

New Issue: Moody's assigns Aa1 to \$850M of NYC TFA subordinate future tax secured bonds; outlook stable

Global Credit Research - 31 Oct 2014

\$25.4 billion of senior and subordinate TFA future tax secured bonds outstanding

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY, NY
Cities (including Towns, Villages and Townships)
NY

Moody's Rating

ISSUE	RATING
Future Tax Secured Subordinate Bonds, Fiscal 2015 Series B, Subseries B-1	Aa1
Sale Amount	\$700,000,000
Expected Sale Date	11/05/14
Rating Description	Special Tax: Non-Sales/Non-Transportation

Future Tax Secured Subordinate Bonds, Fiscal 2015 Series B, Subseries B-2 Aa1

Sale Amount	\$150,000,000
Expected Sale Date	11/05/14
Rating Description	Special Tax: Non-Sales/Non-Transportation

Moody's Outlook STA

Opinion

NEW YORK, October 31, 2014 --Moody's Investors Service has assigned Aa1 ratings to the New York City Transitional Finance Authority's \$700 million Future Tax Secured Subordinate Bonds, Fiscal 2015 Series B, Subseries B-1 and \$150 million Subseries B-2. Proceeds of the bonds, scheduled to price November 5, will be used to finance portions of the City of New York's (Aa2/stable) capital plan.

SUMMARY RATING RATIONALE

TFA's senior lien bonds (\$1.7 billion outstanding) are rated Aaa and its subordinate lien bonds (\$23.7 billion outstanding) are rated Aa1. The ratings reflect the high debt service coverage provided by the pledge of New York City personal income tax and sales tax revenues, a strong legal structure that insulates TFA from potential city fiscal stress, the open subordinate lien that permits future leverage of the pledged revenues, and New York State's (Aa1/stable) ability to repeal the statutes imposing the pledged revenues. The outlook is stable.

STRENGTHS

- Strong legal and structural insulation from city fiscal stress
- High debt service coverage provided by a broad stream of pledged revenues, New York City's personal income and sales taxes, and the healthy historical performance of those sources

CHALLENGES

- The state retains the right to alter or repeal the statutes imposing the taxes pledged to the bonds
- The cyclical nature of the personal income tax, particularly as it relates to New York City's financial services industry, and more recent volatility in the sales tax

-- The indenture's open lien for subordinate bonds, which could reduce coverage, although issuance is subject to an additional bonds test requiring 3 times coverage of maximum annual debt service

DETAILED CREDIT DISCUSSION

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

The TFA was created by the state legislature in 1997 to provide a method of financing New York City's vital capital construction program but outside the constraints of the debt limit imposed on the city by the state constitution (the city's general obligation bonds are rated Aa2 with a stable outlook). TFA's original statutory authorization was \$7.5 billion. In 2000, it was increased by \$4.0 billion and following the 2001 World Trade Center attacks, that amount was increased to permit \$2.5 billion of subordinate "Recovery Bonds"; a portion of the proceeds of those bonds was used as deficit financing to bolster the city's general fund in fiscal 2003. Authorized issuance was increased again by an additional \$2.0 billion in 2006, to an aggregate of \$13.5 billion (the Recovery Bonds were excluded from that cap) for senior and subordinate lien bonds.

State legislation enacted in July 2009 amended TFA's debt authorization again, lifting the \$13.5 billion aggregate cap. New issuance that would result in an amount of outstanding future tax secured bonds greater than \$13.5 billion is permitted, but subject to the additional bonds test and to the constraints of the general debt limitation imposed on New York City by the state constitution. The debt limitation restricts city indebtedness to no greater than 10% of the average full value of taxable real estate in the most recent five years. Currently, the authority has \$1.7 billion of senior lien bonds outstanding and \$23.7 billion of subordinate lien debt (which includes \$974 million of Recovery bonds). With those amounts outstanding and based on the statutory debt limitation as of September 30, 2014 the city had \$24.3 billion of total debt issuing capacity.

After \$2.8 billion of issuance in fiscal 2014, the city's current financial plan also reflects \$3.5 billion, \$2.6 billion, \$2.6 billion and \$2.5 billion of TFA future tax secured bond issuance, respectively, in fiscal years 2015 through 2018.

TFA ALSO AUTHORIZED TO ISSUE BARBS

TFA also has the statutory authority to have outstanding \$9.4 billion of building aid revenue bonds (BARBs) backed by state appropriations to the city of building aid to help finance the city's school facilities capital expenditures, additionally supported by the education aid intercept program of the state finance law's section 99-b (\$6.0 billion is currently outstanding). The pledged personal income and sales taxes do not secure the building aid bonds, which are rated Aa2 based on the state's appropriation (the State of New York's general obligation bonds are rated Aa1 stable).

RATINGS REFLECT STRONG LEGAL FEATURES THAT DEDICATE REVENUES TO TFA

Through statute, the State of New York has dedicated New York City's personal income and sales taxes to the TFA and granted TFA the authority to pledge those revenues as security for debt service payments and for payments under agreements such as interest rate swaps. Pursuant to the indenture, TFA has assigned and pledged its revenues to the bond trustee and created a security interest in them for payment of its bonds, notes or other ancillary contracts.

