MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Nassau County (NY)

New Issue- Moody's assigns A2 to Nassau County, NY $273M Series 2016A and $120.1M Series 2016B, Outlook is stable

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to Nassau County's General Improvement Bonds, 2016 Series A and B. Concurrently, Moody's has affirmed the rating on previously issued parity debt, affecting $1.9 billion outstanding. Moody's has also affirmed the Baa1 rating with a stable outlook on the county's Regional Off-Track Betting Corporation (NROTB) Revenue Bonds. The outlook on all of the county's debt is stable.

The A2 rating reflects the county's weak fund balance and cash position, sizeable and diverse tax base, and above-average debt burden. The Baa1 lease rating on the NROTB Bonds reflects the appropriation risk and the lack of essentiality of the financed asset.

Credit Strengths

- Large and diverse tax base which benefits from proximity to New York City (Aa2 stable)
- Strong socioeconomic profile with above average wealth and income levels
- Oversight provided by the Nassau County Interim Finance Authority (NIFA)

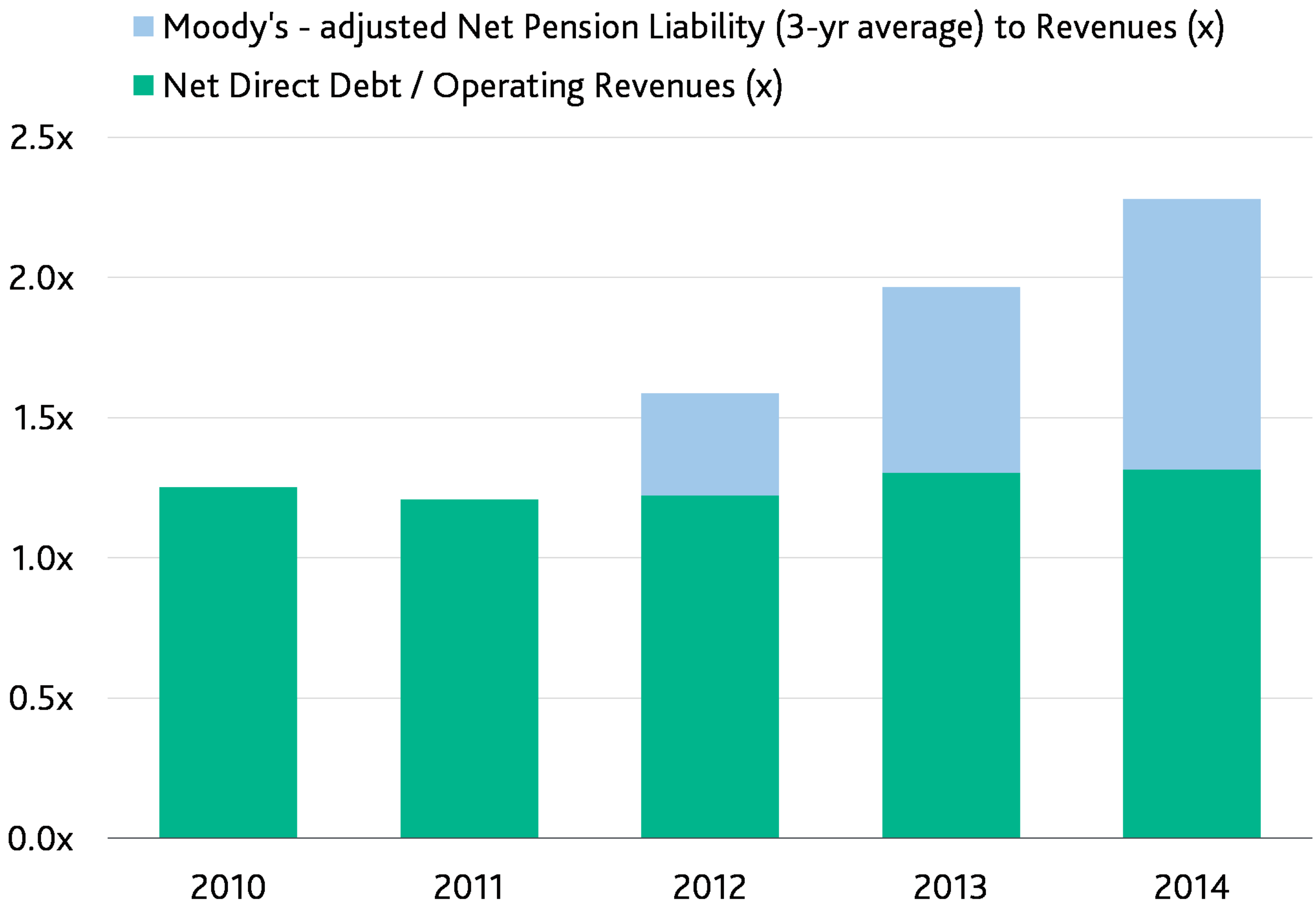
Credit Challenges

- Dependence on economically sensitive sales tax revenues
- Negative cash balances, net of liquidity borrowing, and limited financial reserves
- Exposure to NIFA and Nassau Health Care Corporation's (NHCC) variable rate debt and swap portfolio, as well as dependence on market access for substantial cash flow borrowing

Rating Outlook

The stable outlook reflects our expectation that the county will maintain stable, albeit weak, financial operations and liquidity position.

