FitchRatings

21 JAN 2021

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

Fitch Ratings - New York - 21 Jan 2021: Fitch Ratings has assigned a 'AAA' rating on the following Nassau County Interim Finance Authority (NIFA) revenue bonds:

--$595.8 million sales tax secured bonds, series 2021A;

--$562.6 million sales tax secured bonds, series 2021B (Federally Taxable).

In addition, Fitch has affirmed NIFA's outstanding sales tax secured bonds at 'AAA'.

The Rating Outlook is Stable.

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

ANALYTICAL CONCLUSION

The 'AAA' sales tax secured bond rating reflects the very high financial resilience of pledged sales tax revenues through economic cycles and moderate post-pandemic revenue growth prospects. The Stable Outlook reflects the revenue stream's strong performance in Fitch's coronavirus stress tests, which aim to capture pandemic-related volatility in the economically sensitive revenues.

KEY RATING DRIVERS

Robust Coverage: Sales tax revenue provides a very high coverage cushion with modest historical volatility. Fitch expects the structure to remain highly resilient to even current economic pressures.

Mature Economic Resource Base: Fitch expects future pledged sales tax revenues to grow in line with inflation despite current extreme revenue losses due to the pandemic. Sales tax revenue is derived from a wealthy and diverse economic base; however, it is a mature community with modest prospects for economic growth.

Strong Legal Framework: The bonds meet Fitch's criteria for rating as a true sale of the assets pledged to bondholders, commonly referred to as a municipal securitization, allowing the bonds to be rated up to six notches above the related-government Issuer Default Rating (IDR) (Nassau County A/Negative

Outlook). Payment of the sales tax revenue to the authority is not subject to county or state appropriation. Statutory covenants prohibit action that would impair bondholders.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--Not applicable.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--A greater than anticipated decline in pledged revenues and/or additional leveraging that eroded the currently strong resilience cushion.

--A downgrade of the county's IDR to 'BBB+' or below.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CURRENT DEVELOPMENTS

Sector-Wide Coronavirus Implications

The outbreak of coronavirus and related government containment measures worldwide has created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 3Q21. In its baseline scenario, Fitch anticipates a slower recovery in early 2021 with vaccine rollout to vulnerable, key workers and older individuals in 1H21, but limited for most of the population until late 2021. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update", published on Dec. 7, 2020, and "Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Government", published on Dec. 16, 2020 on www.fitchratings.com.

NIFA Update

In April 2020, the state approved legislation that amended the NIFA Act, renewinig NIFA's ability to issue bonds for county purposes to help close budget gaps created by the coronavirus pandemic. The amendment specifically extends NIFA's statutory authority to issue up to an additional $400 million of bonds for tax certiorari refunds and an unlimited amount of bonds and notes for other financeable costs and cash flow needs of the county through Dec. 31, 2021 (excluding bonds or notes to retire or refund authority debt). The authority may issue such bonds and notes only upon request by the county executive and approved by the county legislature. Any bonds issued by the authority must mature no later than Jan. 31, 2051.

The series 2021A&B bonds are being issued pursuant the legislative changes to the NIFA Act and a Declaration of Need approved by Nassau County. The Declaration of Need requests that NIFA borrow on behalf of the county for the purpose of restructuring and/or refunding outstanding county debt for budgetary savings. In addition, the bonds being issued will be used to refund a portion of NIFA's outstanding bonds and refund all of NIFA's variable rate bonds and pay termination costs on the associated swaps.

The series 2021A&B bonds will be issued on a parity lien with NIFA's currently outstanding sales tax secured bonds. The sales tax secured bond indenture includes an additional bonds test that requires 3.0x debt service coverage in each fiscal year, providing strong protection against over-leveraging.

ECONOMIC RESOURCE BASE

Nassau County is located just east of New York City, with a population of approximately 1.4 million that has remained fairly steady since 2000. Economic indicators show diversity and strength, including market value per capita of over $160,000, median household income at 183% of the U.S. average and a poverty rate of less than one-half the U.S. average. The unemployment rate is consistently below state and national averages, although employment growth is generally slower than the national rate.

The latter may be influenced by demographic trends, as population growth is minimal and the proportion of residents over age 64 exceeds the U.S. average. The county is currently experiencing a sharp economic decline due to the coronavirus pandemic, but Fitch believes long-term prospects remain solid, given a favorable location within a dynamic metropolitan economy and the county's role as a bedroom community for a highly educated workforce.

The bonds are rated as a true sale structure due to strong state statutory provisions that limit bondholders' exposure to operating risks of the county. The county has transferred its property interest in the pledged revenues to a special purpose entity (NIFA). The pledged revenues are isolated in the issuing entity, and NIFA has no significant operating risk of its own.

NIFA was created as a public benefit corporation by the state of New York in 2000 pursuant to the Nassau County Interim Finance Authority Act. The purpose of NIFA is to provide financial oversight and issue bonds on behalf of 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. 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.

The bond structure grants a first perfected security interest in the county's 4.25% local sales tax share net of the 0.25% currently required to be paid to towns and cities within the county and the up to 0.083% authorized to be allocated to villages within the county. Of the 4.25% sales tax rate, 3% is a base rate and the remaining 1.25% is subject to periodic renewal by the state and county legislatures. This has routinely been renewed in the past, and Fitch's rating assumes its continued routine renewal. Pro forma maximum annual debt service (MADS) coverage solely from county's share of the base rate is still strong at about 5.8x.

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 only after the payment of the authority's debt service and operating requirements.

While the county and state both have the unilateral ability to alter the tax structure, Fitch believes that the risk is mitigated by county non-impairment clauses; specifically, the county covenants that any change in local tax law cannot result in coverage below 2x MADS on all outstanding authority bonds. In addition, the county's largest source of operating revenues are the residual sales tax revenues, providing some additional protection as the county would also be affected by any changes that reduce this revenue stream.

The authority has historically had substantial variable rate debt and swap exposure. However, NIFA plans to refund all outstanding variable rate debt and terminate the associated swap contracts with a portion of the proceeds from this issuance. The cost of terminating the swap contracts will be based on the fair value of the swap (all of which are negative). NIFA currently estimates this cost to be approximately $11 million.

Pledged sales tax revenue had a compound annual growth rate (CAGR) of 2.7% for the period of fiscal 2009 to 2019; fiscal 2019 pledged revenues totaled $1.17 billion, up 3.5% from the prior year. Sales tax revenues declined substantially during the onset of the pandemic, reflecting the sharp reduction in economic activity. However, monthly distribution data (reported on a cash basis) show a somewhat sharp recovery during 4Q20. On a YTD basis, sales tax revenues through November show a 5.7% decrease from the same period in the prior year. Fitch expects revenue growth to track inflation over the long term, reflecting the mature nature of the economy, modest prospects for economic expansion and solid long-term trends in personal income growth.

Pro forma MADS coverage on the authority's bonds ($143 million in 2029, including the current transaction) from fiscal 2019 pledged revenue is a high 8.2x. To evaluate the sensitivity of the dedicated revenue stream to a moderate recessionary decline, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP scenario) and the largest pledged revenue decline over the period covered in the sensitivity analysis. The largest cumulative revenue decline for this period was 6% (fiscal 2007-2009). The results of this analysis are consistent with a 'aaa' resilience assessment, noting that the largest decline occurred during the Great Recession.

Fitch also applies a revenue stress test of 34% (annualized) to the latest audited annual totals, far more severe than the expected actual decline, consistent Fitch's nationwide assumption of declines in retail sales activity. The pledged revenues can withstand a decline of roughly 88% from the fiscal 2019 total and still cover estimated pro forma MADS. This margin comfortably exceeds the current pandemic revenue stress decline.

Criteria Variation

None

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Nassau County Interim Finance Authority (NY)					
• Nassau County Interim Finance Authority (NY) /Sales Tax Revenues/ 1 LT	LT	AAA	Affirmed		AAA

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub.27 Mar 2020) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

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