



Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aa3 TO APPROXIMATELY \$350 MILLION NEW YORK STATE GENERAL OBLIGATION REFUNDING BONDS; OUTLOOK IS STABLE

Global Credit Research - 19 Nov 2009

STATE HAS MORE THAN \$53 BILLION IN NET TAX-SUPPORTED DEBT OUTSTANDING

State
NY

Moody's Rating

ISSUE	RATING
General Obligation Refunding Bonds, Series 2009C	Aa3
Sale Amount	\$351,265,000
Expected Sale Date	11/23/09
Rating Description	General Obligation

Opinion

NEW YORK, Nov 19, 2009 -- Moody's Investors Service has assigned a rating of Aa3 to the State of New York General Obligation Refunding Bonds, Series 2009C Tax-Exempt Refunding Bonds, in the amount of \$351.265 million. The bonds are expected to price on November 23, 2009. The outlook for the bonds is stable.

The next three months will be critical to the state's credit rating. The rating and outlook reflect the state's current-year projected gap of approximately \$3 billion and the deteriorating liquidity in the state's General Fund, and also reflects our expectation that legislature will enact solutions to the budget gap and that revenue collections based on bonus payouts will exceed the state's conservative projections. If there is no action taken by the state to close the gap, or if action is taken but is largely one-time in nature (therefore increasing the structural imbalance in the outyears), and revenue collections in January are close to or below state projections, the state's situation at that time would likely not be consistent with a Aa3 rating and stable outlook.

Credit Strengths

- * Broad-based, mature, and wealthy state economy that attracts a highly-educated and global workforce.
- * Wide legal powers-similar to other state governments-to raise revenue and adjust spending in order to maintain fiscal solvency.
- * Long track record of closing annual budget gaps.
- * Accumulated budget reserves provide cushion during current downturn.

Credit Challenges

- * Revenue underperformance in current fiscal year resulting in projected current-year gap and large outyear gaps.
- * Highly cyclical state economy, reflecting dependence on New York City-based financial services industry. Cumulative income and job growth measures have lagged the nation over the past 15 years.
- * Volatile state finances, due to above-average dependence on income taxes, and high recurring expenditure demands due to a generous social services regime.
- * A polarized and very difficult state political process, evidenced by a history of late budgets (although the budget has been on time for the past three years) and spending pressures that contribute to chronic

projected structural budget imbalance.

* Above-average state tax-supported debt burden, partly due to a high proportion of deficit-related bonding, with significant additional issuance for capital purposes planned. State pension system is well funded compared to other states, while unfunded retiree healthcare liabilities have been estimated at \$46.3 billion.

STATE GAAP-BASIS BALANCES DECLINE IN 2009

After going negative in fiscal years 2003 and 2004, total General Fund balance was \$546 million at fiscal year-end 2005, \$2.2 billion at the end of fiscal 2006, \$2.4 billion for fiscal year-end 2007, and \$3.9 billion for fiscal 2008. This growth trend reversed in fiscal year 2009, when the fiscal year ended with a fund balance of -\$2.9 billion. The state's Unreserved, Undesignated General Fund Balance was negative at fiscal year-end 2009 (-\$5.6 billion) after positive figures for the three prior years.

ECONOMY AND FINANCIAL INDUSTRY PRESENT CHALLENGES

Job losses in the state have so far not been as severe as they have in the nation as a whole. In September 2009, New York State total non-farm employment was down 2.9% compared to September 2008, whereas the nation was down 4.2% on a year-over-year basis. The unemployment rate is also lower in New York than in the U.S. In September, the unemployment rate for the state was 8.9%, versus 9.8% in the U.S.

The financial industry, upon which the state's finances largely depend, has been hurt in this downturn. New York State's financial industry employment was down 4.9% in September 2009 on a year-over-year basis, compared to a decline of 5.1% for the nation. The state has lost 51,000 finance jobs so far in this downturn. The loss of these highly paid jobs affects the state finances disproportionately.

CURRENT-YEAR SHORTFALL ANNOUNCED AT \$3 BILLION; LIQUIDITY NARROWS

The state announced in its mid-year report it expects a current-year shortfall of approximately \$3 billion, due in large part to weaker revenues than expected. It expects a gap for fiscal year 2011 of \$6.8 billion and a 2012 gap of \$14.8 billion. The governor proposed a gap-closing package, which consists of approximately \$800 million in administrative actions, which would be mostly recurring solutions and would not require legislative actions, \$1.3 billion in spending cuts, also recurring, and \$1 billion in non-recurring solutions.

