FITCH RATES EMPIRE STATE DEVELOPMENT CORP.'S (NEW YORK) $1.1B PIT BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-19 November 2010: Fitch Ratings assigns an 'AA' rating to the following Empire State Development Corporation (ESDC) state personal income tax (PIT) revenue bonds (general purpose):

--$427,180,000 series 2010A (tax-exempt);
--$328,375,000 series 2010B (federally taxable);
--$349,330,000 series 2010C (federally taxable-Build America Bonds).

The bonds are expected to sell via negotiation the week of Nov. 29, 2010.

In addition, Fitch affirms the 'AA' rating on $21 billion in outstanding PIT bonds issued by various state agencies.

The Rating Outlook is Stable.

RATING RATIONALE:
--Bond payments require annual state legislative appropriation; however, in the event of non-appropriation the state would be unable to receive PIT revenue deposited in the revenue bond tax fund, up to the greater of 25% of annual PIT receipts or $6 billion. Fitch believes that this structural feature effectively eliminates the risk of non-appropriation.
--The PIT is the state's major revenue source, making up about 60% of tax receipts historically, and the additional bonds test is adequate.
--The state's economy is broad, with substantial wealth and resources, although the health of the state's economy and finances is closely linked to the cyclical financial services industry.
--Strong financial planning and reporting practices, including quarterly financial plan updates, allow the state to stay abreast of changing conditions. This credit strength is offset by the state's historical tendency to rely on nonrecurring measures rather than sustainable budget solutions to address revenue weakening in downturns.
--New York's debt burden is above average but still in the moderate range, and pensions are well funded.

KEY RATING DRIVERS:
--Changes in New York State's general obligation (GO) rating, to which this rating is linked.
--The state's GO rating will be driven by its continued ability to address budget shortfalls and protect its cash position.
--Further driving the state's rating would be any meaningful change to the shape of the financial services industry, which would have significant implications for the state's economy and finances.

SECURITY:
The bonds are secured by financing agreement payments to be made by the State of New York, subject to legislative appropriation. Payments are derived from 25% of the state's PIT receipts. The interest subsidy to be received from the U.S. Treasury for the series 2010C Build America Bonds is not pledged as security for the bonds.

CREDIT SUMMARY:
Underlying the 'AA' rating on the PIT bonds is the importance of the PIT to state finances (historically about 60% of tax receipts), the set-aside of PIT revenues for debt service, the trapping of funds if appropriation is not made, and the 2 times (x) additional bonds test (ABT). Due to these strengths, the rating on PIT bonds is equal to that assigned to New York's GO debt despite the appropriation requirement. The temporary PIT rate increase included in the state's fiscal 2010 enacted budget bolstered the PIT revenue stream; however, the fiscal 2010 revenue forecast was

reduced repeatedly and PIT receipts for the year declined 5.7% from fiscal 2009 levels. Debt service coverage remains strong.

Although payment of debt service on PIT bonds is subject to appropriation, each month an amount equal to 25% of estimated available PIT revenue (i.e. receipts after refunds) is deposited into the revenue bond tax fund from the withholding portion of the tax. After retention of 125% of financing agreement payments for PIT bonds due in the succeeding month, excess monies are transferred to the state's general fund. Should amounts in the revenue bond tax fund be insufficient, the state comptroller is required to transfer from the general fund without the need for further appropriation. If no appropriation is made, deposits to the revenue bond tax fund are trapped and cannot be used (except for GO debt, if necessary), depriving the state of the monies in excess of debt service.
Available PIT revenue, as defined in statute, rose from $30.6 billion in fiscal 2007 to $36.6 billion in fiscal 2008. This reflected legislative action that, effective April 1, 2007, eliminated the prior deduction of deposits to the school tax relief fund in the definition of available PIT receipts for bond purposes. The state repeatedly lowered the forecast for PIT revenues over the course of fiscal 2009, and revenues came in at $36.8 billion, basically flat to fiscal 2008. Even with the temporary PIT rate increase, which established two new brackets and a top rate of 8.97% as compared to the prior 6.85%, fiscal 2010 revenues fell to $34.8 billion, a 5.7% decline from fiscal 2009, reflecting a large decline in state personal income. Although the state's revenue forecast was recently reduced, fiscal year 2011 revenues are still projected to rise significantly, by 5.3%, to $36.6 billion. The new tax rates are in effect for tax years 2009 through 2011.

Debt service coverage is substantial even with the deterioration in revenue performance. For additional parity bonds to be issued, historical revenue bond tax fund receipts must cover future maximum annual debt service (MADS) on all PIT bonds by at least 2x. MADS coverage under this test is about 4.4x after this sale. PIT bonds are the primary financing vehicle for the state and substantial additional issuance is expected in the coming years.

New York's 'AA' GO rating is based on the state's substantial wealth and resources and broad economy, and also recognizes concerns regarding the outsized role that the financial services industry plays in the state's economy and revenue system. State net tax-supported debt levels have been relatively stable as a percentage of personal income and are expected to remain above average but still in the moderate range. Pensions are well funded.

