S&P Global
Ratings

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Summary:

New York City Transitional Finance Authority; General Obligation; Joint Criteria; Miscellaneous Tax

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Summary:

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Credit Profile		
US$800.0 mil tax ex subord bnds fiscal ser 2017 A-1 due 07/11/2036		
Long Term Rating	AAA/Stable	New
US$186.905 mil taxable secured subord bnds fis cal ser 2017 A-2 due 07/11/2036		
Long Term Rating	AAA/Stable	New
US$63.095 mil taxable secured subord bnds fiscal ser 2017 A-3 due 07/11/2036		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to New York City Transitional Finance Authority's (TFA) fiscal 2017 tax-exempt subseries A-1 and taxable subseries A-2 and A-3 future tax-secured subordinate bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the authority's existing future tax-secured debt, including senior- and subordinate-lien bonds and recovery obligation bonds. Finally, we also affirmed the 'AAA/A-1+', 'AAA/A-1', and 'AAA/A-2' dual ratings on various issuances where the short-term ratings are based on the liquidity support provided by various financial institutions. The outlook on the long-term rating is stable.

The rating on the TFA's future tax-secured debt is rated above the sovereign because we believe the TFA can maintain better credit characteristics than the U.S. in a stress scenario given that pledged revenue is locally derived and has shown resiliency throughout economic cycles. Moreover, we believe that there is limited funding interdependency with the federal government that would constrain the rating.

The 'AAA' rating continues to reflect our opinion of:

- A strong legal structure that separates the revenue stream supporting the bonds from New York City and New York State;
- The city's substantial and diverse economy that supports pledged revenue, with a resident population base of 8.5 million that has steadily expanded; New York City is the nation's leading employment center and continues in its role as a major global center for finance, commerce, tourism, and retailing;
- The resilient nature of the sales and income tax revenue supporting the bonds. This revenue stream is susceptible to economic slowdowns, as seen during the Great Recession although it has been quick to recover;
- The authority's cash flow forecast through 2020 of continued very strong coverage, which we believe is realistic given the history of outperforming projections; and
- Strong bond provisions, including what we consider a conservative additional bonds test (ABT).

The bonds are secured by a subordinate lien on tax revenues of the authority and certain accounts held by the trustee.

Bond proceeds will finance general city capital expenditures.

Personal income tax (PIT) and sales tax revenue secures the bonds. Payment of PIT and sales tax receipts to the authority are not subject to city or state appropriation. Pursuant to the enabling legislation, sales tax revenue is available to pay debt service on the bonds if the city projects the PIT will be insufficient to provide 150% of maximum annual debt service (MADS) on outstanding bonds; the PIT currently covers MADS by about 4x. The MADS calculation includes all existing senior and subordinate bonds as well as the fiscal 2017 subseries A-1, A-2, and A-3 bonds.

The bond indenture provides that senior-lien debt cannot exceed $12 billion in principal outstanding and sets a maximum quarterly debt service payment of $330 million. Subordinate-lien debt is not subject to the quarterly debt service requirement under the terms of the indenture for senior-lien bonds. Subordinate-lien debt must still comply with what we regard as the conservative and more traditional ABT requiring 3x debt service coverage (DSC), with DSC calculated annually. We rate the senior- and subordinate-lien bonds the same because of the strength of the bond structure established to pay debt service for senior- and subordinate-lien bonds, and because of what we view as the high DSC on all TFA bonds.

The PIT and sales tax revenue supporting TFA's debt is sensitive to economic cycles. The PIT is the primary statutory revenue source: It accounted for 61% of pledged revenue in fiscal 2015 (the most recently audited fiscal year). After decreasing by 24% to $6.69 billion in fiscal 2009, PIT revenue began to recover in fiscal 2010, and exceeded its prerecession peak by fiscal 2013. Fiscal 2013 collections grew a further 15.4% to $9.23 billion, boosted by the continuing economic recovery and an increase in the federal capital gains tax rate, which caused city taxpayers to spin up capital gains tax payments to 2013 from 2014. Despite the spin-up, cash basis collections still grew 3.4% in fiscal 2014 to $9.54 billion. Collections increased 11.6% in 2015 to $10.64 billion, and are expected to continue to increase, along with the economic recovery, throughout the forecast period. Officials project collections of $10.85 billion in 2016, $11.27 billion in 2017, $11.6 billion in 2018, $12.02 billion in 2019, and $12.48 billion in 2020, for an aggregate growth of roughly 15%. We believe these projections are reasonable; growth averaged 9.3% annually over the past five audited years compared with 3.2% over the forecast period. The forecasted numbers assume the continuation of the current tax rate schedule beyond the scheduled Jan. 1, 2018, expiration; that schedule includes a base rate and 14% surcharge with a maximum total tax rate of 3.876%. Should legislation fail to pass that allows for an extension, a lower rate schedule with a maximum rate of 1.48% will become effective Jan. 1, 2018, and forecasted PIT revenue in fiscal 2018, 2019, and 2020 would be negatively affected. Without an extension of the 14% surcharge, 2018 PIT revenue would be $520 million lower and 2019 and 2020 PIT revenue would be $1.3 billion and $1.4 billion lower, respectively. Without an extension of both the base rate and 14% surcharge, 2018, 2019, and 2020 PIT revenue would be $2.8 billion, $7.3 billion, and $7.6 billion lower, respectively. While we see the uncertainty around the future of the tax rate schedule as a risk, we note the base rate has been extended prior to expiration on several occasions since its 1989 implementation.

