FITCH RATES NYC TRANSITIONAL FINANCE AUTH'S $1B FTS SUB BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-06 April 2017: Fitch Ratings has assigned a 'AAA' rating to the following New York City Transitional Finance Authority (TFA) future tax secured (FTS) subordinate bonds:

--Approximately $800,000,000 fiscal 2017 series E subseries E-1 (tax-exempt bonds);
--Approximately $234,210,000 fiscal 2017 series E subseries E-2 (taxable bonds);
--Approximately $65,790,000 fiscal 2017 series E subseries E-3 (taxable bonds).

The subseries E-1 bonds are scheduled to sell via negotiation and the subseries E-2 and E-3 bonds are scheduled to sell competitively the week of April 10. Proceeds will be used to fund capital projects and costs of issuance.

In conjunction with the issuance of the fiscal 2017 series E bonds, the authority is converting a portion of its fiscal 1999 series A, subseries A-2 from an index rate mode to a fixed rate mode. Fitch currently rates the outstanding fiscal 1999 series A, subseries A-2 bonds 'AAA' and the conversion will not affect this rating.

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

--$28.8 billion subordinate bonds;
--$800 million recovery subordinate bonds;
--$1 billion senior lien bonds.

The Rating Outlook is Stable.

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, as authorized by New York 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, including debt service on the bonds to be issued.

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

The 'AAA' rating is based on the very strong legal structure which insulates bondholders from any operating risk of New York City. As the structure is a securitization specifically authorized by state law, the rating is not limited by the city's 'AA' Issuer Default Rating (IDR).

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.

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 fiscal 2021 is expected to remain highly resilient to an economic downturn.

SOUND ECONOMIC RESOURCE BASE: Statutory revenues benefit from the city's unique role as a national and international center for commerce and culture. Sound growth prospects reflect the city's continuing solid economic underpinnings. Economic dependence on Wall Street is still notable but declining as employment in other sectors grows more quickly than in financial services.

RATING SENSITIVITIES

While TFA revenues are vulnerable to downside risk, Fitch believes the bonds are well protected from a potential rating downgrade by both the conservative 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 Economic Base

Fitch considers the city's unique economic profile, which centers on its identity as an international center for numerous industries and major tourist destination, to be a credit strength. The character of the New York City economy contributed to its relative employment stability during the great recession and sound growth in recent years. The local economy (and operating budget) is still strongly linked to the financial sector, which accounts for approximately 23% of earnings according to 2015 data.

The city's population, estimated at 8.6 million as of 2016, continues to grow moderately. The economic profile of the city benefits from good wealth levels; per capita personal income is 131% of the U.S., and market value per capita is over $100,000. However, the above-average individual poverty rate indicates significant income disparity. The city's tourism sector is performing exceptionally well, attracting a record 60.3 million visitors in 2016, the seventh record year in a row. Financial activities employment has shown some growth in the last three years but remains below the pre-recession peak. Overall resident employment is well above pre-recession levels although growth is slowing to near the U.S. rate. The unemployment rate has shown improvement, with the 4.8% January 2017 rate now below the state and national average.

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 (IDR of 'AA'). The rating reflects the bankruptcy-remote, statutorily defined nature of the issuer, a 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, but Fitch believes the risk of this is negligible given the city's dependence on residual revenues for its operations.

Sensitivity and Resilience of Security through Economic Declines
Debt service coverage on all FTS bonds from fiscal 2016 pledged revenue was 9.5x. To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP stress scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on a 15-year pledged revenue history, Fitch's analytical sensitivity tool (FAST) generates a 4.8% scenario decline in pledged revenues. The largest actual cumulative decline in historical revenues is a sizable 17.9% from fiscal 2001-2003. A slightly smaller decline occurred in fiscal 2009. Both were due in part to recessions; the former was also affected by Sept. 11, and the latter by adjustments for prior-year PIT overpayments.

Scenario results are consistent with a 'AAA' rating. The structure could withstand an 86% decline in FTS revenue, or 17.7x the scenario output and 4.8x the largest historical decline, and still maintain coverage of debt service. With issuance to the ABT, the structure could withstand a revenue decline of at least 13.8x the scenario output or 3.7x the largest decline. Fitch believes issuance to the ABT is highly unlikely given the city's debt issuance plans and its reliance on residual revenue for its operations.

The authority expects to issue approximately $16.1 billion of FTS bonds through 2021. Assuming a modest FTS revenue increase in fiscal 2017 followed by approximately 4% annual growth in fiscal 2018-2021, coverage in fiscal 2021 would be 6.1x. Assuming planned issuance but no revenue growth over fiscal 2016 levels, coverage would still be a high 5.1x.

Drivers of and Growth Prospects for Dedicated Revenue Stream
Total FTS revenues grew at an annual average of 4.8% in the 10 fiscal years ended 2015, well above the rate of national GDP growth. Fitch believes the city continues to have sound economic growth prospects. Given the sensitivity of both PIT and sales tax revenues to economic activity, FTS revenue growth is likely to continue to be strong over time despite periodic volatility.

PIT revenues (approximately 60% of FTS revenues in fiscal 2016) increased a modest 1.3% in fiscal 2016 (down from 11.6% growth in fiscal 2015) as estimated payments temporarily dropped, but the city projects that it will grow 4% on average annually from fiscal 2017-2021. Sales tax revenues increased by 8.3% in fiscal 2016, and the forecast is for an average of 3.4% growth annually from fiscal 2017-2021.

Since fiscal 2005, an average of 75% of PIT revenue has come from mandatory withholding of wage income, with 18% from quarterly installment payments on non-wage income and self-employment earnings. The remainder comes from final tax return filings following the end of each calendar year. 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. The current base rate and 14% surcharge are set to expire on Jan. 1, 2018. The authority's projections assume state legislative approval of the extension of the current rate and surcharge.

Fitch believes the possibility of a failure to approve future continuation of both the current base rate and the 14% surcharge is remote. The state has consistently reauthorized both a base rate above the minimum and the 14% surcharge. In addition, such reduction in the rate would have a significant, negative impact on the residual revenues upon which the city relies for its operations.

Even this highly unlikely scenario results in sound coverage. The base rate alone would result in coverage estimated by TFA at about 4x in fiscal 2020, assuming continued issuance and moderate growth in base PIT and sales tax revenues.

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Additional information is available on www.fitchratings.com

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478