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Fitch Rates Nassau Co Interim Fin Auth, NY's Sales Tax Secured Bonds 'AAA'; Outlook Stable

Fitch Ratings-New York-30 September 2015: Fitch Ratings assigns an 'AAA' rating to the Nassau County Interim Finance Authority, NY's (NIFA) $118 million sales tax secured refunding bonds, series 2015A.

The bonds are expected to sell via negotiation the week of Oct. 5. Proceeds of the bonds will be used to current refund portions of outstanding series 2005A and series 2005D and advance refund series 2009A for debt service savings.

The Rating Outlook is Stable.

SECURITY

Pursuant to the NIFA Act (the Act), the bonds are supported by a first perfected security interest in sales tax revenues derived in Nassau County (the county).

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KEY RATING DRIVERS

STRONG LEGAL PROTECTIONS: NIFA is a bankruptcy-remote, statutorily defined issuer. The tight legal framework includes a first perfected security interest in Nassau County's sales tax revenue.

SOUND DEBT SERVICE COVERAGE: Debt service coverage levels are strong and leveraging risk is limited as NIFA has no authority to issue additional debt.

STRONG COUNTY ECONOMY: The tax base from which pledged revenues are drawn is strong and diverse, although sales tax revenues are inherently sensitive to economic cycles.

RATING SENSITIVITIES

DECLINE IN SALES TAX REVENUES: A decline in economically sensitive sales tax revenues could result in a decline in debt service coverage. Given the strong and diverse tax base, historically strong debt service coverage levels, and no additional debt authorization, a significant decline in coverage sufficient to affect the rating is highly unlikely.

CREDIT PROFILE

Nassau County (rated 'A' with a Stable Outlook by Fitch) is located on Long Island, approximately 15 miles east of Manhattan. The population of approximately 1.3 million has remained fairly steady since 2000.

NIFA was created by the Act as a public benefit corporation by the state of New York in June 2000 and was empowered to provide oversight for the county. In January 2011, NIFA, which had maintained an oversight role over the county since 2000, imposed a control period under NIFA's enabling legislation.

The ability to break existing contracts is beyond NIFA's control

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period powers. However, upon declaration of a fiscal crisis NIFA has the ability to impose a wage freeze if it determines that such freeze is necessary to maintain a balanced budget, which it did for four years (2011-2014). The wage freeze was lifted during 2014 after NIFA approved labor settlements with the county's three police unions, correction officers and the CSEA.

STRONG LEGAL STRUCTURE

NIFA is a bankruptcy-remote issuer, and the bond structure grants a first perfected security interest in the county's 4.25% local sales tax less the 0.25% currently required to be paid to towns and cities and the up to 0.083% authorized to be allocated to villages. The state collects sales tax revenues and distributes them to the state comptroller, who then pays the revenues directly to the bond trustee. The county receives residual revenues monthly after appropriate transfers for the payment of NIFA's debt service and operating requirements.

The Act allows NIFA to issue debt for county purposes, including restructuring of outstanding county debt. Under the Act NIFA has no further debt authorization, so the only potential threats to current strong coverage are declines in county sales tax revenue and changes to the tax structure. Fitch believes the former is mitigated by the strength and diversity of the county's tax base. While pledged revenue has been somewhat variable, Fitch believes a deterioration of a magnitude that would have a meaningful impact on debt service coverage is highly unlikely.

The county and state both have the unilateral ability to alter the tax structure, although Fitch believes this risk is negligible due both to the potential impact on bond security and the county's reliance on residual revenue for its operations.

The final maturity of NIFA's outstanding bonds is Nov. 15, 2025. NIFA's statute requires it to remain in existence until all of its liabilities, including its bonds, have been paid or are no longer outstanding. In no event shall any bonds of the authority have a final maturity later than Jan. 31, 2036.

SOUND DEBT SERVICE COVERAGE

Debt service coverage remains strong; coverage of maximum annual debt service (MADS) by audited 2014 sales tax revenue was 5.6x. Annual debt service began to decline in 2014, so coverage is anticipated to strengthen going forward.

Sales tax revenues were up 6.3% in 2013 but down 4.1% in 2014. 2014 was the first year since 2009 that year-over-year sales tax revenues declined. Fitch believes the decline was reflective of the up-tick in spending in 2013 related to Superstorm Sandy rebuilding and poor weather in the early part of the year. Year-to-date sales tax collection distributions to NIFA from the State Comptroller are up 1.2% from the same period a year prior.

Approximately 48% of currently outstanding bonds are variable rate demand obligations (VRDOs), swapped to fixed rate, with diverse counterparties. NIFA's access to liquidity support is evidenced by a number of recent substitutions of expiring standby bond purchase agreements.

STRONG AND DIVERSE COUNTY ECONOMY

The county benefits from a broad, diverse economy and well above-average economic indicators, including $151,000 market value per capita and solid income levels with 2013 per capita income and medium household income at 151% and 184%, respectively, of the U.S.

The county's unemployment rate remains lower than the rates for New York State and the nation. For June 2015, the county's unemployment rate was 4.3% compared to 5.2% and 5.5% for the state and nation, respectively. The year-over-year decline in unemployment (from 4.7% in June 2014) is attributable to employment growth (1.1%) outpacing the increase (0.7%) in the labor force.

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Date of Relevant Rating Committee: May 28, 2015

Additional information is available at 'www.fitchratings.com'.

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from CreditScope, IHS Global Insight, and Zillow Group.

Applicable Criteria
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)

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