STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
New York City Transitional Finance Authority; Appropriations

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Table Of Contents

Summary:

New York City Transitional Finance Authority; Appropriations

Credit Profile		
New York City Transitional Fin Auth bldg aid		
Long Term Rating	AA/Stable	Upgraded
New York City Transitional Fin Auth bldg aid (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
New York City Transitional Fin Auth bldg aid ser 2007 S-1		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on New York City Transitional Finance Authority's (TFA) building aid revenue bonds outstanding to 'AA' from 'AA-'. The outlook is stable.

We base the upgrade on our general obligation (GO) rating on New York State (AA+/Stable) and adequate debt service coverage (DSC) by direct payment state building aid.

The rating reflects what we view as:

- Strong bond provisions, established under statute and indenture, directing the flow of building aid directly to the trustee for the benefit of bondholders in advance of debt service due dates;
- The stability of building aid flowing to New York City, along with the state's steady commitment to fund this program over time even in difficult budget periods;
- Strong DSC from building aid confirmed on previously approved projects;
- The capture of building aid in the fiscal year before the debt service payment requirement; and
- New York State's constitutional and statutory commitment to fund education.

All state building aid payable to the city secures the building aid revenue bonds on a direct payment basis in advance of debt service payment, plus in the event of default, an intercept of all other state aid to New York City for education available under section 99-b of state law. The School Financing Act approved by the New York State Legislature in 2006 authorized up to $9.4 billion outstanding state building aid appropriation bonds, notes, or other obligations. As of June 30, 2014, approximately $6.05 billion of building aid revenue bonds was outstanding. The act authorizes New York City to assign all state building aid received under Section 3602.6 of the state education law to the TFA, with funds paid directly to a trustee from the state comptroller for payment on the bonds.

The existing TFA indenture for future tax-secured bonds was amended to establish a building aid subaccount where revenue is segregated to fund debt service for the building aid revenue bonds. Because the existing TFA indenture was used, building aid is pledged on a basis subordinate to all TFA future tax-supported bonds secured by city income and sales taxes that were outstanding (senior, subordinate, and recovery bonds), up to and including the TFA's series 2007 building aid bond issue. Building aid is not available to pay debt service on TFA future tax-secured bonds issued after the series 2007 issue. Due to the strong coverage of TFA future tax-secured debt by pledged tax revenue without regard to building aid, and the quarterly retention features of the existing TFA future tax-secured revenue bond structure (rated 'AAA' based on the security of city income and sales taxes), we do not consider this a material credit consideration. TFA future tax-secured income tax and sales tax revenue in fiscal 2014 covered annual TFA future tax-secured debt service 9.75x.

The pledge of building aid to the building aid bonds is also subordinate to New York Municipal Bond Bank Agency prior claims bonds series 2012A (AA/Stable), New York City educational construction loan fund bonds to the extent needed to restore its debt service reserve (rated 'AA-/Stable' based on New York City lease payments), and section 99-b state aid interceptable for the benefit of any defaulted New York City GO or TFA bonds issued for school purposes. We calculate fiscal 2014 pledged state building aid to New York City alone covered building aid revenue bond maximum annual debt service (MADS) at a strong 2.27x, which is the coverage that would occur if there were no shortfalls in payment of prior contingent debt service or the bank bond agency debt.

Although all building aid is pledged to secure the bonds, New York City will only use confirmed building aid due to the city for projects already authorized by the state department of education when issuing additional debt. Confirmed building aid due to the city must cover debt service on debt outstanding and proposed debt by 1x. Given the city's significant capital program for education-related projects that will receive building aid reimbursement in the future, the actual flow of state building aid to New York City on an annual basis will likely provide a significant margin of DSC. Total pledged building aid in fiscal 2014, according to the most recent TFA disclosure report, was $1.0 billion. The prior and competing claims bonds also have a lien on total state education aid to New York City, which amounted to $8.6 billion in fiscal 2014. A memorandum of understanding with the state comptroller prioritizes other state aid first for the competing claims bonds. Assuming bond defaults on all other competing claims bonds, combined education aid in fiscal 2014 covered combined annual debt service on contingent claim bonds, plus MADS on building aid bonds and bank bond agency 2012A prior claims MADS by a still-strong 4.26x.

For more information on the prior-lien income and sales tax-supported TFA bonds, see the rationale published July 11, 2014, on RatingsDirect. For more information on the credit quality of New York City GO bonds, see the most recent New York City GO analysis published Oct. 29; for more information on the credit quality of New York State, see the most recent state GO analysis published July 23.

Outlook

The stable outlook reflects our stable outlook on New York State as well as our understanding that state building aid has, and will continue to be, funded on a consistent basis over time. In our opinion, the bond structure established to divert building aid revenue to fund debt service is what we consider strong. Although existing building aid pledged to the bonds provides solid DSC, the significant capital program for New York City schools should, in our opinion, ensure a steady flow of additional building aid to the city. This rating will likely move with a change to the New York State GO rating.

Related Criteria And Research

Related Criteria

USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

Ratings Detail (As Of December 11, 2014)		
New York City Transitional Fin Auth bldg aid rev bnds		
Long Term Rating	AA/Stable	Upgraded
New York City Transitional Fin Auth bldg aid (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
New York City Transitional Fin Auth bldg aid (wrap of insured) (FGIC) (ASSURED GTY - SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
New York City Transitional Fin Auth bldg aid (wrap of insured) (FGIC, National) (ASSURED GTY-SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
New York City Transitional Fin Auth bldg aid (BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
New York City Transitional Fin Auth bldg aid		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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