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# New York City Transitional Finance Authority; Appropriations


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# New York City Transitional Finance Authority; Appropriations

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| US$750.0 mil bldg aid rev bnds ser 2015S-1 due 07/15/2044 | | |
| *Long Term Rating* | AA/Stable | New |

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to New York City Transitional Finance Authority's (TFA) $750 million building aid revenue bonds, fiscal 2015 series S-1, and affirmed its 'AA' rating on the authority's $5.99 billion outstanding parity debt. The outlook on all ratings is stable.

The ratings reflect 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 debt service coverage (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.

The 2015 series S-1 bond proceeds will be used to fund a portion of New York City's capital plan for educational facilities.

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 state building aid appropriation bonds (BARBs), notes, or other obligations outstanding. The TFA has approximately $5.99 billion of BARBs 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 BARBs. 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, currently totaling $2.3 billion outstanding, as well as subordinate to operating costs of the TFA to the extent not otherwise paid by tax revenues. 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 9.70x.

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 estimated new BARB maximum annual debt service (MADS) after this sale of $492 million at a strong 2.04x, 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. Coverage of MADS would rise to 2.05x based on the city's estimate of state building aid to be received in fiscal 2015.

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 estimated new MADS on BARBs and bank bond agency 2012A prior claims MADS, by a still-strong 4.28x.

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, 2014; for more information on the credit quality of New York State, see the most recent state GO analysis published July 23, 2014.

## 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.

## Bond Provisions

State education building aid, and income and sales tax revenue additionally pledged to the TFA tax-secured bonds, are deposited together into a collection account, in which there is a tax revenue subaccount, receiving tax revenues, and a building aid subaccount, which receives state building aid.

State education building aid in the building aid subaccount is used first, to pay senior pre-2007 TFA tax-secured debt to the extent that there are shortfalls in TFA tax-secured income and sales tax revenues; second, to pay authority operating expenses to the extent that tax revenues are insufficient; third, to pay junior-lien pre-2007 TFA tax-secured debt; and fourth, to pay the TFA BARBs, including the series 2015 S-1 and parity debt. Finally, the remaining revenues are released to New York City free of any lien. State building aid is retained in the school bond account once the amount of state building aid remaining to be received within the fiscal year equals 110% of the amount of school bond debt service payable in the following fiscal year.

## Related Criteria And Research

### Related Criteria

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

| Ratings Detail (As Of January 9, 2015) | | |
|---|---|---|
| New York City Transitional Fin Auth bldg aid | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| New York City Transitional Fin Auth bldg aid rev bnds | | |
| *Long Term Rating* | AA/Stable | Affirmed |
| New York City Transitional Fin Auth bldg aid (wrap of insured) (FGIC & BHAC) (SEC MKT) | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth bldg aid (wrap of insured) (FGIC) (ASSURED GTY - SEC MKT) | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth bldg aid (wrap of insured) (FGIC, National) (ASSURED GTY-SEC MKT) | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth bldg aid (ASSURED GTY) (SEC MKT) | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth bldg aid (BHAC) (SEC MKT) | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |
| **New York City Transitional Fin Auth bldg aid** | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |
| **New York City Transitional Fin Auth bldg aid ser 2007 S-1** | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.