MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 rating to PANYNJ's consolidated bonds 200th-202nd series, outlook stable

Global Credit Research - 19 Apr 2017

New York, April 19, 2017 -- Issue: Consolidated Bonds, Two Hundred First Series; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: $300,000,000; Expected Sale Date: 04/26/2017; Rating Description: Revenue: Government Enterprise;

Issue: Consolidated Bonds, Two Hundred Second Series; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: $445,000,000; Expected Sale Date: 04/26/2017; Rating Description: Revenue: Government Enterprise;

Issue: Consolidated Bonds, Two Hundredth Series; Rating: Aa3; Rating Type: Underlying LT; Sale Amount: $250,000,000; Expected Sale Date: 04/26/2017; Rating Description: Revenue: Government Enterprise;

Summary Rating Rationale

Moody's Investors Service assigned an Aa3 rating on April 19, 2017 to the Port Authority of New York and New Jersey (PANYNJ)'s new consolidated bonds 200th-202nd series. At the same time Moody's affirmed the Aa3 rating on the outstanding consolidated bonds and the Prime-1 (P-1) rating on the Commercial Paper Series A, B, and C. The rating outlook is stable.

Proceeds of the bond issuance will amount to approximately $995 million and will be used for refunding existing debt, paying down outstanding commercial paper and financing capital expenditures.

The Port Authority's Aa3 rating benefits from the authority's monopolistic control over critical transportation infrastructure assets in the economically diverse service area of New York/New Jersey including airport facilities and bridges and tunnels between New York City and New Jersey. The rating also reflects the authority's track record of stable and solid financial performance with Moody's senior debt service coverage (DSCR) around 2.1 times, Moody's total DSCR around 1.9 times and debt to operating revenue close to 5.0 times on average from 2011 to 2016, good expenditure control and strong reserve levels. The Port Authority generates the majority of revenue and profits from toll and aviation revenues. We expect that 2017 financial performance will be consistent with historic levels.

The rating is constrained by high execution risk associated with the authority's large 10-year $32.2 billion 2017-2026 capital plan that was approved in February 2017. The capital plan is focused on financing revenue generating transportation assets rather than non self-supporting development projects, which is positive. However, it includes capital projects of high complexity and substantial size which will require management resources and good control of project costs and risks. In addition, the funding for the capital plan will largely come from cash flow generation, existing liquidity reserves and bond debt financing, putting pressure on liquidity and debt levels in the next few years.

We expect, however, that the Port Authority will maintain total DSCR close to 2.0 times, debt to operating revenue around 5.0 times and unrestricted cash reserves above 10% of consolidated debt in the next five years. Credit metrics could come under more pressure if revenues fell short of the current budget or if the authority was unable to secure some of the expected grants for certain projects such as the replacement of the Manhattan bus terminal, the PATH from Newark to Newark International Airport (EWR) and the LaGuardia Airport (LGA) airtrain.

We gain some comfort from PANYNJ's efforts to improve its project management system which has enhanced the authority's monitoring controls of capital projects and takes into account the authority's financial capacity to execute projects.

Other factors considered in the rating are the authority's complex governance structure and risk of political interference, the Port Authority's independent rate setting ability, as well as the lack of a dedicated debt service reserve fund.

The P-1 rating is based on the Port Authority's ability to service commercial paper from strong internal cash balances. While we expect some pressure on reserve levels in the next few years as the authority executes a sizeable and complex $32.2 billion 10-year capital plan, we expect that the authority will maintain solid levels of reserves, but lower than in 2016. The authority's self-liquidity is supported by both high reserve levels required by statutory requirements and good operating cash flow generation ability.

Rating Outlook

The stable outlook is supported by strong and stable historical financial performance and solid economic growth prospects for the New York/New Jersey region. We expect total DSCR to remain close to 2.0 times and debt to operating revenue to be maintained around 5.0 times. In addition, we expect liquidity will remain solid but below historical levels.

