FITCH RATES NEW YORK CITY TFA'S $750MM BUILDING AID REVS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-09 March 2016: Fitch Ratings has assigned an 'AA' rating to the following New York City Transitional Finance Authority bonds:

--$750,000,000 building aid revenue bonds, fiscal 2016 series S-1.

The bonds are scheduled to be sold through negotiation on or about March 14, 2016.

The Rating Outlook is Stable.

The issuance of the fiscal 2016 series S-1 bonds does not affect the 'AAA' rating on the Transitional Finance Authority's future tax secured bonds.

SECURITY

The bonds are payable from annual New York State appropriations of building aid to New York City.

KEY RATING DRIVERS

LINK TO NEW YORK STATE CREDIT: School building aid that secures the bonds requires annual state legislative appropriation. Therefore, the rating is linked to the general obligation credit of the State of New York, rated 'AA+' with a Stable Outlook by Fitch.

STRONG STATE SUPPORT OF EDUCATION: Appropriation risk is minimal given the constitutional mandate for, and strong history of, state support for education.

STRUCTURAL PROTECTIONS STRENGTHEN CREDIT: The additional bonds test (ABT) relies only on projects that already have been approved, although revenue related to future projects also is pledged. Monies for debt service are retained in the city fiscal year prior to the year in which the debt service is due.

RATING SENSITIVITIES

STATE'S GENERAL CREDIT QUALITY: The rating on New York City Transitional Finance Authority's building aid revenue bonds is sensitive to changes in New York State's general obligation rating, to which it is linked.

MATERIAL CHANGE TO STATE EDUCATION FUNDING: The rating is also sensitive to any future change in New York State's funding of school building aid that materially weakens the revenues payable to building aid revenue bonds.

CREDIT PROFILE

The rating is based on the general obligation (GO) credit quality of the State of New York (GO bonds rated 'AA+' with a Stable Outlook), as building aid revenue bonds are payable from annual state appropriations of building aid. State building aid assists local school districts across the state with the cost of constructing and improving elementary and secondary education facilities.

Appropriation risk is minimal given the constitutional mandate for, and strong history of, state support for education. Moreover, the ABT only considers aid associated with projects that have already been approved by the State of New York, even though aid related to additional projects that will be approved by the state in the future is also pledged to the bonds.

In the 2006 state legislative session, the Transitional Finance Authority (TFA) was authorized to issue an amount up to $9.4 billion outstanding for education. As permitted by the legislation, the city assigned all of its state building aid to the TFA to secure the bonds.

State building aid, which is earned on an individual project basis, consists of confirmed building aid and incremental building aid. Confirmed building aid refers to aid payable for projects that have already been approved by the state. Such aid is subject to annual state appropriation but is not subject to any additional statutory or administrative conditions or approvals. The state has covenanted that the calculation of reimbursable costs for a project will not change once the project has been approved. The level of reimbursement can change over time pursuant to a statewide formula that is calculated every year, but this ratio has been relatively stable over time. Incremental building aid refers to state building aid to be received for projects approved by the state in the future.

Both confirmed and incremental building aid are the property of the TFA and are pledged to the bonds. However, the ABT considers only confirmed building aid. In order for additional bonds to be issued, confirmed building aid payable in the fiscal year preceding each year in which bonds are scheduled to be outstanding must be at least 1 times (x) debt service in that year. Since state building aid for a given project is provided over 30 years, debt service coverage by confirmed building aid drops from 1.89x in fiscal 2016 to 1.01x in fiscal 2045. Fitch expects that the incremental building aid generated by the city's ongoing education capital program will result in substantially higher actual coverage in the out years. The average state reimbursement rate for education projects in the city is about 46%, and the TFA receives all building aid regardless of whether the project is financed with TFA building aid revenue bonds or through a different financing mechanism.

State building aid revenues are retained for debt service each year when the amount of building aid left to be received before the end of the city's fiscal year equals 110% of the debt service payable on the building aid revenue bonds in the following city fiscal year. Although the state's fiscal year runs from April-March, the state budgets education aid, which includes building aid, based on the city's fiscal/school year (July-June). The retention mechanism is likely to trap building aid in the March through June period for debt service payments in the following July and January. Building aid not required to be retained flows to the city. Although in the last recession there were declines in education aid paid by the state to the city as well as delays in the timing of education aid payments, building aid continued to increase.

Pursuant to the TFA indenture, since building aid is TFA revenue it must be available first to TFA future tax secured bonds issued prior to the first issuance of building aid revenue bonds in fiscal 2007. Given the very strong coverage that the pledged personal income and sales tax revenues provide for future tax secured bonds, it is very unlikely that building aid would ever be needed for this purpose. TFA future tax secured bonds sold after the date of the initial issuance of the building aid bonds have no claim on building aid. There is currently $1.4 billion in TFA future tax secured debt outstanding that was sold prior to the first issuance of building aid revenue bonds.

In addition to previously outstanding TFA future tax secured bonds, the payment of building aid is also subject and subordinate to certain other limited prior statutory and state constitutional claims on education aid, of which building aid is a part. Fitch does not believe that these will impair the ability to pay debt service. Holders of the TFA building aid revenue bonds benefit from statutory covenants in the original TFA Act prohibiting action that would impair bondholders and the bankruptcy-remote nature of the issuer. However, since the pledged revenue stream requires annual state appropriation, the bondholders do not enjoy the same insulation from government operations that is a key factor in the 'AAA' rating of the TFA future tax-secured bonds.

For more information on the state's general credit, see Fitch's press release 'Fitch Affirms New York State GOs and Related Bonds at 'AA+'; Outlook Stable' dated July 15, 2015, available on Fitch's web site at 'www.fitchratings.com'.

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Fitch recently published exposure drafts of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015 and Exposure Draft: Incorporating Enhanced Recovery Prospects into U.S. Local Tax-Supported Ratings, dated Feb. 2, 2016). The drafts include 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 the end of the first quarter of 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.

In addition to the sources of information identified in Fitch's Master Criteria, this action was additionally informed by information from Global Insights.

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. State Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)