The pledged taxes are collected by the New York State Department of Taxation and Finance and held by the state comptroller, who makes daily transfers to the trustee (net of refunds and the costs of collection). The trustee makes quarterly set-asides of amounts required for debt service due in the following quarter on the outstanding bonds, as well as TFA's operational costs (with the collection quarters beginning each August, November, February and May). Half of each quarterly set-aside is made beginning on the first day of the first month of each collection quarter and the second half is made beginning on the first day of the second month of each collection quarter. If sufficient amounts for debt service are not on deposit after those two months, the trustee continues to set aside funds in the third month, on a daily basis, until the deficiency is cured. Functionally, personal income tax revenues are expected to provide sufficient amounts for debt service; if they do not provide at least 1.5 times coverage of maximum annual debt service (MADS), sales tax revenues are available to make up the difference. Additionally, the TFA's future tax secured bonds issued before November 2006 have a first lien on appropriations of state building aid to the city if necessary to meet debt service requirements.

OPEN LIEN FOR SUBORDINATE BONDS, SUBJECT TO 3 TIMES ADDITIONAL BONDS TEST

The TFA indenture limits senior lien debt to \$12 billion outstanding at any time, subject to a \$330 million limit on

debt service payable in any quarter (as well as the additional bonds test described below). The one-notch rating distinction of the subordinate bonds reflects the indenture's open lien, although subject to a conservative additional bonds test that requires at least 3 times coverage of MADS on outstanding bonds. Additionally, the indenture requires that calculations of MADS reflect variable rate bonds bearing interest at their maximum rate.

There are \$1.0 billion of senior lien variable rate demand bonds outstanding and \$2.8 billion of subordinate lien bonds, combined totaling 14.9% of TFA's outstanding future tax secured debt. None of TFA's liquidity facilities include term-out provisions and TFA is not a party to any interest rate swaps. Since TFA receives the pledged revenues on a gross basis, interest rate risk on the variable rate bonds is absorbed by the city after TFA's debt service set-asides. Included in TFA's floating total outstanding is \$377 million of index mode floating rate bonds that do not have a put feature but that have refinancing and interest risk at a step-up date, and \$222 million of auction rate bonds.

LEGAL SEPARATION OF TFA FROM THE CITY PROVIDES KEY STRENGTH; CITY AND STATE BOTH RETAIN THE RIGHT TO ALTER PLEDGED REVENUES

A key strength of the rating on the bonds is TFA's insulation from New York City bankruptcy risk. The legislature established TFA as a separate and distinct legal entity from the city. Further, the state did not grant TFA itself the right to file for bankruptcy. While bondholders are protected from bankruptcy, city or state fiscal stress still could pose risks because both the city and the state retain the right to alter the statutory structure that secures TFA's bonds. The city has covenanted not to exercise those rights if debt service coverage were to fall below 1.5 times MADS on outstanding bonds. Since enactment of the TFA, policy actions have both increased and decreased the pledged revenues. Those actions have included the abolition of the city's income tax on commuters, and establishment of various sales tax exemptions.

PLEDGED REVENUES PROVIDE HIGH DEBT SERVICE COVERAGE EVEN THROUGH ECONOMIC DOWNTURNS, ALTHOUGH INCREASED LEVERAGE

The pledged personal income and sales taxes reflect two diverse and historically stable revenue streams that are firmly embedded in city and state tax policy. Debt service coverage remains high, even despite weakness in the pledged revenues during the economic downturn. Demonstrating the sensitivity of the pledged revenues to economic cycles, in fiscal 2009 they declined by 16.5% (a 24.1% decline in personal income taxes and a 2.9% drop in sales taxes). Even with the declines, that year the pledged revenues provided 6.2 times coverage of maximum annual debt service. Following that drop, New York City's economy and thus the pledged revenues recovered well. Total pledged revenues increased by 11.9% in fiscal 2011, 4.7% in fiscal 2012, and by 11.0% in fiscal 2013. Specifically, personal income taxes increased by 11.1%, 4.8% and 15.4% in fiscal years 2011, 2012 and 2013, respectively. Sales taxes grew by 13.2%, 4.5% and 5.0% in each of those same years.

Based on actual fiscal 2013 collections, coverage of aggregate maximum annual debt service before the current issue is 7.0 times, a figure that reflects variable rate bonds bearing interest at their maximum rate. The city's most recent financial plan (dated June 26, 2014) projects total personal income tax and sales tax revenues to have increased by 4.0% in fiscal 2014 (which ended June 30), followed by a decrease of 0.4% and then growth of 4.4%, 3.9% and 3.3%, respectively, in fiscal 2015, 2016, 2017 and 2018. The city's revenue estimates are generally conservative and beyond its assumptions regarding floating rate debt, it actively seeks savings opportunities through refunding to reduce future year debt service. Each year the city also typically rolls forward a portion of its budgetary ending balance to pre-pay future year debt costs: nearly \$1.4 billion of that pre-payment was applied to fiscal 2015 TFA debt costs. Based on those projected revenues and currently planned future issuance, coverage remains strong, with annual revenues providing coverage of annual debt service of between 9.7 times in fiscal 2014 and 6.8 times in fiscal 2018.

OUTLOOK

The rating outlook of the TFA's Future Tax Secured Bonds is stable. Strong legal and structural payment mechanisms help to insulate the bonds from city and state fiscal stress, including short-term liquidity strain. Even amid current economic weakness, coverage of MADS remains strong, although new ability to leverage the pledged revenues could dilute that going forward.

WHAT COULD MAKE THE RATING GO UP

-- A higher additional bonds test or other indenture provision increasing bondholder protections against possible dilution of coverage

WHAT COULD MAKE THE RATING GO DOWN

- Significant weakening of the pledged revenues that reduces currently high levels of coverage
- Large additional bond authorizations that materially dilute coverage

RATING METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody's.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody's.com for additional regulatory disclosures for each credit rating.

Analysts

Nicholas Samuels
Lead Analyst
Public Finance Group
Moody's Investors Service

Emily Raimes
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

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

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE

affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.