Factors that Could Lead to an Upgrade

- Strong traffic growth at the authority's toll facilities for a sustained period of time

- Total debt service coverage ratios (DSCRs) well above 2.0 times

- Completion of World Trade Center (WTC) facilities on-time and within budget with lease-up above baseline projections

Factors that Could Lead to a Downgrade

- Revisions to the capital plan that postpone critical and timely maintenance of key revenue generating assets

- Addition of significant non-revenue generating projects to the capital plan

- Total DSCR below 2.0 times and decline in liquidity levels for a not only temporary period of time

- Reorganization of the authority that effectively reduces the consolidated revenue pledge of all facilities

Legal Security

The Bonds are secured equally and ratably with all other Consolidated Bonds by a pledge of (a) the net revenues of all existing facilities of the Port Authority and any additional facilities which may be financed or refinanced in whole or in part through the medium of Consolidated Bonds; (b) the General Reserve Fund of the Port Authority equally with other obligations of the Port Authority secured by the General Reserve and (c) the Consolidated Bond Reserve Fund established in connection with Consolidated Bonds.

Bondholders are protected by a sum sufficient rate covenant. The additional bonds test requires 1.3 times maximum annual debt service (MADS) coverage on consolidated bonds. There is no dedicated debt service reserve fund but the authority is required to keep reserves at 10% of outstanding debt, and two years debt service by policy.The General Reserve Fund is pledged in support of all outstanding Consolidated Bonds and all Consolidated Bonds now or hereafter issued.

The General Reserve Fund is not available to pay debt service on Special Project Bonds, Versatile Structure Obligations, Commercial Paper Obligations or Variable Rate Master Notes.

Use of Proceeds

The PANYNJ expects to issue around $995 million in new consolidated bonds including around $250 million of governmental series 200th, $300 million of taxable series 201st, and around $445 million of AMT refunding series 202nd.

Proceeds will be used to refinance existing debt, pay down commercial paper debt and finance capital expenditures.

Obligor Profile

The Port Authority of New York and New Jersey (PANYNJ) is a joint venture between the states of NY and the NJ and was established in 1921. The authority provides the majority of the regional transportation infrastructure including bridges, tunnels, airports and ports within the Port District of New York and New Jersey.

PANYNJ has the ability to borrow, establish charges for the use of its facilities and exercise the right of eminent domain to authorize specific transportation and terminal facilities.

It operates all tunnels and bridges in the port district which, together with the Port Authority Bus Terminal, PATH and the Trans-Hudson Ferry service, constitute the authority's interstate transportation network. Bridges and tunnels include the Holland Tunnel, Lincoln Tunnel, George Washington Bridge, Bayonne Bridge, the Goethals Bridge, and the Outerbridge Crossing.

The authority also leases or owns five airports to serve the port district. These include John F. Kennedy International Airport, LaGuardia Airport, Newark Liberty International Airport, Teterboro Airport and Stewart International Airport. Airlines at the three large airports are required to pay a flight fee to the authority for ongoing construction, design, operation and maintenance of certain aircraft facilities.

Newark's airline agreement expires in 2018. JFK's and LaGuardia's agreements do not expire until the end of 2023. The airports collect Passenger Facility Charges (PFCs) at the federally established rate of $4.50. LGA has four terminals while JFK consists of six individual airline passenger terminals. EWR handles passengers in three terminals.

The WTC, located on the lower West Side of Manhattan, will provide approximately 10 million square feet of above grade office space with associated storage, mechanical floors, and below-grade parking and consists of five towers including One World Trade Center, about 500,000 square feet of retail space, a WTC Transportation Hub, and a memorial and interpretative museum.

The authority also owns or operates six marine terminal facilities to serve the Port District. Revenues primarily come from fixed lease agreements. The six facilities include Port Newark, Elizabeth-Port Authority Marine Terminal, Greenville Yard, Port Jersey in Bayonne and Jersey City, N.J, Brooklyn Port Authority Marine Terminal and Howland Hook Marine Terminal.

In 2016, the PANYNJ generated gross operating revenues of $5.2 billion.

Methodology

The methodologies used in this rating were Government Owned Toll Roads published in November 2016 and Publicly Managed Airports and Related Issuers published in November 2015. An additional methodology used in rating the commercial paper was Rating Methodology for Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity published in January 2012. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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