The state's financial position has been strained. Revenue estimates for fiscal 2010, which ended on March 31, 2010 were revised downward repeatedly over the course of the year, primarily reflecting reduced expectations for the personal income tax. Despite gap-closing measures taken, fiscal 2010 ended with a deficit of $1.65 billion that was carried over to fiscal 2011. The budget for fiscal 2011 was not finalized until early August, more than four months into the fiscal year, although the debt service appropriation bill was passed before the start of the fiscal year. A fiscal 2011 gap of about $9.2 billion including the carried-over fiscal 2010 deficit ($8.5 billion after factoring in budget measures taken in December 2009) was addressed through spending control, particularly in the area of local aid, temporary and permanent revenue actions, including a suspension of the sales tax exemption for clothing and a cigarette tax increase to $4.35 per pack, and limited one-time measures. Deficit financing was not part of the gap-closing plan; however, the budget includes a substantial amount of federal stimulus funds. New York, which spends a larger than average amount on Medicaid, garners particular benefit from the increase in the federal Medicaid matching percentage included in the federal stimulus package.

In contrast to prior downturns, recovery is expected to be slow, and the state is projected to confront significant out-year budget gaps as federal stimulus and temporary tax increase monies roll off. Earlier this month, the state reduced its revenue forecast and increased expenditure expectations. The current fiscal year (which ends on March 31, 2011) is now reported to have a $315 million shortfall to be addressed. The fiscal 2012 shortfall estimate has increased to $9 billion from $8.2 billion, with the large gap reflecting the phase-out of federal stimulus monies. The gap forecast for fiscal 2013 is now $14.6 billion, with the expiration of both stimulus funds and the temporary personal income tax rate increase. Fitch believes that downside risk to the forecast remains.
With steep revenue declines, the state's cash position has been strained. The state has taken proactive measures to ensure cash adequacy, and continued focus on cash management measures

will be necessary. The PIT bonds are protected from the cash flow issues by the retention mechanisms outlined above.

New York's employment decline in the recession was less severe than that of the nation. Nonfarm employment did not start to fall, year-over-year, until November 2008 and was down 2.7% in 2009 compared to a 4.3% drop for the U.S. In September 2010, jobs in New York were flat to the prior year while national figures were up 0.2% year-over-year. Unemployment remains below that of the nation in September 2010, at 8.3%, 86% of the U.S. level. Personal income performance has been meaningfully weaker than that of the nation, down 3.1% in 2009, almost double the national loss and the fourth worst of the states. The state's personal income per capita was the sixth highest among the states in 2009, at 117% of the U.S. average.
New York's net tax-supported debt is above average but still in the moderate range at 5.6% of personal income. Most of New York's debt has been issued by state public authorities and secured by appropriations; only about 7% is GO. While this results in a diffuse debt structure, there is strong centralization and oversight in the budget division, and approval by the public authorities control board is required for many of these bond issues.

Contact:

Primary Analyst
Laura Porter
Managing Director
+1-212-908-0575
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Douglas Offerman
Senior Director
+1-212-908-0889

Committee Chairperson
Ken Weinstein
Senior Director
+1-212-908-0571

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Considerations for Taxable/Build America Bonds Investors
The following sector credit profile is provided as background for investors new to the municipal market.

State Appropriation-Backed Bonds:
A U.S. state government's overall credit quality is reflected in the rating for its general obligation (GO) full faith and credit pledge, the broadest security that a state can provide to the repayment of its long-term borrowing. In cases where bond payment requires annual or biennial legislative appropriation, this lesser long-term commitment to repayment is reflected in a lower rating than the GO rating. Such debt is typically rated one notch below the GO rating. If concerns about non-appropriation are heightened, for example in cases where there is not clear essentiality for the project being funded, such debt can be rated two or more notches below the GO rating. Conversely, if the risk of non-appropriation is judged to be effectively eliminated, for example through a mechanism that traps substantial operating funds if appropriation is not made, the appropriation debt can be rated on par with the GO credit.
State GO ratings generally fall within the two highest rating categories of 'AAA' or 'AA', with a few outliers. The top tier ratings reflect states' inherent strengths: states generally have broad economic and tax base resources and all possess sovereign powers under a federal government system, with substantial, although varying, control over revenue raising and spending. Given these inherent

strengths, in only a few instances have the inability or unwillingness to address large financial challenges led to ratings below the 'AA' category. For additional information on State ratings, see U.S. State Government Tax- Supported Rating Criteria, dated Oct. 8, 2010.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in the report 'Tax-Supported Rating Criteria', this action was additionally informed by information from IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', dated Aug. 16, 2010;
--'U.S. State Government Tax-Supported Rating Criteria', dated Oct. 8, 2010.

For information on Build America Bonds, visit 'www.fitchratings.com/BABs'.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=548605
U.S. State Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=564546