

FITCH RATES NYC TRANSITIONAL FINANCE AUTH'S \$1B FUTURE TAX SECURED SUB BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-16 October 2015: Fitch Ratings has assigned an 'AAA' rating to \$600,000,000 of fiscal 2016 series B New York City Transitional Finance Authority (TFA) subordinate fixed-rate future tax secured (FTS) bonds consisting of the following (all amounts approximate):

- \$350,000,000 subseries B-1 tax-exempt bonds;
- \$198,315,000 subseries B-2 taxable bonds;
- \$51,685,000 subseries B-3 taxable bonds;
- \$350,000,000 fiscal 2016 series C tax-exempt bonds;
- \$50,000,000 fiscal 2016 series D tax-exempt bonds.

Fitch also rates the following outstanding TFA FTS bonds 'AAA':

- \$1.3 billion senior lien bonds;
- \$25.2 billion subordinate bonds;
- \$936 million recovery subordinate bonds.

The Rating Outlook is Stable.

The bonds are scheduled to sell Oct. 21. Tax-exempt bonds will be sold through negotiation and taxable bonds will be sold by competitive bid.

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 6.25x.

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

REVENUE DECLINES: TFA revenues are vulnerable to downsize risk, but Fitch believes the bonds are well protected from a potential rating downgrade by both legal restrictions on leverage 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 that 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, are currently set to expire on Jan. 1, 2018.

Failure to approve future continuation of both the current base rate and the 14% surcharge could result in significant declines of the PIT portion of pledged revenue. TFA estimates indicate that annual FTS revenue at the current base rate with no surcharge could decline by about \$484 million in 2018 and \$1.2 billion in fiscal 2019. This level would still provide about 5.8x coverage assuming additional debt is issued on the current schedule, modest pledged revenue growth, and no change to the sales tax rate. If neither the current base rate nor the surcharge were extended, pledged revenue would drop a TFA-estimated \$6.9 billion in fiscal 2019 but still provide about 4x coverage. Fitch believes this is a highly 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 61% of fiscal 2015 FTS revenue (unaudited). 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. About three-quarters of PIT revenue comes from mandatory withholding of wage income.

STRONG COVERAGE EXPECTED EVEN WITH FUTURE DEBT ISSUANCE

PIT revenue increased a strong 11.6% in fiscal 2015 which, with pledged sales tax, provided debt service coverage on all FTS bonds of 8.6x. Combined with sizable debt issuance plans, coverage is expected to remain high at a minimum of 6.25x through fiscal 2019 using TFA's projected annual pledged revenue growth assumptions of 2-3% annually, or 5.7x assuming no growth from fiscal 2015 pledged revenue. The TFA assumes a 6% interest rate on all projected bonds and a conservative 4.25% interest rate on outstanding variable rate debt, which makes up about 15% of total debt.

Coverage projections assume the issuance of approximately \$13.6 billion in FTS bonds in fiscal 2016 - 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 ISN'T 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.

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Date of Relevant Rating Committee: Sept. 29, 2014

Additional information is available at 'www.fitchratings.com'.

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

Applicable Criteria

Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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