A sales tax is the other leading TFA revenue source: It accounted for 39%, or $6.74 billion, of pledged revenue in fiscal 2015, a 4.3% increase from fiscal 2014. The tax is levied on a variety of economic activities, including retail, services, utilities, manufacturing, and other sales activities (including construction, wholesale trade, arts, entertainment, and recreation). Recently enacted state legislation will reduce sales tax revenue by $50 million in fiscal 2016, $200 million in 2017 and 2018 annually, and $150 million in 2019. At this point, we don't consider this a negative credit factor given the strength of the income tax pledge. Sales tax collections are expected to grow throughout the plan period, to $7.2 billion in 2016, $7.14 billion in 2017, $7.58 billion in 2018, $7.9 billion in 2019, and $8.24 billion in 2020, for an aggregate growth of roughly 14%. The aforementioned projection for 2016 incorporates the full $50 million reduction while the projection for 2017 includes $150 million of the $200 million impact. Projections for 2018 and 2019 do not incorporate the impact of the state legislation.

Decreases during the recession notwithstanding, MADS coverage (including the fiscal 2017 subseries A-1, A-2, and A-3 bonds) is very strong. Fiscal 2015 actual pledged revenue collections of $17.38 billion provided what we consider very strong 6.22x MADS coverage assuming a stress scenario with variable-rate bonds bearing interest at the maximum bond rate, and 6.69x at the 4.25% budgeted adjustable rate. Based on actual debt service paid, fiscal 2015 pledged revenues provided very strong annual DSC of 8.62x. Fiscal 2016 projections show combined pledged revenues increasing 3.8% to $18.05 billion, which would provide MADS coverage of 6.46x based on the maximum rate on variable-rate bonds, and 6.95x at the 4.25% budgeted adjustable rate, respectively--levels that we consider very strong.

Based on the current financial plan, TFA expects to issue $3.4 billion in fiscal 2017, $3.7 billion in 2018, $4 billion in 2019, and $4.1 billion in 2020. In 2009, the New York State Legislature authorized the TFA to have outstanding $13.5 billion of future tax-secured bonds, excluding recovery obligations. The legislature also authorized the issuance of additional future tax-secured bonds provided that the city's total indebtedness does not exceed its statutory debt limit. We understand New York City intends to continue alternating the issuance of general obligation bonds and future tax-secured bonds. As of May 31, 2016, the city and authority's debt-incurring capacity was $23.9 billion. We believe TFA could issue additional debt while maintaining what we consider very strong DSC.

With additional debt issuance planned, and assuming the continuation of the current tax rate structure, city officials are projecting DSC to decrease during the forecast period but remain what we view as very strong at 6.69x in fiscal 2020 based on assumed variable interest rates of 4.25% on tax-exempt variable-rate bonds outstanding and 6% on all planned bond issuances through 2020. Were the PIT revenue to be negatively affected by a failure to extend both the base rate and 14% surcharge, S&P Global Ratings estimates annual DSC in 2020 at a weaker, but still strong, 4.24x. Projected coverage does not include the federal subsidy for Build America Bonds and qualified school construction bonds.

The authority has approximately $29.31 billion of future tax-secured debt outstanding, consisting of $1.03 billion of senior-lien bonds and $28.28 billion of subordinate-lien debt, including $906.43 million of recovery bonds. It has $1.01 billion of senior-lien variable-rate debt, and $3.24 billion of subordinate-lien variable-rate debt, representing approximately 14% of authority debt outstanding.

