MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to $1B of NYC TFA subordinate future tax secured, tax-exempt and taxable bonds; outlook-stable

Global Credit Research - 17 Sep 2015

$26.3 billion of senior and subordinate TFA future tax secured bonds outstanding

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY, NY
State Governments (including Puerto Rico and US Territories)
NY

Moody's Rating

ISSUE		RATING
Future Tax Secured Subordinate Bonds Fiscal 2016 Series A Subseries A-1 Tax Exempt Bonds		Aa1
Sale Amount	$750,000,000	
Expected Sale Date	09/29/15	
Rating Description	Special Tax: Non-Sales/Non-Transportation	
Future Tax Secured Subordinate Bonds Fiscal 2016 Series A Subseries A-2 Taxable		Aa1
Sale Amount	$190,000,000	
Expected Sale Date	09/29/15	
Rating Description	Special Tax: Non-Sales/Non-Transportation	
Future Tax Secured Subordinate Bonds Fiscal 2016 Series A Subseries A-3 Taxable		Aa1
Sale Amount	$60,000,000	
Expected Sale Date	09/29/15	
Rating Description	Special Tax: Non-Sales/Non-Transportation	

Moody's Outlook STA

NEW YORK, September 17, 2015 --Moody's Investors Service has assigned Aa1 ratings to the New York City Transitional Finance Authority's $750 million Future Tax Secured Tax-Exempt Subordinate Bonds, Fiscal 2016 Subseries A-1, $190 million Taxable Subseries A-2 and $60 million Taxable Subseries A-3. The bonds are scheduled to price September 29.

SUMMARY RATING RATIONALE

TFA's senior lien bonds ($1.3 billion outstanding) are rated Aaa and its subordinate lien bonds ($25.0 billion outstanding) are rated Aa1. The ratings reflect the high debt service coverage provided by the pledge of New York City personal income tax and sales tax revenues, a strong legal structure that insulates TFA from potential city fiscal stress, the open subordinate lien that permits future leverage of the pledged revenues, and New York State's (Aa1/stable) ability to repeal the statutes imposing the pledged revenues. The outlook is stable.

OUTLOOK

The rating outlook of the TFA's Future Tax Secured Bonds is stable. Strong legal and structural payment mechanisms help to insulate the bonds from city and state fiscal stress, including short-term liquidity strain. Even through periods of economic weakness coverage of MADS remains strong, and while the TFA credit will continue to be used to finance New York City capital needs, we expect strong coverage to be maintained.

WHAT COULD MAKE THE RATING GO UP

- A higher additional bonds test or other indenture provision increasing bondholder protections against possible dilution of coverage

WHAT COULD MAKE THE RATING GO DOWN

- Significant weakening of the pledged revenues that reduces currently high levels of coverage

- Large additional bond authorizations that materially dilute coverage

STRENGTHS

- Strong legal and structural insulation from city fiscal stress

- High debt service coverage provided by a broad stream of pledged revenues, New York City's personal income and sales taxes, and the healthy historical performance of those sources

CHALLENGES

- The state retains the right to alter or repeal the statutes imposing the taxes pledged to the bonds

- The cyclicality of the personal income tax, particularly as it relates to New York City's financial services industry, and more recent volatility in the sales tax

- The indenture's open lien for subordinate bonds, which could reduce coverage, although issuance is subject to an additional bonds test requiring 3 times coverage of maximum annual debt service

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

TAX BASE AND NATURE OF PLEDGE

Through statute, the State of New York has dedicated New York City's personal income and sales taxes to the TFA and granted TFA the authority to pledge those revenues as security for debt service payments and for payments under agreements such as interest rate swaps. Pursuant to the indenture, TFA has assigned and pledged its revenues to the bond trustee and created a security interest in them for payment of its bonds, notes or other ancillary contracts.

DEBT SERVICE COVERAGE AND REVENUE METRICS

The TFA indenture limits senior lien debt to $12 billion outstanding at any time, subject to a $330 million limit on debt service payable in any quarter (as well as the additional bonds test described below). The one-notch rating distinction of the subordinate bonds reflects the indenture's open lien, although subject to a conservative additional bonds test that requires at least 3 times coverage of MADS on outstanding bonds. Additionally, the indenture requires that calculations of MADS reflect variable rate bonds bearing interest at their maximum rate.

TFA also has the statutory authority to have outstanding $9.4 billion of building aid revenue bonds (BARBs) backed by state appropriations to the city of building aid to help finance the city's school facilities capital expenditures, additionally supported by the education aid intercept program of the state finance law's section 99-b ($7.4 billion is currently outstanding). The pledged personal income and sales taxes do not secure the building aid bonds, which are rated Aa2 based on the state's appropriation (the State of New York's general obligation bonds are rated Aa1 stable).

The pledged personal income and sales taxes reflect two diverse and historically stable revenue streams that are firmly embedded in city and state tax policy. Debt service coverage remains high, even despite weakness in the pledged revenues during the economic downturn. Demonstrating the sensitivity of the pledged revenues to economic cycles, in fiscal 2009 they declined by 16.5% (a 24.1% decline in personal income taxes and a 2.9% drop in sales taxes). Even with the declines, that year the pledged revenues provided 5.0 times coverage of maximum annual debt service. Following that drop, New York City's economy and thus the pledged revenues recovered well. Fiscal 2014 total pledged revenue increased by 4.1%, with 3.4% growth in the income tax and 5.2% growth in the sales tax.

