# Fitch Rates NYC Transitional Finance Auth's $855M Future Tax Secured Bonds 'AAA'; Outlook Stable

Ratings Endorsement Policy

14 Nov 2012 11:58 AM (EST)

Fitch Ratings-New York-14 November 2012: Fitch Ratings assigns an 'AAA' rating to the following New York City Transitional Finance Authority (TFA) series 2013 future tax secured bonds:

--Approximately $100,000,000 tax-exempt subordinate fixed rate bonds subseries 2013C-1;
--Approximately $100,000,000 of taxable subordinate qualified school construction bonds subseries 2013C-2;
---Approximately $130,000,000 taxable subordinate fixed rate bonds subseries 2103C-3;
--Approximately $307,545,000 of tax-exempt subordinate refunding bonds series D;
--Approximately $217,285,000 of tax-exempt subordinate refunding bonds series E.

Fitch affirms its ratings on the following outstanding TFA future tax-secured bonds:

--$2.7 billion senior bonds;
--$17.2 billion subordinate bonds;
--$1.3 billion recovery subordinate bonds.

The Rating Outlook is Stable.

The bonds are scheduled to sell competitively on Nov. 15. The series C bond proceeds will be used to fund general and school capital projects. The series D and E bond proceeds will redeem, at or prior to maturity, currently outstanding future tax secured bonds.

Simultaneous with this offering TFA expects to issue approximately $248 million in future tax secured subordinate variable rate bonds. Fitch will assign long- and short-term ratings to the variable rate bonds with consideration of liquidity support nearer to closing.

Fitch will withdraw its 'F1+' rating on TFA fiscal 1999 subseries 1999A-1 bonds at the time of conversion of the bonds to a fixed-rate mode and termination of the standby bond purchase agreement that had provided support for them. The bonds will continue to be rated 'AAA' with a Stable Outlook.

SECURITY

The bonds are payable from revenues derived from a personal income tax (PIT) and a sales and use tax imposed by the city, as authorized by the state. Payment of the PIT and sales tax revenue to the TFA is not subject to city or state appropriation.

Sales tax revenues will be available for the payment of bonds if PIT revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service (MADS) on the TFA's outstanding bonds.

The senior bonds are subject to a $330 million limit on quarterly debt service. Additional bonds may be issued as senior bonds if tax revenues for the 12 consecutive calendar months preceding authorization is at least 3x the amount of annual senior debt service or $1.32 billion.

The subordinate additional bonds test (ABT) requires that tax revenues for the most recent fiscal year are at least 3x the sum of $1.32 billion plus projected subordinate debt service.

KEY RATING DRIVERS

STRONG LEGAL FRAMEWORK: The bankruptcy-remote, statutorily defined nature of the issuer and a bond structure involving a first perfected security interest in the PIT and sales tax revenues are key credit strengths. Payment of the PIT and sales tax revenue to the TFA is not subject to city or state appropriation. Statutory covenants prohibit action that would impair bondholders.

TAX RATE RISK LOW: The state can unilaterally modify or repeal tax law as it relates to the PIT or sales tax and could risk default by exercising this right in an extreme city fiscal crisis scenario. Fitch believes that the risk of this is negligible.

STATUTORY CASH FLOW PROVISIONS: The PIT and sales tax are imposed by the city pursuant to state statute and collected by the state. Revenues from the PIT (and the sales tax, if required) flow directly from the state comptroller to the TFA trustee and are not subject to state or city appropriation. The city receives residual revenues only after advance quarterly funding of debt service.

ROBUST COVERAGE: Although senior bonds have a first claim on statutory revenues, Fitch does not make a rating distinction between the liens due to the high coverage levels. Debt service coverage on all future tax secured (FTS) bonds from fiscal 2012 projected revenue was 8.4x. Even with sizable debt issuance plans over the next four years, pro forma MADS coverage is expected to remain strong.

SOLID ECONOMIC UNDERPINNINGS: Statutory revenues are derived from a broad economic base with high income levels, benefiting from the city's unique role as a national and international center for commerce and culture. The city's per capita personal income is 130% of the national average.

DEPENDENCE ON WALL STREET: Financial activities account for about 12% of jobs and 30% of earnings. Recession-related job declines have been well under comparable national averages although weakness in financial services employment is evident. The city's unemployment rate is above average and has recently been trending higher, which may negatively affect future pledged revenue growth.

CREDIT SUMMARY:

STRONG LEGAL FRAMEWORK PROTECTS BOND REPAYMENT

The 'AAA' rating is based on the very strong legal structure which insulates bondholders from any operating risk of New York City (GO bonds rated 'AA' by Fitch). The rating reflects the bankruptcy-remote, statutorily defined nature of the issuer, the bond structure involving a first perfected security interest in revenues that are not subject to appropriation, statutory covenants prohibiting action that would impair bondholders, New York State as collection agent, and the existence of two separately levied cash flow streams (the statutory revenues).

PIT and sales tax revenues are imposed by the city and collected by the state. Revenues from the PIT as well as the sales tax, if required, flow directly from the state comptroller to the TFA trustee, and are not subject to state or city appropriation. The city receives residual revenues only after advance quarterly funding of debt service.

