MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Hudson Yards Infrastructure Corp, NY's revenue bonds to Aa2, assigns Aa2 to Fiscal 2022 Series A; outlook stable

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New York, October 06, 2021 -- Moody's Investors Service has upgraded the Hudson Yards Infrastructure Corporation's (HYIC) $2.7 billion outstanding revenue bonds to Aa2 from Aa3 and assigned a Aa2 rating to its $442 million Hudson Yards Revenue Bonds, Fiscal 2022 Series A. The outlook is stable.

RATINGS RATIONALE

The upgrade to Aa2 (the same level as New York City's general obligation rating) reflects steady growth in the portion of recurring revenue used to pay debt service that does not require city appropriation, and the expectation that the city will not have to appropriate any interest support payments for the remaining life of the bonds. Payments in lieu of taxes (PILOTs), which are paid by commercial property owners directly to the bond trustee and are not contingent on any action by the city, are estimated by fiscal 2024 to grow to provide 1.34x debt service coverage and to average 57% of the recurring revenue sources over the life of the bonds, based on properties that are already developed. Based on current year PILOT revenue and including tax equivalency payments (TEPs) that require annual city appropriation, recurring revenue provides 1.6x debt service coverage. The rating also reflects the strong legal structure which in addition to the flow of PILOT revenue includes a first mortgage lien on PILOT payments, and the essentiality of the subway line financed with the bonds. Even with growth in the PILOT revenue, the rating is constrained by the city's general obligation rating because of several factors: the Hudson Yards Infrastructure Corporation (HYIC) was created by and is controlled by the city; the PILOTs and TEPs used to pay debt service are based on the city's property tax system and thus subject to changes by the city if overall city tax rates were changed; TEPs still provide an estimated 43% of the revenues for debt service and require annual appropriation; and while no longer anticipated to be needed, city interest support payments are subject to appropriation.

RATING OUTLOOK

The outlook for the Hudson Yards Infrastructure Corporation is stable, based on the City of New York's general obligation rating and outlook, the importance of the project to the city and its strong support of the project's financing.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- An upgrade of the city's general obligation rating

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Downgrade of the city's general obligation rating

- A prolonged real estate recession that materially reduces the property tax-like revenue that pay debt service

- Failure to appropriate interest support payments, if needed

LEGAL SECURITY

The legal structure is strong. The bonds are payable with a mix of major recurring revenue sources and certain one-time revenue sources. The recurring revenue sources are PILOTs and TEPs. Nonrecurring revenue sources include payments in lieu of mortgage recording taxes; and density bonus payments. Based on completed development the recurring sources are estimated to be 98% of all pledged revenue through the life of the bonds. Debt service coverage by fiscal 2022 recurring revenue is 1.6x. PILOTs and TEPs are each roughly half of fiscal 2022 recurring revenue but PILOTs will increase quickly as a share of the total and are estimated to average 57% of recurring revenue through the life of the bonds.

Through an assignment agreement between HYIC, the city and the New York City Industrial Development Agency, the PILOT payments are assigned and paid directly to the bond trustee. The TEPs require annual appropriation by the city to HYIC.

Additional bonds may be issued subject to an additional bonds test of 1.25x maximum annual debt service on outstanding and new money bonds. The city has authorized up to $500 million of new bonds supported by interest support payments (ISP).

Because of potential real estate market volatility and uncertainty about the speed of development in Hudson Yards, when the original bonds were issued the city committed to pay interest on the bonds if the underlying Hudson Yards revenues were insufficient. That commitment will remain in place for the life of the bonds. The city's obligation to make interest support payments, if required, is net of any available HYIC funds, and like the TEPs, is absolute and unconditional, subject to annual appropriation.

The indenture and interest support agreement create a strong legal structure through which the city's interest support payments are budgeted. HYIC is required annually by April 1 to certify to the city's budget director the next fiscal year's net interest obligation (the difference between interest due on the bonds and revenue HYIC expects to have available). The mayor is then obligated to include that amount in the annual budget. In addition, if at any time during the fiscal year the appropriation is not sufficient to pay required TEP and interest support payments, the mayor is required to take any actions needed to seek an increase in the appropriation.

USE OF PROCEEDS

Proceeds of the Fiscal 2022 Series A bonds will be used to refund the remaining outstanding senior bonds, after which the 2006 indenture will be closed and the Fiscal 2022 bonds along with the outstanding Fiscal 2017 bonds will have a senior lien on revenue.

PROFILE

The Hudson Yards Infrastructure Corporation (HYIC) is a local development corporation created by the City of New York in 2005 to finance the extension of the Number 7 subway line to spur real estate development in the Hudson Yards Financing District. The district is a 45 square block area on the city's west side.

METHODOLOGY

The principal methodology used in these ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments Methodology published in June 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1274696 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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