Exhibit 1
Pension And Debt Levels Have Grown



Source: Moody's Investors Service

Factors that Could Lead to an Upgrade

» Structurally balanced budgets that do not require debt issuance for operating expenses

» Significant improvements to reserves and liquidity

» Reduction of amount of annual cash flow borrowing

Factors that Could Lead to a Downgrade

» Weakened revenue performance

» Increased cash flow borrowing from the county's current expectations

» Increasing reliance on one-time revenues to maintain balanced operations

Key Indicators

Nassau (County of) NY	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value ($000)	$ 252,854,423	$ 218,338,378	$ 217,753,742	$ 205,123,200	$ 200,331,933
Full Value Per Capita	$ 185,513	$ 163,183	$ 161,419	$ 151,718	$ 147,411
Median Family Income (% of US Median)	171.4%	171.4%	173.5%	173.5%	173.5%
Finances					
Operating Revenue ($000)	$ 2,603,001	$ 2,668,346	$ 2,763,992	$ 2,801,083	$ 2,730,241
Fund Balance as a % of Revenues	4.2%	-0.5%	0.4%	2.0%	2.8%
Cash Balance as a % of Revenues	-9.3%	-10.4%	-5.9%	-5.5%	-8.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 3,260,296	$ 3,223,550	$ 3,381,441	$ 3,651,995	$ 3,589,080
Net Direct Debt / Operating Revenues (x)	1.3x	1.2x	1.2x	1.3x	1.3x
Net Direct Debt / Full Value (%)	1.3%	1.5%	1.6%	1.8%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.4x	0.7x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.5%	0.9%	1.3%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large and Diverse Tax Base Largely Built Out

The county's very large and diverse $204.6 billion tax base benefits from its proximity to New York City (Aa2 stable). Full value increased 2.1% in 2015 but still remains 21.6% below its 2008 peak.

The county is largely built out, but management projects growth going forward due to the continued development in and around the Nassau Veterans Memorial Coliseum. The Coliseum, former home of the NHL's Islanders, is currently being renovated by a private developer to serve as an entertainment venue beginning in early 2017. The surrounding area adjacent to the Coliseum is also being repurposed, and the county currently expects Memorial Sloan Kettering Cancer Center (Aa3 stable) to open a 105,000 square foot center in 2018. In recent years, the county has also become home to several film studios, which have attracted jobs and retail activity.

The median family income is significantly above average at 173.5% of the nation, according to the 2013 American Community Survey. As of November, county unemployment, at 3.8%, is lower than that of the state (4.8%) and nation (5%). Full value per capita, at $150,558, is well above average.

Financial Operations And Reserves: County Expecting GAAP Basis Reserves to be Relatively Unchanged in 2015 from Current Low Levels

Nassau County has been challenged to maintain structurally balanced operations, in part due to its significant dependence on economically sensitive sales tax revenues. The county has historically issued debt to fund employee termination payments, which it does not budget to do in 2016, as well as refunds from tax appeals, a practice which will continue until 2018, although management will meet some of the costs with operating funds. The county is also heavily reliant on cash flow borrowing; it has reduced its reliance on such borrowing by over 20% from 2012 through 2015, and 2016 is expected to remain flat at approximately $380 million. The county ended fiscal 2014 with available operating reserves of $77.6 million, or 2.8% of revenues, on a GAAP basis. This is up slightly from $54.7 million, or 2% of revenues, in 2013. Sales tax revenues, which dropped 4.2% in 2014, are projected to grow about 1.4% in 2015. The county anticipates ending fiscal 2015 with GAAP basis reserves largely unchanged from 2014.

The 2016 budget is balanced partly through the use of one-shots, including a transfer of $17 million from the tobacco residual fund to the general fund and $5 million of land sales. Additionally, the county plans to continue to amortize its pensions in 2016, deferring $41.3 million. Nassau Regional Off-Track Betting plans to open a facility with 1000 Video Lottery Terminals in the summer of 2016, and the county budget includes $15 million of expected revenues from this facility. There have been delays associated with the creation of the facility, including a public backlash over the first choice of location, so it is possible the revenues will not meet expectations. The county is anticipating the facility to generate approximately $25 million annually going forward. The county also added additional recurring revenues in the 2016 budget, including increasing the tax map parcel fee and mortgage recording tax, totaling approximately $46 million. The county created a Disputed Assessment Fund, which will be effective in 2017. For future commercial tax appeals in the county, an equivalent amount of disputed property taxes will be paid into the fund, and such funds will either be transferred to the appealing taxpayer or the municipality depending on the outcome of the appeal. This Fund will eliminate the county's need to borrow to fund commercial tax refunds going forward.