The state is able to unilaterally modify or repeal tax law as it relates to the PIT or sales tax and could risk default by exercising this right in an extreme city fiscal crisis scenario; however, Fitch believes that the risk of this is negligible.

PLEDGED REVENUES EXHIBIT STABILITY DESPITE SOME VARIATION

The PIT consists of a base rate and a 14% surcharge. The PIT rate has changed over time, most recently with a base rate increase in 2010. Both the base rate increase and the 14% surcharge, originally imposed in 2002, are set to expire on Jan. 1, 2015 unless extended with state approval. Failure to approve continuation of both the current base rate and the 14% surcharge could result in significant declines of pledged revenue.

TFA estimates indicate that annual FTS revenue at the minimum base rate with no surcharge would decline by $5.7 billion by fiscal 2016. This level would still provide about 3x coverage assuming additional debt is issued on the current schedule and no change to the sales tax rate. Fitch believes this is an extreme scenario given the importance of this source to the city's budget and the consistent reauthorization of both a base rate above the minimum authorized and the 14% surcharge.

The PIT comprised 58% of fiscal 2012 FTS revenue. Since fiscal 2003, both PIT and sales tax revenue have declined in only one fiscal year. The significant 16.5% decline in fiscal 2009 was due in part to an adjustment for prior-year PIT overpayments, and in part to the recession. Revenue increased in fiscal 2010 by 3.3%, aided by a base rate increase for high-income payers that became effective in September 2010 for the full 2010 tax year. Fiscal 2011 included a full fiscal year of collections at the higher rate, as well as the retroactive collection of withholding tax payments for tax year 2010. As a result FTS revenue increased by 11.9%. Growth in fiscal 2012 was slightly below projections but sound at 4.7%.

STRONG COVERAGE EXPECTED EVEN WITH FUTURE DEBT ISSUANCE

Projected tax revenue for fiscal 2013 is 5.6% above fiscal 2012 levels. Debt service coverage on all FTS bonds from fiscal 2012 projected revenue was 9.2x. Combined with sizable debt issuance plans, projected coverage is expected to remain high at a minimum of 6.7x through fiscal 2016 using the TFA's projected annual pledged revenue growth of 4.5%, or 5.4x assuming no growth from audited fiscal 2011 pledged revenue. While included in coverage figures, BAB and QSCB subsidies are not pledged as security for the bonds. The reduction in subsidies contemplated at the federal level would have a minimal impact on coverage.

These coverage projections assume the issuance of approximately $10.6 billion in additional FTS bonds, in accordance with the city's capital improvement program for fiscal years 2013-2016. Coverage is projected to well exceed the subordinate ABT that requires that historical statutory revenues cover at least 3x the full $1.32 billion maximum allowable senior debt service plus projected subordinate debt service.

ECONOMY INHERENTLY STRONG BUT NOT WITHOUT CHALLENGES

Fitch considers the city's unique economic profile, which hinges on its singular identity as an international center for numerous industries and a major tourist destination, to be a credit strength.

The city's tourism sector is performing exceptionally well. The city attracted 50.5 million visitors in 2011, above the record of 48.8 million visitors set in 2010. Another area of recent strength is the commercial real estate market. According to Cushman and Wakefield, the city recorded 30.1 million square feet of leasing activity in 2011, the highest volume since 2000, although the city reports this activity has recently slowed. The city's economic profile also benefits from its strong wealth, with per capita income 130% of the national average.

The city's economy (and operating budget) is strongly linked to the financial sector, which accounts for approximately 12% of total employment but 31% of earnings. According to the New York State Department of Labor (NYSDOL), financial activities employment in the city declined 1.2% in the 12 months ended October 2012, although total non-farm jobs rose 2.5%. The high-earning securities and commodities component of the sector shed 3,100 jobs or 1.8% during the 12-month period. Tightening financial reforms and regulation, reduced bank profits, evidence of a shift in bonus and compensation practices away from cash, uncertain economic recovery, and concerns in Europe are among several factors that figure to weigh on financial sector prospects over the near to intermediate term.

Based on preliminary data, unemployment was up to 9.5% in September 2012 from 9.1% in September 2011. After some improvement during most of 2011, monthly unemployment has consistently been up year-over-year in 2012. The increase reflects growth in the labor force coupled with flat to slightly declining employment. This is in contrast to the national trend, in which year-over-year employment has increased, and unemployment decreased, in each month of 2012 through September.

Several of the sectors experiencing solid growth, including retail, health care and social assistance, transportation, and leisure and hospitality, are generally associated with lower wages. This may mute growth in pledged revenues.

Contact:

Primary Analyst
Amy Laskey
Managing Director
+1-212-908-0568
Fitch, Inc.
One State Street
New York, NY 10004

Secondary Analyst
Karen Wagner
Director
+1-212-908-0230

Committee Chairperson
Marcy Block

Senior Director
+1-212-908-0239

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

**Applicable Criteria and Related Research:**
Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria