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Summary:

New York City Transitional Finance Authority; Miscellaneous Tax

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Credit Profile		
US$700.0 mil future tax secured subord bnds fiscal 2015 ser B (Tax-exempt) ser SUB B-1 due 08/01/2042		
Long Term Rating	AAA/Stable	New
US$150.0 mil future tax secured subord bnds fiscal 2015 ser B (Taxable) ser SUB B-2 due 08/01/2026		
Long Term Rating	AAA/Stable	New
New York City Transitional Fin Auth future tax secd bnds		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating, and stable outlook, to New York City Transitional Finance Authority's (TFA) fiscal 2015 future tax-secured subordinate bonds subseries B-1 tax-exempt multi-modal bonds -- which will be issued in the fixed rate mode -- and subseries B-2 taxable fixed rate bonds. Standard & Poor's also affirmed its 'AAA' long-term rating, with a stable outlook, on the authority's existing future tax-secured debt, including senior- and subordinate-lien bonds and recovery obligation bonds.

The rating reflects our opinion of:

- A strong bond structure that separates the revenue stream supporting the bonds from New York City and New York State;
- The city's substantial and diverse economy that supports pledged revenue with a resident population base of more than 8 million that has steadily expanded. New York continues its role as a major global center for finance, commerce, tourism, and retail activity and is the nation's leading employment center;
- The resilient nature of the sales and income tax revenue supporting the bonds. Although this revenue stream is susceptible to economic slowdowns, generally, as evidenced by the Great Recession, it has been quick to recover;
- The authority's cash flows and coverage, which are strong and more than sufficient to make timely interest and principal payments under severe stress scenarios; and
- Strong bond provisions, including what we consider a conservative additional bonds test.

The bonds are secured by a subordinate lien on tax revenues of the authority and certain accounts held by the trustee. We understand that officials plan to use proceeds of the tax-exempt subseries B-1 bonds to finance general city capital expenditures and proceeds of the taxable subseries B-2 bonds for other discrete capital purposes.

Personal income tax (PIT) and sales tax revenue secure the bonds. Pursuant to the enabling legislation, sales tax revenue is available to pay debt service on the bonds if the city projects the PIT will be insufficient to provide 150% of maximum annual debt service (MADS) on outstanding bonds. In 2009, the New York State Legislature authorized the TFA to have outstanding $13.5 billion of future tax-secured bonds, excluding recovery obligations. The legislature also authorized the issuance of additional future tax-secured bonds subject to the city's debt limitation, coupled with its general obligation (GO) bonds. We understand New York City intends to continue to alternate the issuance of GO bonds and future tax-secured bonds. As of Sept. 30, 2014, the city and authority's debt-incurring capacity was $24.3 billion. We believe the TFA could issue additional debt while maintaining what we consider strong debt service coverage (DSC).

The bond indenture includes an agreement that provides that senior-lien debt cannot exceed $12 billion in principal and that it is subject to a maximum quarterly senior-lien debt service payment that cannot exceed $330 million. Subordinate-lien debt is not subject to the quarterly DSC requirement under the terms of the indenture for senior-lien bonds. Subordinate-lien debt must still comply with what we regard as the conservative and more traditional additional bonds test, requiring 3x DSC, with DSC calculated annually. We rate the senior- and subordinate-lien bonds the same because of the strength of the bond structure established to pay debt service for senior- and subordinate-lien bonds and because of what we view as the high DSC on all TFA bonds.

The PIT and sales tax revenue supporting TFA's bonds and notes are sensitive to economic cycles. The PIT is the primary statutory revenue source: It accounted for 60% of pledged revenue in fiscal 2013 (the most recently audited fiscal year). After decreasing by 24.1% to $6.7 billion in fiscal 2009, PIT revenue began to recover in fiscal 2010, and exceeded its pre-recession peak by fiscal 2013. Fiscal 2013 collections grew 15.4% to $9.2 billion, boosted by the continuing economic recovery and an increase in the federal capital gains rate, which caused city taxpayers to spin up capital gains tax payments to 2013 from 2014. Despite the spin-up, cash basis collections grew 3.1%, to $9.5 billion, in fiscal 2014, but are expected to decrease by 2.9% in fiscal 2015 due to lower withholding on Wall Street bonuses, a return to trend levels on city and state offsets, and flat estimated payments. Growth is expected to resume again in fiscal 2016, with projected collections of $9.7 billion, followed by $10.0 billion in fiscal 2017, and $10.3 billion in fiscal 2018 for projected aggregate growth of 11% during the five-year period.

The sales tax is the other leading TFA revenue source: It accounted for approximately 40%, or $6.1 billion of pledged revenue in fiscal 2013, a $294 million increase from fiscal 2012. Collections are expected to grow throughout the plan period, increasing to $6.5 billion in fiscal 2014, $6.7 billion in fiscal 2015, $7.0 billion in fiscal 2016, $7.3 billion in fiscal 2017, and $7.6 billion in fiscal 2018 for aggregate growth of 23%. The sales tax is levied on a variety of economic activities including retail, services, utilities, manufacturing, and other sales (construction, wholesale trade, arts, entertainment and recreation, and other sales).

Despite decreases during the recession, MADS coverage has remained strong, in our opinion. Fiscal 2013 actual pledged revenue collections of $15.4 billion provide what we consider very strong 6.3x MADS coverage on all current and existing senior and subordinate bond series, assuming a stress scenario with variable-rate bonds bearing interest at the maximum bond rate, and 6.73x at budgeted rates. Based on actual interest rates paid, fiscal 2013 pledged revenues provided annual DSC of 9.1x. Fiscal 2014 estimates show combined pledged revenues increasing 4% to $15.99 billion, which provides annual DSC of 9.74x, and MADS coverage of 6.6x based on the maximum rate on variable-rate bonds and 7.0x at the 5% assumed adjustable rate, respectively — levels that we consider very strong.

With additional debt issuance planned, city officials are projecting DSC to decrease during the forecast period but to remain what we view as strong at 6.8x in fiscal 2018 based on assumed variable interest rates of 5% on tax-exempt variable-rate bonds outstanding, 7% on taxable variable-rate bonds outstanding, and 6% on all planned bond issuances through 2018. Projected coverage does not include the federal subsidy for Build America Bonds and qualified school construction bonds.

The authority has approximately $25.36 billion of future tax-supported debt outstanding, consisting of $1.70 billion of senior-lien bonds and $23.69 billion of subordinate-lien debt, including $974 million of recovery bonds. It has $1.01 billion of senior-lien variable-rate debt and $2.77 billion of subordinate-lien variable-rate debt representing approximately 15% of authority debt outstanding. Based on the city's current financial plan, TFA expects to issue $3.5 billion in fiscal 2015, $2.6 billion in fiscal 2016, $2.6 billion in fiscal 2017, and $2.5 billion in 2018.

Outlook

The stable outlook reflects Standard & Poor's opinion of the strong protections afforded bondholders from statutory revenue -- both PIT and sales tax revenue -- and the required flow of these funds by statute, as well as the indenture, to pay debt service during the bonds' life. We believe DSC will likely remain very strong during the two-year outlook horizon despite additional planned debt issuance. Furthermore, we believe New York City's substantial and diverse economy will likely continue to support pledged revenue growth. Due to these factors, we do not expect to change the rating during the outlook's two-year period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.