

RatingsDirect®

Summary:

Nassau County Interim Finance Authority, New York; Sales Tax

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Credit Profile

US\$8.0 mil sales tax secured rfdg bnds ser 2015A

Long Term Rating

AAA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Nassau County Interim Finance Authority (NIFA), N.Y.'s series 2015A sales tax-secured refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' ratings on NIFA's fixed- and variable-rate sales tax-secured revenue debt. The outlook is stable.

The 'AAA' rating reflects our opinion of:

- The strong security afforded the bonds through a first lien on the county's share of local sales tax revenue;
- The legal separation of the pledged revenue stream from Nassau County until after the authority's senior and subordinate obligations and expenses have been paid;
- NIFA's lack of authority to issue additional debt;
- Strong debt service coverage (DSC) under our severe stress test assumptions; and
- Nassau County's deep and diverse economy, which gives support to strong sales tax revenue collections.

Securing the bonds is Nassau County's share of a 4.25% local sales tax, less a 0.25% component allocated to towns and cities within the county, and a 0.083% component allocated to villages within the county. Of the total 4.25% levy, 1.25% is subject to recurring authorization by the state and county legislatures every two years, and it is currently authorized through November 2015. We understand the county has received the required authorization for the incremental sales tax portion since its inception (0.75% since 1986, and 0.5% since 1991). On June 26, 2015, the governor of New York signed legislation extending the state's authorization to impose the additional 0.75% and 0.5% through Nov. 30, 2017. Then on Monday, Sept. 21, the county legislature approved a measure to extend the 1.25% component of the 4.25% local sales tax from Nov. 30, 2015, until Nov. 30, 2017--the current limit of the state authorization of the 1.25% component. The law is expected to be signed by the county executive in the coming days, then sent to the state for filing, taking effect before Nov. 30, 2015. We believe the two additional taxes will be extended until November 2017.

Sales taxes are paid first to NIFA to cover debt service, and then in order of priority as detailed in the indenture and transaction agreement. The county receives its share after the payment of authority expenses. The bonds have a debt service liquidity account requirement should coverage fail to meet certain minimum thresholds. Coverage has not fallen below these levels to date; therefore, the reserve is unfunded.

Officials plan to use the 2015A bond proceeds to refund prior debt (NIFA's series 2005A, 2005D, and 2009A bonds) for

debt savings to be passed on to the county, without altering the maturity schedule (fiscal 2025). Management expects \$9.7 million in savings via the refunding debt issuance.

NIFA's ability to make bond payments in accordance with the maturity schedule depends on the timely collection of sufficient sales tax receipts. Owing to the degree of reliance on the county's economic viability, the ratings on the NIFA bonds cannot be completely de-linked from the ratings on the county's general obligation debt. However, we believe Nassau County's economic base will be able to generate sufficient sales tax revenue to cover bond debt service, even under stressful conditions.

Projected maximum annual debt service (MADS) coverage (approximately \$186 million in 2015, based on fixed payor swap rates on the variable-rate bonds) for all debt totals, what we consider, a healthy 5.6x, factoring \$1.03 billion in fiscal 2014 sales tax collections. Since 2000, sales tax receipts have increased annually, excluding 2009 and 2014. The first decrease occurred during the nationwide recession, and the second decrease was more attributable to a very strong 2013 after one-time increases that involved post-Superstorm Sandy rebuilding, repairs, and refurbishing. Fiscal 2013 sales tax receipts grew 6.3% from 2012, the largest year-over-year increase since 2000. Despite the decreases in 2009 and 2014, coverage for those years was 4.9x and 5.6x, respectively.

We further estimate MADS coverage would remain strong, at 4.24x if the variable-rate bonds were to bear interest at the maximum bond rate of 15% per year, and at 2.9x at the maximum bank rate of 25% per year (assuming a five-year repayment acceleration). Furthermore, if the 1.25% levy were not renewed, MADS coverage based on 2014 sales tax receipts is still very strong at 3.7x (and 2.8x and 1.9x at the maximum bond and bank rates, respectively). However, future debt service is declining overall. Should this pattern continue, coverage would increase even if sales taxes remained flat. Over three years, MADS is projected to decline just over 21%.

Sales tax revenue is the county's largest revenue source at nearly 38%. Nassau County (population: 1.34 million) is adjacent to New York City and west of Suffolk County on Long Island. The county's economy is deep and diverse, in our view, with a substantial tax base. Market value per capita is, in our opinion, extremely strong at \$151,595. Wealth and income are high countywide, with median household effective buying income at 158% of the U.S. averages.

New York State created NIFA in June 2000 to oversee Nassau County's finances, and, if necessary, to assume control thereof. It functions as a monitor and advisor to the county, with the state appointing its seven board members. NIFA is also required to review and comment on the prudence of proposed county bonds and notes. Additionally, in the event NIFA assumes control of the county, it must approve county debt issuance during the control period. However, the statute provides that NIFA may not issue bonds other than refunding bonds after 2007, thereby decreasing potential coverage dilution. NIFA will continue to exist as long as any of its debt is outstanding. NIFA currently has about \$1.5 billion in bond principal debt. Of this amount, approximately \$600 million comprises variable-rate debt with liquidity facility enhancement, while the remainder is fixed-rate.

NIFA declared a control period on Jan. 26, 2011, after determining it was very likely that the county's proposed fiscal 2011 budget would produce a deficit exceeding 1% of operations.

Outlook

The stable outlook on the 'AAA' rating reflects our view of the continued strength of MADS coverage based on the pledged revenue stream and no dilution risk, since NIFA's legal authority to issue new debt has officially expired. We believe future reductions in MADS should enhance protection and coverage flexibility. If there is a change in NIFA's legal ability to issue debt, we will review the ratings to gauge the impact of additional debt on DSC ratios.

Related Criteria And Research

Related Criteria

- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Bank Liquidity Facilities, June 22, 2007
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Standby Bond Purchase Agreement Automatic Termination Events, April 11, 2008
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, July 22, 2015

Ratings Detail (As Of September 29, 2015)

Nassau Cnty Interim Fin Auth sales tax		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Nassau Cnty Interim Fin Auth sales tax		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Nassau Cnty Interim Fin Auth sales tax ser 2002A (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Nassau Cnty Interim Fin Auth sales tax (VRDB) ser 2008A		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
Nassau Cnty Interim Fin Auth sales tax (VRDB) ser 2008B		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
Nassau Cnty Interim Fin Auth sales tax (VRDB) ser 2008D2		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
Nassau Cnty Interim Fin Auth sales tax (VRDB) 2008C		
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
Nassau Cnty Interim Fin Auth sales tax (VRDB) 2008D1		
<i>Long Term Rating</i>	AAA/A-1+/Stable	Affirmed
Nassau Cnty Interim Fin Auth sales tax		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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