LIQUIDITY

The county remains highly reliant on cash flow borrowing to fund operations. Liquidity is likely to remain strained in 2016, although stable, with cash flow borrowing expected to be relatively flat at $380 million. The county's operating fund cash position, net of cash flow borrowing, as of fiscal 2014 was -$231.3 million, or a weak -8.5% of revenues, down from -$154.9 million, or -5.6% in 2013.

Debt and Pensions: Above Average Debt Position; Pension Amortization Continues

The county's direct debt burden of approximately 2% of full value is above average and expected to remain elevated. The overall net debt burden, which includes NIFA's issuance of sales tax bonds on behalf of the county as well as the county's direct-pay guaranty on NHCC's Series 2009 bonds, is also above average at 3.3%. Amortization of principal is below average (54.6% repaid within ten years).

DEBT STRUCTURE

As of the current issuance, the county has $1.93 billion in long-term rated GO debt and $10 million in NROTB lease debt subject to annual appropriation. NIFA debt, backed by county sales tax, totals $922 million. All of the county's direct debt is fixed rate. The total amount of variable rate debt that the county is exposed to through NIFA and NHCC is $721.8 million.

DEBT-RELATED DERIVATIVES

All NIFA and NHCC variable rate debt is swapped to fixed rate, with the exception of the $26 million Series 2009A NHCC bonds. In 2004, NIFA entered into nine outstanding interest rate swap agreements in conjunction with the issuance of its 2004 Auction Rate Securities. The swaps are all tied to LIBOR-based indexes with various notional amounts and for various durations. Only NIFA or NHCC has the right of optional termination and rating triggers include a downgrade of the NIFA's rating below Baa2 (NIFA) or the county's rating below Baa2 (NHCC). As of January 2016, the total mark-to-market value of all swaps was a negative $80.5 million. To date, no collateral posting has been required.

PENSIONS AND OPEB

The county has been challenged to meet its pension obligations within its budget structure and has chosen to amortize a portion of its projected obligation annually from 2012 through budgeted 2016. Since 2010, state law has allowed municipalities to defer the cost of pension payments over a ten-year or twelve-year amortization period. To date, the county has amortized $228.6 million in pension payments due in fiscal 2012 through fiscal 2015, with plans to amortize an additional $41.3 million in 2016. Repayment of the pension amortization will occur in future years.

The county participates in the New York State and Local Employees' Retirement System, a multi-employer cost sharing pension plan. The county's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $3.4 billion, or an average 1.0 times total operating revenues. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for the state-run plans in proportion to its contributions to the plans and do not factor in the county's recent amortizations.

Other post-employment benefit (OPEB) costs totaled $150 million in fiscal 2014, or approximately 5.1% of operating expenditures. Total fixed costs for fiscal 2014, including debt service, required pension contributions and retiree healthcare payments, represented $728 million, or 26.7% of revenues.

Management and Governance: NIFA a Strength

While Nassau's financial position has remained strained, NIFA has served as a stabilizing force for the county's finances, especially since its change to a "hard control" board in 2011. The state-appointed fiscal watchdog reviews county budgets, approves debt issuance, and generally reviews all large contracts. NIFA's oversight has allowed the county to manage its fiscal challenges with additional tools, such as the NIFA-imposed wage freeze from 2011-2013. Additionally, NIFA is actively monitoring the 2016 budget, requiring monthly spending reports, monthly and quarterly variance reports, and plans to mitigate any mismatch between revenues and expenditures.

New York counties have an institutional framework score of "A," or moderate. Revenues primarily consist of stable property taxes and economically sensitive sales taxes, resulting in moderate predictability overall. Revenue raising ability is moderate due to a property tax annual growth cap (generally 2% or less), which can be overridden with a 60% vote of the legislative body. Sales taxes can be increased only with approval of the state legislature. Expenditures, primarily consisting of personnel costs, are moderately predictable. Ability to reduce expenditures is low, given the presence of strong unions and significant state-mandated services; many counties are also responsible for nursing homes or hospitals.

Legal Security

The GOLT bonds are secured by the county's general obligation pledge as limited by the Property Tax Cap-Legislation (Chapter 97 (Part A) of the Laws of the State of New York, 2011). The lease appropriation bonds are secured by the county's obligation to pay debt service subject to appropriation.

Use of Proceeds

Proceeds from the 2016A bonds will be used to redeem outstanding 2008 Series A and C and 2009 Series A and C General Improvement Bonds. Proceeds from the 2016B bonds will be used to finance various capital projects and 2015 employee termination pay.

Obligor Profile

Nassau County adjacent to New York City on Long Island, with a population of 1.36 million (2014 Census Bureau Estimate).

Methodology

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the lease-backed rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 3

NASSAU (COUNTY OF) NY

Issue	Rating
General Improvement Bonds, 2016 Refunding Series A	A2
Rating Type	Underlying LT
Sale Amount	$273,000,000
Expected Sale Date	01/22/2016
Rating Description	General Obligation Limited Tax
General Improvement Bonds, 2016 Series B	A2
Rating Type	Underlying LT
Sale Amount	$120,140,000
Expected Sale Date	01/22/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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