Based on actual fiscal 2014 collections, coverage of aggregate maximum annual debt service before the current issue is 6.4 times, a figure that reflects variable rate bonds bearing interest at their maximum rate. The city's revenue estimates are generally conservative and beyond its assumptions regarding floating rate debt, it actively seeks savings opportunities through refunding to reduce future year debt service. Each year the city also typically rolls forward a portion of its budgetary ending balance to pre-pay future year debt costs: nearly $1.4 billion of that pre-payment was applied to fiscal 2015 TFA debt costs. Based on projected revenues and currently planned future issuance, coverage remains strong, with estimated annual revenues providing current debt service coverage of between 8.6 times in fiscal 2015 and 6.3 times in fiscal 2019.

Liquidity

Liquidity is not a major factor in the methodology.

LEGAL COVENANTS

Debt Structure

Currently, the authority has $1.3 billion of senior lien bonds outstanding and $25.0 billion of subordinate lien debt (which includes $936 million of Recovery bonds). With those amounts outstanding and based on the statutory debt limitation as of July 31, 2015, the city had $26.9 billion of total debt issuing capacity.

After $2.9 billion of new money bond issuance in fiscal 2015, the city's current financial plan also reflects $3.6 billion, $3.1 billion, $3.4 billion and $3.5 billion of TFA future tax secured new money bonds, respectively, in fiscal years 2016 through 2019.

There are $1.0 billion of senior lien variable rate demand bonds outstanding and $2.9 billion of subordinate lien bonds, combined totaling 15.0% of TFA's outstanding future tax secured debt. None of TFA's liquidity facilities include term-out provisions and TFA is not a party to any interest rate swaps. Since TFA receives the pledged revenues on a gross basis, interest rate risk on the variable rate bonds is absorbed by the city after TFA's debt service set-asides. Included in TFA's floating total outstanding is $440 million of index mode floating rate bonds that do not have a put feature but that have refinancing and interest risk at a step-up date, and $222 million of auction rate bonds.

Debt-Related Derivatives

TFA is not a party to any debt-related derivatives.

Pensions and OPEB

Pensions and OPEB are not a major factor in the methodology

MANAGEMENT AND GOVERNANCE

See Obligor Profile.

KEY STATISTICS

- MADS coverage by fiscal 2014 revenue (aggregate): 6.4x

- Additional Bonds Test: 3.0 times

- Debt Service Reserve Fund: None

OBLIGOR PROFILE

The TFA was created by the state legislature in 1997 to provide a method of financing New York City's vital capital construction program but outside the constraints of the debt limit imposed on the city by the state constitution (the city's general obligation bonds are rated Aa2 with a stable outlook). TFA's original statutory authorization was $7.5 billion. In 2000, it was increased by $4.0 billion and following the 2001 World Trade Center attacks, that amount was increased to permit $2.5 billion of subordinate "Recovery Bonds"; a portion of the proceeds of those bonds was used as deficit financing to bolster the city's general fund in fiscal 2003. Authorized issuance was increased again by an additional $2.0 billion in 2006, to an aggregate of $13.5 billion (the Recovery Bonds were excluded from that cap) for senior and subordinate lien bonds.

State legislation enacted in July 2009 amended TFA's debt authorization again, lifting the $13.5 billion aggregate cap. New issuance that would result in an amount of outstanding future tax secured bonds greater than $13.5 billion is permitted, but subject to the additional bonds test and to the constraints of the general debt limitation imposed on New York City by the state constitution. The debt limitation restricts city indebtedness to no greater than 10% of the average full value of taxable real estate in the most recent five years.

LEGAL SECURITY

A key strength of the rating on the bonds is TFA's insulation from New York City bankruptcy risk. The legislature established TFA as a separate and distinct legal entity from the city. Further, the state did not grant TFA itself the right to file for bankruptcy. While bondholders are protected from bankruptcy, city or state fiscal stress still could pose risks because both the city and the state retain the right to alter the statutory structure that secures TFA's bonds. The city has covenanted not to exercise those rights if debt service coverage were to fall below 1.5 times MADS on outstanding bonds. Since enactment of the TFA, policy actions have both increased and decreased the pledged revenues. Those actions have included the abolition of the city's income tax on commuters, and establishment of various sales tax exemptions.

The pledged taxes are collected by the New York State Department of Taxation and Finance and held by the state comptroller, who makes daily transfers to the trustee (net of refunds and the costs of collection). The trustee makes quarterly set-asides of amounts required for debt service due in the following quarter on the outstanding bonds, as well as TFA's operational costs (with the collection quarters beginning each August, November, February and May). Half of each quarterly set-aside is made beginning on the first day of the first month of each collection quarter and the second half is made beginning on the first day of the second month of each collection quarter. If sufficient amounts for debt service are not on deposit after those two months, the trustee continues to set aside funds in the third month, on a daily basis, until the deficiency is cured. Functionally, personal income tax revenues are expected to provide sufficient amounts for debt service; if they do not provide at least 1.5 times coverage of maximum annual debt service (MADS), sales tax revenues are available to make up the difference. Additionally, the TFA's future tax secured bonds issued before November 2006 have a first lien on appropriations of state building aid to the city if necessary to meet debt service requirements.

USE OF PROCEEDS

Proceeds of the bonds will be used to finance portions of the City of New York's capital plan.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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