

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Nassau County Sewer and Storm Water Fin. Auth, NY's \$162.3M rev bonds; Outlook is stable

Global Credit Research - 30 Oct 2014

NASSAU COUNTY SEWER & STORM WATER FINANCE AUTHORITY, NY
Sewer Enterprise
NY

Moody's Rating

ISSUE	RATING
System Revenue Bonds, 2014 Series A	Aa3
Sale Amount \$160,885,000	
Expected Sale Date 11/06/14	
Rating Description Revenue: Government Enterprise	

System Revenue Bonds, 2014 Series B (Federally Taxable)	Aa3
Sale Amount \$1,455,000	
Expected Sale Date 11/06/14	
Rating Description Revenue: Government Enterprise	

Moody's Outlook STA

Opinion

NEW YORK, October 30, 2014 --Moody's Investors Service has assigned an initial Aa3 rating to the Nassau County Sewer and Storm Water Finance Authority, NY's \$160.8 million System Revenue Bonds, 2014 Series A and \$1.4 million System Revenue Bonds, 2014 Series B (Federally Taxable). The bonds are special obligations of the Authority secured by a gross revenue pledge as defined in the General Revenue Bond Resolution between the authority and the trustee. The outlook is stable. The county has covenanted to levy an assessment or impose a charge sufficient to pay debt service on the revenue bonds, the Authority's operating expenses, Nassau County's (A2 stable) Sewer and Storm Water GO bonds currently outstanding and for operating expenses of the county's Sewer and Storm Water Resources District. Proceeds from the current issue will finance approximately \$38 million in new money capital projects as well as fully refund the Authority's only outstanding debt, the Series 2004B and 2008A bonds, for an estimated net present value savings of \$5.3 million, or 4.1% of refunded principal. The authority will take a majority of the savings in fiscal 2015.

SUMMARY RATINGS RATIONALE

The Aa3 rating reflects satisfactory bondholder protection, strong coverage of debt service, a historically stable and predictable revenue source, and a manageable debt position.

The stable outlook is reflective of the Authority's large, built out service area with strong coverage levels that are expected to remain stable.

STRENGTHS

- Stable and predictable revenue source
- Large and wealthy suburban Metro New York tax base

CHALLENGES

-Declining assessed valuation

DETAILED CREDIT DISCUSSION

SATISFACTORY LEGAL PROVISIONS; FLOW OF FUNDS KEY TO RATING

The legal structure provides strong bondholder protection and is a key driver to the high rating level and the differential from the county's GO rating. The county has covenanted to maintain assessments to make sum sufficient coverage of all of the authority's debt service, the authority's operating expenses, county GO debt issued for the sewer and storm water projects, and to cover all expenses at the Sewer and Storm Water Resources District. In the new Revenue Bond Resolution for this issue, the additional bonds test has been increased to a minimum of two times coverage.

The new structure of the flow of funds outlined in the Revenue Bond Resolution improves the authority's credit strength. Each year, the county will set the levy sufficient to meet its covenant. The Towns of Hempstead (Aa1 stable), North Hempstead (Aa1 stable), and Oyster Bay (A3 stable), and the Cities of Glen Cove (Baa3 stable) and Long Beach (Baa3 positive) will collect all assessments on behalf of the authority and remit the revenue to the trustee for the payment of debt service. The county has guaranteed full collection of the assessments and any shortfall will be taken from the county's own operating property tax revenue collected by the towns and cities. The authority's only financial obligation is to pay debt service on its revenue bonds and for minimal operating costs - the operations and management of the system itself are the county's responsibility. After debt service and operating costs, the authority will transfer the remaining revenue to the county for the payment of GO debt and system operations.

The two notch rating differential from the county's GO is reflective of these strong legal requirements. The assessments represent a stable and predictable source of revenue for these bonds. It is highly unlikely that the county would not set a tax levy sufficient to pay for operations given that it would greatly impact property tax revenue for its own operations. In the event that the county did not set a tax rate sufficient to cover debt service, the authority could sue the county to implement a sufficient assessment level.

The legal documents give the county the authority to change to a charge structure at any time, which could potentially weaken the credit quality of the bonds. Historically, management has chosen to levy an assessment on properties within the county, which exempts non-profit institutions, like hospitals and universities, who are among the greatest users of the system. To capture that lost revenue, the county could move to a fee structure based on usage. In the event that it did change to this structure, potentially the county itself would collect and remit the money to the trustee. The county is unlikely to alter the current structure given its historical practices and the stability and predictability of revenue collection. The county has proposed charging user fees to tax-exempt properties and maintaining assessments on taxable properties, but this remains under a legal challenge.

Under the Nassau County Interim Finance Authority (NIFA, Aa1 stable) legislation, NIFA has oversight of the authority's operations; this legislation also eliminates the county or the authority's ability to file for bankruptcy during the period NIFA's bonds are outstanding, currently through November 2025. The authority is considered a "covered organization" under the NIFA legislation. The NIFA oversight also reduces the risk that the county will not meet its covenant requirements.

GROSS REVENUE PLEDGE; FLOW OF FUNDS RESULTS IN STRONG DEBT SERVICE COVERAGE

As noted above, the county sets the levy and the three towns and two cities collect the revenue and remit to the trustee on a first-in basis. Given the county's rate covenant, this results in very strong debt service coverage. Over the past five years, debt service coverage of authority bonds has averaged 7.6 times. Revenues have been stable and are expected to increase going forward. Management projects that coverage will increase to over ten times in 2015, the year the county will take the majority of the savings from the current refunding, before declining to more historical levels of around 7.0 times.

Despite a declining assessed valuation within the county over the past few years, the revenues have remained stable. County management has increased the assessment rate to counteract the drop in valuation, maintaining revenues. The county's tax base remains large, highly diversified and stable. The county executive's proposed 2015 budget includes a tax levy increase for 2015. The county is fiscally responsible for sewer operations and any shortfall in revenues would be borne by the county.

The rate covenant and the flow of funds result in a material amount of revenue transferred to the county after it has paid debt service. This excess revenues will be used to fund district operations and pay the GO debt service of

the sewer system. In 2013, the transfer of funds (including paying the county GO debt service) was \$116 million, approximately 4% of the county's overall revenue structure.

OVERALL DEBT BURDEN LOW; DEBT CAPACITY LIMITED

The authority is limited to total debt issuance of \$350 million, reducing the likelihood of diluted coverage through significant additional debt service. After this issuance, the authority will have \$162 million of debt outstanding and \$128 million in remaining capacity.

OUTLOOK

The stable outlook is reflective of the Authority's large, built out service area with strong coverage levels that are expected to remain stable.

WHAT COULD MAKE THE RATING GO UP

- Improvement in county operations that result in strong liquidity and reserve levels
- Significant improvement in authority debt service coverage levels

WHAT COULD MAKE THE RATING GO DOWN

- Revenue declines resulting in lower coverage levels
- A change in revenue structure

Key Statistics:

Security: Gross Revenue Pledge

Current Revenue structure: Assessments levied by the county

Additional Bonds Test: 2x

Debt Service Reserve Fund: None

2013 debt service coverage: 7.68x

2014 budgeted debt service coverage: 7.62x

Post sale debt outstanding: \$162M

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. The additional methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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 rating action on the support provider and in relation to each particular 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.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal

entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Robert Weber
Lead Analyst
Public Finance Group
Moody's Investors Service

Valentina Gomez
Backup Analyst
Public Finance Group
Moody's Investors Service

Geordie Thompson
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT

RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.