MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to NYC TFA $750 million Building Aid Revenue Bonds; outlook stable

Global Credit Research - 09 Jan 2015

$5.9 million of BARBS are outstanding

NEW YORK (STATE OF)
State Governments (including Puerto Rico and US Territories)
NY

Moody's Rating

ISSUE	RATING
Building Aid Revenue Bonds Fiscal 2015 Series S-1	Aa2
Sale Amount $750,000,000	
Expected Sale Date 01/12/15	
Rating Description Dependent (Rating moves with Parent)	

Moody's Outlook

NEW YORK, January 09, 2015 --Moody's Investors Service has assigned a Aa2 rating to the New York City Transitional Finance Authority's (TFA) $750 million Building Aid Revenue Bonds, Fiscal 2015 Series S-1. The TFA plans to sell the bonds starting January 12, 2015.

SUMMARY RATING RATIONALE

The Aa2 rating on the TFA BARBs is one notch below New York State's Aa1 rating and reflects the state's strong commitment to provide building aid payments to New York City (Aa2 stable). The rating also reflects the subject-to-appropriation nature of the state aid payments securing the bonds, the state's constitutional mandate to fund education aid, a statutory framework that assigns the city's state building aid to the TFA, and non-impairment provisions.

STRENGTHS

-- Long track record of state payments for New York City education aid

-- State non-impairment commitment

-- 1 times additional bonds test based on confirmed building aid received in every year

-- Healthy coverage in early years, although coverage declines in outyears

CHALLENGES

-- Confirmed building aid payments are subject to appropriation

-- The city's education aid is subject to certain competing claims

DETAILED CREDIT DISCUSSION

BONDS SECURED BY CONFIRMED STATE BUILDING AID TO NEW YORK CITY, SUBJECT TO ANNUAL APPROPRIATION

In 2006, the TFA enabling act was amended pursuant to the School Financing Act to change the way the state provides support for New York City's educational capital plan. The amended law authorizes the issuance of building aid revenue bonds of up to $9.4 billion to finance educational facilities; $5.99 billion of this authorization is currently outstanding, not including this issuance. Under the act, the city assigns to the TFA all of the state building aid payable to the city, under Section 3602.6 of the state education law.

Educational projects in New York City's education capital plan, including new construction, building additions, and rehabilitations, are eligible for state building aid. When a project goes into contract, the School Construction Authority submits it to the State Education Department (SED). The SED approval process establishes an "aidable cost" of the project and creates a 30-year amortization schedule. Once SED has approved the project, the state is statutorily required to provide a 30-year stream of building aid payments, subject to annual appropriation.

The stream of building aid payments is a function of both the aidable cost and the current funding ratio, and provides the security for the bonds. The SED determines the amount of confirmed building aid payable annually by applying a building aid ratio to the amount of aidable debt service for the year. The base building aid ratio has varied in past years and could vary in future years. For New York City schools, it averaged 51% from 2005 to 2010. The ratio has generally drifted down since 2010, and the city projects it will be 47.3% in fiscal 2015.

STATE NON-IMPAIRMENT COVENANT ADDS BONDHOLDER PROTECTION; COMPETING CLAIMS TO BUILDING AID

The state has covenanted not to impair the rights of bondholders in any way. Although the state is able to vary the building aid ratio on a year-to-year basis, which alters the amount of confirmed building aid payable to the city, we believe that given the covenant the state is not likely to reduce its building aid payments below the amortization level initially calculated for each project, with the provision that the interest rate used in the calculation may be reset every 10 years.

Further supporting bondholder security is the fact that the state aid intercept provision of Section 99-B of the School Finance Law is available to these bonds. However, since the 99-B program provides for post-default payment, with the state comptroller withholding education aid in amounts required to pay debt service if necessary, it does not add to the credit rating assigned to this transaction.