Weaker revenue projections affect not only the budget balance but the cash balance. The state is currently projecting a negative General Fund ending cash balance in November and December, if no action is taken by the legislature. The state is projecting a November ending General Fund cash balance of -\$150 million, and a December ending balance of -\$1.1 billion. The General Fund has the ability to temporarily borrow from the short-term investment pool (STIP). The state's Division of the Budget has announced that there may be days in November and December when the available daily balance in the STIP is not sufficient to cover all payments required by the General Fund. In that case, the state could delay certain payments to preserve cash. The state has reserved funds for debt service due through December.

The state is projecting finance industry bonuses to be down 22% in fiscal year 2010, after a decline of 48% in fiscal year 2009. Reports in the press have suggested bonus payouts will be higher than last year. January revenue collections, which will begin to reflect bonus payouts, will be key to determining the state's fiscal situation.

STATE DEBT BURDEN OVER \$50 BILLION, DUE TO CAPITAL BORROWINGS, TOBACCO BONDS, AND ASSUMPTION OF NYC DEBT

Over the past five years, New York's outstanding tax-supported debt has increased from \$40 billion to a current figure of over \$53 billion. According to Moody's 2009 Debt Medians, published in July 2009, New York State ranked fifth in the nation with respect to net tax-supported debt per capita. The state's debt burden as a percent of personal income was about 6.3%, also the fifth highest among the states. An increase in the state's ratio of debt to personal income reflects the issuance of \$4.6 billion of tobacco bonds in 2003 for state budget relief, and the effective assumption and refunding of \$2.5 billion of NYC Municipal Assistance Corporation (MAC) debt in 2004 as a mechanism to provide budget relief for the City. The balance of the recent debt increase reflects capital financings in transportation and other areas.

New York's pension system is well-funded compared to other states. As of April 1, 2008, the Employees

Retirement System (ERS) was 107% funded, and the Police and Fire Retirement System (PFRS) was 108% funded. The state paid its full employer contribution for fiscal year 2009 in the amount of \$899 million. The state hired an independent actuarial consulting firm to complete an analysis of retiree health care liabilities. A preliminary analysis indicates that the actuarial accrued liability for benefits to date would be roughly \$46 billion. Retiree healthcare costs in fiscal 2009 were \$964 million on a pay-as-you-go basis. However, the annual required contribution (ARC) is \$3.2 billion, or 8% of General Fund revenues. This is expected to be an area of budget pressure in future years.

INTEREST RATE DERIVATIVES/VARIABLE RATE DEBT

In March, 2008, New York State had approximately \$8 billion outstanding in variable rate debt, including approximately \$4 billion in auction rate securities (ARS). In March 2009, variable rate debt was down to \$5.6 billion, including about \$1.1 billion in ARS. The state had approximately \$6 billion in swaps outstanding as of March 2008, but currently has approximately \$4 billion in swaps outstanding. The current state transaction is refunding variable rate debt with fixed rate debt.

MOST RECENT RATING ACTION AND PRINCIPAL METHODOLOGY

The most recent rating action with respect to the State of New York was on June 1, 2009, when a Aa3 rating was assigned to New York Local Government Assistance Corporation's (LGAC) remarketing of the Series 2003A-5/6 Subordinate Lien Refunding Bonds, in the amount of \$191.665 million, and the Series 2008B-C/D Refunding Bonds (Senior Lien), in the amount of \$105.485 million.

The principal methodology used in rating the State of New York was Moody's "State Rating Methodology," available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Outlook

New York's rating outlook is stable. Trends in the state's economy and tax revenues have turned sharply downward in the past year, and New York State's reliance on the financial industry and personal income taxes put its finances at risk of further declines. We expect the state to enact timely and recurring solutions to prevent a severe liquidity crunch.

What could move the G.O. rating--UP

- * Significant revival of the economy, leading to greater overall state economic diversification.
- * Structurally balanced budgeting with decline in outyear gaps.
- * Building up of reserves to offset risk of high reliance on volatile personal income tax collections.

What could move the G.O. rating--DOWN

- * Continuation in the downward trend in the state economy, particularly the financial industry.
- * Strained liquidity measures.
- * Return to reliance on deficit financing and use of non-recurring revenue to fund current operations.
- * Significant decline in GAAP-basis fund balances.
- * Sharp increase in debt issuance leading to increased debt ratio measures.
- * Lack of plan to handle loss of federal fiscal stimulus money.

Analysts

Emily Raimes
Analyst
Public Finance Group
Moody's Investors Service

Kimberly Lyons
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

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



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