Outlook

The stable outlook reflects our opinion of the strong protections afforded bondholders from statutory revenue--both PIT and sales tax revenue--and the required flow of these funds by statute as well as the indenture to pay debt service during the bonds' life. We believe DSC will likely remain very strong during our two-year horizon despite additional planned debt issuance. Furthermore, we believe New York City's substantial and diverse economy will likely continue to support pledged revenue growth. Due to these factors, we do not expect to change the rating in the next two years.

If coverage were to significantly weaken to levels we no longer consider comparable to similarly rated peers because of additional debt (or if tax revenues fall precipitously, which is less likely than the issuance of additional debt, in our view), we could consider a lower rating. We would also view any changes to the tax rate schedule that materially weaken coverage as a potential negative credit event.

Related Criteria And Research

Related Criteria

- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Bank Liquidity Facilities, June 22, 2007
- USPF Criteria: Standby Bond Purchase Agreement Automatic Termination Events, April 11, 2008
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015

Ratings Detail (As Of July 8, 2016)		
New York City Transitional Fin Auth Future Tax Secured (adj Rate)		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth fiscal 2013 subser A-5		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth future tax		
Long Term Rating	AAA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
New York City Transitional Fin Auth future tax secd bnds		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth future tax secd bnds fiscal 1998 ser C		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth future tax secd bnds fiscal 1999 ser A dtd 12/03/1998 & 11/24/1998 due 11/15/2000-2017 2021-2022 2026-2028		
Long Term Rating	AAA/A-1+/Stable	Affirmed

Ratings Detail (As Of July 8, 2016) (cont.)		
New York City Transitional Fin Auth future tax secd bnds fiscal 1999 sub-ser A-1 dtd 11/19/1998 RMKTD 12/04/2012 due 11/15/2018		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd subordinate bnds ser 2016B-2		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd subordinate bnds ser 2016B-3		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd subordinate bnds ser 2016C		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd subordinate bnds ser 2016D		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd subordinate taxable bnds		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd subordinate taxable bnds		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd subordinate taxable bnds (Subseries E-4) ser 2016 due 02/01/2028		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth future tax secd subord bnds		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd sub bnds		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd sub bnds ser 2016A-1		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd sub bnds ser 2016A-2		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd sub bnds ser 2016A-3		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd sub bnds (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth future tax secrd VRDO ser 2003A-2 & 2003A-3 dtd 07/02/2002 RMKT dtd 11/01/2011 due 11/01/2029		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth future tax secured bnds		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth future tax secured bnds fiscal 2010 subseries G-5 subord bnds		
Long Term Rating	AAA/A-2/Stable	Affirmed
New York City Transitional Fin Auth future tax secured bnds (adj rate bnds)		
Long Term Rating	AAA/A-2/Stable	Affirmed
New York City Transitional Fin Auth future tax sec bnds fiscal 2013 sub-ser A-6		
Long Term Rating	AAA/A-1+/Stable	Affirmed

Ratings Detail (As Of July 8, 2016) (cont.)		
New York City Transitional Fin Auth future tax taxable secd sub bnds		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax (AGM) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth misc tax		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth misc tax (BAM) (SECMKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth rev bnds		
Long Term Rating	AAA/A-1+/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
New York City Transitional Fin Auth ser 2013 A-4		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth taxable subord bnds (qual sch const bnds)		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth tax exempt adj rate bnds ser 2016A-4 due 08/01/2045		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth tax exempt adj rate bnds ser 2016A-5 due 08/01/2045		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth tax secured (MBIA) (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth tax-ex adj rate future tax sec sub bnds		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth tax-ex adj rate future tax sec sub bnds		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth Future tax secd bnds ser 2016 F-1 due 02/01/2028		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth Future tax secd bnds ser 2016 F-2 due 02/01/2028		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth Future tax secd bnds ser 2016 F-3 due 04/15/2036		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth Future tax secured subord taxable bnds fiscal 2014		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth Future Tax Secured (liq)		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth NYC recovery bnds		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Ratings Detail (As Of July 8, 2016) (cont.)		
New York City Transitional Fin Auth GO		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth GO		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-2/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-2/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-2/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-2/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1+/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-2/Stable	Affirmed

Ratings Detail (As Of July 8, 2016) (cont.)		
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-2/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
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Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of July 8, 2016) (cont.)		
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth (New York City Transitional Fin Auth) JOINTCRIT		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth (New York City Transitional Fin Auth) JOINTCRIT		
Long Term Rating	AAA/A-1	Affirmed
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth future tax secd bnds		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax VRDB		
Long Term Rating	AAA/A-2/Stable	Affirmed
New York City Transitional Fin Auth Future Tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth Future Tax Secured		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.