New York City's education aid is subject to certain competing claims, including those from holders of State of New York Municipal Bond Bank Agency Special School Purpose Revenue Bonds. These claims are minimal in amount. There are also contingent competing claims from the 99-B intercept post-default program, holders of New York City Education Construction Fund Revenue Bonds, and possible withholdings by the state if the city fails to provide certain educational services. Through a memorandum of understanding (MOU) between the city, the TFA, the State Education Department, and the New York State Comptroller, the state comptroller has agreed to satisfy such competing claims from other school aid before state building aid. New York City has agreed to pay to the TFA any amounts of building aid that may be diverted for these claims.

1.0 TIMES ADDITIONAL BONDS TEST BASED ON HISTORICAL ANNUAL CONFIRMED BUILDING AID

The additional bonds test (ABT) requires 1.0 times coverage of outstanding state building aid appropriation bond debt service by confirmed building aid revenue in every year. This ABT does not rely on any future approval of New York City education capital projects or on the associated incremental building aid: it relies solely on approved projects for which the state has committed to provide a 30-year stream of building aid payments subject to annual appropriation.

Based on confirmed building aid through 2044 and debt service on outstanding Building Aid Revenue Bonds as well as projected debt service on the Series 2013 S-1 bonds, debt service coverage falls from 2.13x times in 2015 to a minimum of 1.14 times in 2036. As New York City continues to add capital projects for education in the future, incremental associated building aid will be added, increasing coverage and providing more debt capacity.

MOU ESTABLISHES FLOW OF BUILDING AID

Each year the state annually appropriates money to New York City to pay for educational needs of the city's students. A portion of this aid constitutes the state building aid. Until 2006, the state did not distinguish between the payment of education aid and building aid, making one lump sum payment to the city. To securitize the bonds and separate building aid from the rest of the education aid, pursuant to the MOU the city, TFA, SED and the state comptroller determine the amount included in each general education aid payment that is attributable to state building aid. Prior to each general education aid payment, the TFA is required to calculate and certify to the SED, the comptroller and the state budget director the amount of the building aid payment included in each general education aid payment.

Additionally, a constitutional mandate to fund education supports the inclusion of appropriations for educational aid, including building aid, in the state's annual budget.

STATE FINANCIAL CONDITION IS A RATING FACTOR

Moody's views the building aid revenue bonds as a General Fund appropriation obligation of the State of New York. As such, the payment of state building aid to the TFA is dependent on the financial condition of the state. Moody's rates the state's general obligation bonds Aa1 with a stable outlook.

In its November 24 annual information update, the state disclosed:

- Fiscal 2015 general fund revenue estimates have been revised upwards by $4.8 billion due to financial settlements with major banks while general fund spending estimates remain very close to the enacted budget.

--The state now expects to end fiscal 2015 with a $6.8 billion general fund closing balance.

--The state's request for reconsideration of a $1.26 billion disallowance of Medicaid reimbursements was denied by the US Department of Health and Human Services, a decision that the state intends to appeal. The disallowance is not currently incorporated into the financial plan and remains a risk.

--Higher-than-expected pension contribution rates announced by the State Comptroller will add more than $350 million in fiscal 2016 expense, which the state may choose to amortize per state statute.

Audited results for fiscal 2014 show that the state ended the year with a general fund deficit of $567 million. However, the state's available balances, calculated as its reserves plus its unassigned fund balance, deteriorated to about -$3 billion from about -$2.2 billion in fiscal 2013 stemming from a year-over-year decline in personal income tax revenues.

OUTLOOK

The bonds carry New York State's stable outlook. The outlook reflects our expectations that the state will preserve and improve upon the gains it has made in governance and its financial position.

WHAT COULD MAKE THE RATING GO UP

* Stronger protection for the pledged revenues

* State rating upgrade

WHAT COULD MAKE THE RATING GO DOWN

* Significant decrease in debt service coverage

* State rating downgrade, which could be triggered by growing structural budget gaps and reliance on non-recurring resources for recurring expenses.

RATING METHODOLOGY

The principal methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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