 billion in fiscal 2014, which covers LGAC debt service and the $170 million payment to STAR by 5.38x. Even during an economic downturn, there is a considerable cushion of revenues to meet debt service requirements. There have been significant changes and reductions to the sales tax base since the LGAC bond program was authorized, but pledged revenue has expanded over time. The average growth since 1994 has been 3.4% despite recession-related declines in 2002, 2007, 2009, and 2010 (state fiscal year ended March 31). The LGAC bond program is closed, as the statute and bond resolution capped debt issuance to $4.7 billion. After funds have been certified and paid to cover LGAC requirements and payment to the city, the remaining amounts flow to the state's general fund. New York State's failure to make appropriations will restrict designated sales tax receipts within the sales tax fund. Until such time as the appropriation is made, it creates a strong incentive for the state to appropriate for debt service.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013