

FITCH RATES NYC TRANSITIONAL FINANCE AUTH'S \$850MM FUTURE TAX SECURED BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-09 April 2015: Fitch Ratings assigns an 'AAA' rating to the following New York City Transitional Finance Authority (TFA) subordinate fixed-rate future tax secured (FTS) bonds:

- \$650,000,000 fiscal 2015 series E-1 tax-exempt subordinate bonds;
- \$200,000,000 fiscal 2015 series E-2 taxable subordinate bonds.

Fitch also affirms the 'AAA' rating on the following outstanding TFA FTS bonds:

- \$23.2 billion subordinate bonds;
- \$946 million recovery subordinate bonds.

Fitch currently rates \$1.3 billion senior TFA FTS bonds 'AAA'.

The Rating Outlook is Stable.

The bonds are scheduled to sell April 14 through 16 through negotiation.

SECURITY

The bonds are payable from revenues derived from a personal income tax (PIT) and a sales and use tax imposed by New York City (the city), as authorized by New York State (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.

Senior bonds are subject to a \$330 million limit on quarterly debt service. Additional bonds may be issued as senior bonds if tax revenue 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. 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. The city receives residual revenues only after advance quarterly funding of debt service.

ROBUST COVERAGE: Fitch does not make a rating distinction between the liens due to the high coverage levels and strong protections against overleveraging. Even with sizable debt issuance plans over the next four years, pro forma coverage through 2019 is expected to remain strong at over 6.39x.

SOLID ECONOMIC UNDERPINNINGS: Statutory revenues are derived from a broad economic base, benefiting from the city's unique role as a national and international center for commerce and culture.

DEPENDENCE ON WALL STREET: Financial activities account for about 11% of jobs and 27% of earnings. Recession-related job declines were well under comparable national averages. Overall employment has since shown solid growth although weakness in financial services employment is evident.

RATING SENSITIVITIES

While TFA revenues are vulnerable to downsize risk, Fitch believes the bonds are well protected from a potential rating downgrade by both legal provisions (3x ABT) and practical considerations. The city relies heavily on residual pledged revenues, whose growth reflects the city's continuing solid economic underpinnings, for its operating budget.

CREDIT PROFILE

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; however, Fitch believes that the risk of this is negligible.

PLEGGED 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, were set to expire on Jan. 1, 2015. On Sept. 4, 2014, the New York State Governor signed legislation extending the expiration to Jan. 1, 2018. Failure to approve future 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 current base rate with no surcharge could decline by about \$1.2 billion in and after fiscal 2019. This level would still provide over 5.99x coverage assuming additional debt is issued on the current schedule and no change to the sales tax

rate. Fitch believes this is an unlikely 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 60% of fiscal 2014 FTS revenue. Since fiscal 2003, both PIT and sales tax revenue have declined in only one fiscal year. The significant 16.5% FTS decline in fiscal 2009 was due in part to an adjustment for prior-year PIT overpayments, and in part to the recession. Over the fiscal years 2003-2014, an average of 76.2% of PIT revenue came from mandatory withholding of wage income, with 17.8% from quarterly installment payments on non-wage income and self-employment earnings. The remainder came from final tax return filings following the end of each calendar year.

PIT revenue increased 15.4% in fiscal 2013, largely due to recognition of capital gains prompted by federal tax law changes. Following this large increase, fiscal 2014 PIT revenue increased a modest 3.4% followed by a projected 3.4% increase in 2015, which would bring revenues to 23.4% above the fiscal 2012 level.

STRONG COVERAGE EXPECTED EVEN WITH FUTURE DEBT ISSUANCE

Debt service coverage on all FTS bonds from fiscal 2014 pledged revenue was 9.7x. Combined with sizable debt issuance plans, coverage is expected to remain high at a minimum of 6.39x through fiscal 2019 using TFA's projected annual pledged revenue growth assumptions, or 5.42x assuming no growth from fiscal 2014 pledged revenue. The TFA assumes a 6% interest rate on all projected bonds and a conservative 5% interest rate on outstanding variable rate debt, which makes up about 15% of total debt.

Not included in coverage figures are BAB and QSCB subsidies, which are not pledged as security for the bonds. The reduction in subsidies resulting from prior federal sequestration had a minimal impact on revenue available for debt service.

The city in its fiscal 2015 budget assumes modest growth in wage rates, offsetting weakness in securities sector bonus payouts. Following volatility related to the aforementioned 2013 federal tax rate changes, annual PIT growth is forecast in the 2%-3% range, assuming moderate economic recovery. Similarly, the budget assumes continued strong visitor-related spending and moderate economic growth will yield annual sales tax growth in the 4% range. Fitch believes these tax revenue growth forecasts are reasonable but vulnerable to downside risk.

Coverage projections assume the issuance of approximately \$14.4 billion in FTS bonds in fiscal 2015-2019, in accordance with the city's capital improvement plan and inclusive of issuance to date. 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 HAS INHERENT STRENGTHS BUT NOT WITHOUT CHALLENGES

Fitch considers the city's unique economic profile a credit strength. The city's singular identity as an international center for numerous industries and major tourist destination contributed to its relative employment stability during the recession and ability to regain by April 2011 the number of private sector jobs that existed prior to the recession. The city's tourism sector is performing exceptionally well, attracting a record 56.4 million visitors in 2014, the fifth record year in a row.

The city's economic profile also benefits from good wealth levels; per capita personal income is 128% of the U.S. and market value per capita is over \$100,000. However, the above-average individual poverty rate of 20.3% in 2013, compared to 15.4% for the U.S., indicates significant income disparity.

The city's economy (and operating budget) is strongly linked to the financial sector, which accounts for approximately 11% of total employment but 26.5% of earnings. Financial activities employment declined a small 0.3% in 2013 but rebounded 2.5% in 2014. However, the high-earning securities and commodities component of the sector dropped 2.2% jobs in 2013 following a 1.6% decline in 2012. The city's resident employment base increased by 2.7% in 2014, above the state's 0.8% growth and the U.S. at 1.7%. The unemployment rate dropped to an average of 7.3% in 2014 from 8.7% in 2013, still well above state and national averages.

The city assumes continued strong visitor-related spending and moderate economic growth will yield sales tax growth of 5.4% in fiscal 2015, after 5.2% growth in fiscal 2014. The latter recognizes the temporary slowdown, and then acceleration, in spending following Hurricane Sandy.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index and IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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