

New York State Urban Development Corp.; Miscellaneous Tax

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Credit Profile		
US\$427.18 mil st personal income tax rev bnds (New York State) ser 2010A due 03/15/2027		
<i>Long Term Rating</i>	AAA/Stable	New
US\$349.33 mil st personal income tax rev bnds (federally taxable - BABs) (New York State) ser 2010C due 03/15/2040		
<i>Long Term Rating</i>	AAA/Stable	New
US\$328.375 mil st personal income tax rev bnds (federally taxable) (New York State) ser 2010B due 12/15/2015		
<i>Long Term Rating</i>	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating, and stable outlook, to New York State Urban Development Corp.'s state personal income tax (PIT) revenue bonds (general purpose), series 2010A, series 2010B (federally taxable), series 2010C (federally taxable--Build America bonds [BABs]).

At the same time, Standard & Poor's affirmed its 'AAA' rating, with a stable outlook, on the state's PIT revenue bonds outstanding issued by various conduit issuers.

The 'AAA' rating reflects what we view as:

- Very strong 4.3x coverage of future maximum annual debt service (MADS), by the most recent fiscal year's historical PIT revenues;
- Solid bond covenants mirroring a revenue bond structure, not an appropriation credit structure, which include a strong 2x additional parity bonds test (ABT); and
- The historical strength of the PIT and its significance as a New York State revenue source for an economically diverse state of 19.5 million.

The state intends to use the proceeds of the series 2010 bonds to fund various state facilities and economic development projects, including correctional facilities, state police facilities, equipment purchases, the expansion of an international computer chip research and development center, and loans and grants to local government and for-profit and non-profit entities. Series 2010 will be designated BABs eligible for a federal interest subsidy. The federal interest subsidy is not pledged to the bonds.

The bonds are secured by payments made under a financing agreement between New York State and one of five state conduit issuers. They are executory only to the extent of funds available in the revenue bond tax fund. A state statute specifies that 25% of the state's PIT be deposited into the pledged revenue bond tax fund, excluding refunds owed to taxpayers. From a cash flow perspective, the deposits come from collections of the state's PIT withholding receipts, on a monthly basis, up to the required 25% amount of total monthly PIT receipts. Total PIT-secured bonds outstanding, including bonds issued by the New York State Environmental Facilities Corp., the New York State Dormitory Authority, the New York State Housing Finance Agency, the New York State Thruway, and the New York State Urban Development Corp., totaled \$20.74 billion outstanding as of Nov. 1, 2010, with approximately

\$74.6 million of that comprising unhedged variable-rate debt and \$303.9 million of variable-rate debt synthetically fixed under swap agreements.

While debt service is subject to annual appropriation, if there are no appropriations, the receipts will continue accumulating in the fund until it reaches \$6 billion, or 25% of the PIT, whichever is greater. The magnitude of this set-aside is significant by all measures and we believe provides a strong incentive to eliminate appropriation risk from our credit analysis.

PIT revenues have been fundamentally strong throughout New York State's history, despite periods of volatility. Total PITs have declined historically six times--in 1964-1965, 1971-1972, 1977-1978, 1990-1991, 2002-2003, and 2009-2010. With an income tax surcharge passed in 2003, and subsequent expiration three years later, tax revenues rose steadily from fiscals 2004-2009. Total PIT receipts increased 9.2% in 2004, 14.7% in 2005, 10.2% in 2006, 10.8% in 2007, 19.5% in 2008, and 0.8% in 2009, before declining 5.7% in fiscal 2010 to \$34.8 billion. The state projects a 5.3% increase in total PIT to \$36.6 billion in the fiscal year ending March 31, 2011. We believe strong growth in fiscal 2008 was due in part to a 2007 legislative change moving pledged deposits ahead of school tax relief payments in the flow of funds. Standard & Poor's believes weak economic performance and lower financial industry bonuses contributed to the decrease in 2010. The fiscal 2010 PIT includes the effect of a temporary PIT surcharge effective for tax years 2009-2011 for high income filers, with the top income tax rate rising to 8.97% from 6.85%. Under present law, the top tax rate would revert to 6.85% in the 2012 tax year. The temporary PIT increase is estimated by the state division of budget to have generated \$3.6 billion in fiscal 2010. This revenue enhancement has helped maintain good coverage of debt service in our opinion, despite the current weak economic climate and the sensitivity of the PIT to financial market performance, bonus, and capital gains.

The amount of total income tax that is withheld on a monthly basis has fluctuated between about 75%-101% of total PIT in the past 10 years, with the withholding component equal to about 85% of total state income tax in fiscal 2010. The state deposits all of the withholding receipts to the revenue bond tax fund (RBTF), up to 25% of total PIT. Income tax withholding alone increased annually between fiscals 2003 through 2008, before a 2.7% decline in fiscal 2009, and an increase of 6.3% in fiscal 2010. The state projects another 6.3% increase in withholding receipts in fiscal 2011. Pledged RBTF receipts increased from 2003-2009, but unlike the withholding receipts, fell 5.7% in fiscal 2010, as a result of the decrease in total PIT. The state projects RBTF receipts to increase 5.3% in fiscal 2011 to \$9.1 billion.

MADS coverage after this new issuance by pledged income tax withholding revenues (25% of PIT) collected in the most recent audited fiscal year ended March 31, 2010, of \$8.7 billion is approximately 4.3x, not including the federal interest subsidy from BABs as revenues. The state calculates MADS coverage, based on a more recent 12-month historical revenue collection of \$8.9 billion, as 4.4x, in accordance with the additional bonds test. It projects bond fund withholding receipts will rise to \$9.1 billion in fiscal 2011, which would further boost coverage. The state previously projected, before a recent upwardly revised revenue forecast, that expected additional bond issuance in future years will eventually bring debt service coverage by PIT revenues down to about 3.8x in fiscal 2013. We believe the current debt service payments are slightly front-loaded, with MADS scheduled in fiscal 2012, after this bond sale.

In Standard & Poor's opinion, PITs remain an important component of New York State's revenue mix, accounting for about 59% of state tax receipts in all state funds. We believe the set-aside of the 25% of the PIT on a monthly basis fully discounts concerns about its potential volatility.

Standard & Poor's views the bond covenants as consistent with a revenue bond structure. The comptroller must set aside, on a monthly basis, sufficient funds in the revenue bond tax fund to cover 125% of the monthly cash requirements for debt service in the following month. The comptroller pays these funds to the trustee directly on behalf of the issuer. The ABT is strong in our view, requiring that PIT revenues for 12 consecutive months out of the past 18 months to cover MADS for all obligations (regardless of issuing entity) by at least 2x. There is no debt service reserve. We believe PIT borrowing will continue to be the primary vehicle for new capital needs.

(For more information on the New York State economy, please refer to the State Review: New York State, published March 17, 2010, on RatingsDirect on the Global Credit Portal.)

Outlook

The stable outlook reflects Standard & Poor's expectation of continued strong debt service coverage from pledged PIT revenues. While this tax source has had a cyclical element over time, we believe coverage has remained strong and changes to the rate and base have also helped insulate pledged revenues.

Bond Provisions

An amendment to New York State finance law created the fundamental source of payment for these bonds. Under the statute, a revenue bond tax fund was created, to be held in the joint custody of the comptroller and the commissioner of taxation and finance. Money is kept separate and apart from all other funds held by the comptroller and commissioner. The statute originally specified that 25% of the state's PIT, net of refunds and deposits to the school tax relief (STAR) fund, be deposited into the revenue bond tax fund; however, as of April 1, 2007, the legislation was amended to allow deposits to be made before those for the STAR fund. From a cash flow perspective, the deposits will come from the monthly collections of the PIT withholding, although the entire PIT is available.

The statute requires that, on the first day of each month, all receipts collected be held until 25% of the PIT has been deposited. From a cash flow perspective, the statute requires that the set-aside will be made from the monthly withholding receipts, although all of the PIT, including estimated and actual payments made for the April 15 due date, determine the amounts that will be deposited into the fund as received. The certification received from the director of the budget determines both the 25% and debt service requirements to be retained in the fund. Once the monthly deposits are made and equal the balance required by the New York State division of budget certificate, money flows out to the general fund; money flows no later than the 15th of the next month except at the end of the fiscal year, and payments must be made by the last day of the fiscal year. On the 12th of the following month, the commissioner of taxation and finance certifies actual collections for the previous month. The set-aside for debt service remains in the fund and is then transferred to the trustee five days before the debt service due date.

Until an appropriation is made for debt service, no money will flow out of the revenue bond tax fund for general fund purposes, unless insufficient amounts are available from other sources to pay state general obligation holders. If no appropriation is made, receipts remain in the fund until the greater of 25% of the PIT revenues or \$6 billion is accumulated. Once the appropriation is made, money is set aside by the comptroller until amounts equal the requirements established by the director of the budget. If funds are not sufficient to meet the requirements certified by budget, the comptroller must immediately transfer any shortfall from the general fund. This transfer is not

subject to further appropriation.

Bond covenants are consistent with a revenue bond structure. The comptroller is required to set aside, on a monthly basis, sufficient funds in the revenue bond tax fund to cover 125% of the monthly cash requirements for debt service in the following month. These funds are paid to the trustee directly on behalf of the issuer.

The ABT is strong in our opinion, requiring that PIT revenues for 12 consecutive months out of the past 18 months cover MADS for all obligations (regardless of the issuing entity) at least 2x. There is no debt service reserve fund.

Should constitutional debt reform occur, New York State reserves the right to substitute a constitutionally approved revenue credit for these bonds without bondholder approval. It is likely that the structure would be very similar to these bonds, but would not require the annual appropriation.

The issuer has represented that the collateral pledge with respect to the bonds and parity reimbursement obligations is valid and binding, will be perfected without any need of recording or filing, and will be superior to any pledge or lien now or hereafter created for indebtedness or any other obligation secured by the subordinated payment fund.

State Personal Income Tax

New York State's PIT is a critical component of the state's revenue stream, representing about 59% of all state funds' tax receipts. The tax is based on individual taxpayers' adjusted gross income. In tax years 2001 and 2002, the state experienced aggregate declines of 5.5% and 4.4%, respectively, in state-adjusted gross income. However, adjusted gross income increased by 3.0% in tax year 2003, 11.1% in 2004, 8.7% in 2005, 10.6% in 2006, 14.6% in 2007, and declined 8.7% in 2008. The state estimates adjusted gross income declined again 10.7% in 2009, but projects an 8.4% increase in 2010. Typically, wages show generally what we consider consistent modest growth, while the capital gains component of adjusted gross income is more volatile. In our opinion, the estimated declines in 2008 and 2009 reflect the effects of the national recession on New York State's economy, and the effect of reduced bonuses from the state's sizable financial industry.

Personal income and the PIT do not show identical patterns of behavior, due primarily to definitional differences. The tax is based on adjusted gross income, which measures the taxable components of income and includes items such as capital gains, which are taxed but are not considered part of personal income. Personal income is based on the national income and product accounts definition, and includes income derived from value added to current production. Personal income, therefore, will not reflect the volatility of the equity markets. In addition, New York State's progressive income tax rates will make changes in PIT more volatile than changes in adjusted gross income.

In fiscal 2010, 85% of PIT revenues were received through the withholding mechanism. The lowest proportion in the previous eight years was 75% in 2009. Employers with more than \$700 in withheld taxes must remit monthly, within three business days after each payroll. Large employers with aggregate withholding balances in excess of \$100,000 must pay either electronically or by certified check. Small business and not-for-profit entities may pay within five days.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

Ratings Detail (As Of November 25, 2010)		
New York State Dorm Auth, New York		
New York State, New York		
New York St Dorm Auth PIT		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York St Dorm Auth (New York State) PIT (ed)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York St Dorm Auth PIT		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York St Dorm Auth (NYS) PIT		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York State Urban Dev Corp, New York		
New York State, New York		
New York St Urban Dev Corp (New York State) PIT		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York St Urban Dev Corp (New York State) PIT (New York St) (FGIC)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York St Urban Dev Corp (New York State) PIT (New York St) (State Facs & Equip) (MBIA) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York St Urban Dev Corp (New York St) PIT		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York St Urban Dev Corp (New York State) PIT		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York St Urban Dev Corp (New York State) PIT VRDB ser 2004A-3		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York St Envir Facs Corp, New York		
New York State, New York		
New York St Envir Facs Corp (New York State) PIT (FGIC)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York St Envir Facs Corp (State of New York) PIT		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York St Envir Fac Corp (New York St) PIT		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York St Hsg Fin Agy, New York		
New York State, New York		
New York St Hsg Fin Agy PIT		

Ratings Detail (As Of November 25, 2010) (cont.)		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York St Hsg Fin Agy (New York State) PIT		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York St Hsg Fin Agy (New York State) (Econ Dev & Hsg) VRDB PIT		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AAA/A-1/Stable	Affirmed
New York St Thruway Auth, New York		
New York State, New York		
New York St Thruway Auth (New York State) PIT		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
New York St Thruway Auth (New York State) PIT (wrap of insured) (AMBAC & AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York St Thruway Auth (New York State) PIT (MBIA) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
New York St Thruway Auth (New York State) PIT		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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