

RatingsDirect®

Summary:

New York City Transitional Finance Authority; Appropriations

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Credit Profile

US\$945.0 mil bldg aid rev bonds ser 2018 S-1 due 07/15/2036

Long Term Rating

AA/Stable

New

US\$55.0 mil bldg aid rev bonds ser 2018 S-2 due 07/15/2036

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings assigned its 'AA' rating to New York City Transitional Finance Authority's (TFA) \$945 million building aid revenue bonds, fiscal 2018 series S-1, and \$55 million fiscal 2018 series S-2, and affirmed its 'AA' rating on the authority's \$7.88 billion of parity debt. The outlook is stable.

The rating reflects what we view as:

- Strong bond provisions, established under statute and indenture, directing the flow of building aid directly to the trustee for the benefit of bondholders in advance of debt service due dates;
- The stability of building aid flowing to New York City, along with the state's steady commitment to fund this program over time even in difficult budget periods;
- Strong debt service coverage (DSC) from building aid confirmed on previously approved projects;
- The capture of building aid in the fiscal year before the debt service payment requirement; and
- New York State's constitutional and statutory commitment to fund education.

The 2018 series S-1 and series S-2 bond proceeds will be used to refinance previously issued bonds. The bonds will be issued as multimodal bonds issued in the fixed rate mode. The authority may cause a mandatory tender at the optional redemption price on any date the bonds are subject to optional redemption. If the authority chooses to convert to another rate mode that requires a liquidity facility the authority would seek rating confirmations.

All state building aid payable to the city secures the building aid revenue bonds on a direct payment basis in advance of debt service payment, plus in the event of default, an intercept of all other state aid to New York City for education available under section 99-b of state law. The School Financing Act approved by the New York State Legislature in 2006 authorized up to \$9.4 billion state building aid appropriation bonds (BARBs), notes, or other obligations outstanding. The TFA currently has approximately \$7.88 billion of BARBs outstanding. The act authorizes New York City to assign all state building aid received under Section 3602.6 of the state education law to the TFA, with funds paid directly to a trustee from the state comptroller for payment on the bonds.

The existing TFA indenture for future tax-secured bonds was amended to establish a building aid subaccount where revenue is segregated to fund debt service for the BARBs. Because the existing TFA indenture was used, building aid is

pledged on a basis subordinate to all TFA future tax-supported bonds secured by city income and sales taxes that were outstanding (senior, subordinate, and recovery bonds), up to and including the TFA's series 2007 building aid bond issue, as well as subordinate to operating costs of the TFA to the extent not otherwise paid by tax revenues. Building aid is not available to pay debt service on TFA future tax-secured bonds issued after the series 2007 S-1bonds. Due to the strong coverage of TFA future tax-secured debt by pledged tax revenue without regard to building aid, and the quarterly retention features of the existing TFA future tax-secured revenue bond structure (current rating is 'AAA' based on the security of city income and sales taxes), we do not consider this a material credit consideration. TFA future tax-secured income tax and sales tax revenue in fiscal 2017 covered annual TFA future tax-secured debt service 8.83x.

The pledge of building aid to the building aid bonds is also subordinate to New York Municipal Bond Bank Agency prior claims bonds series 2012A (AA-/Stable), New York City educational construction loan fund bonds to the extent needed to restore the debt service reserve (AA-/Stable based on New York City lease payments), and section 99-b state aid interceptable for the benefit of any defaulted New York City general obligation (GO) or TFA bonds issued for school purposes. Confirmed building aid to New York City for fiscal 2016 covers estimated new BARB maximum annual debt service (MADS) of \$586 million at a strong, in our opinion, 1.86x. Confirmed building aid (which is building aid payable with respect to existing projects that have been approved by the State Education department) assigned to TFA must cover debt service on debt outstanding and proposed debt by 1x. Given the city's significant capital program for education-related projects (\$15.5 billion through fiscal 2019) that will receive building aid reimbursement in the future, the actual flow of state building aid assigned to TFA on an annual basis will likely provide a significant margin of DSC, in our view.

Total confirmed building aid in fiscal 2018, according to the city, is \$1.1 billion, in line with fiscal 2017 amounts. The prior and competing claims bonds also have a lien on total state education aid to New York City, which amounted to \$9.8 billion in fiscal 2016. A memorandum of understanding with the state comptroller prioritizes other state aid first for the competing claims bonds. Assuming bond defaults on all other competing claims bonds, which we view as highly unlikely, combined education aid in fiscal 2016 of \$9.8 billion covered combined annual debt service on contingent claim bonds, plus estimated new MADS on BARBs and bank bond agency 2012A prior claims MADS, by 4.3x, which we consider strong.

For more information on the prior-lien income and sales tax-supported TFA bonds, see the summary published June 16, 2017 on RatingsDirect. For more information on the credit quality of New York City GO bonds, see the most recent New York City GO analysis published April 20, 2017; for more information on the credit quality of New York State, see the most recent state GO analysis published Sept. 28, 2016.

Outlook

The stable outlook reflects our stable outlook on New York State as well as our understanding that state building aid has, and will continue to be, funded on a consistent basis over time. In our opinion, the bond structure established to divert building aid revenue to fund debt service is what we consider strong. Although existing building aid pledged to the bonds provides solid DSC, the significant capital program for New York City schools should, in our opinion, ensure

a steady flow of additional building aid to TFA. If building aid was not appropriated or leverage accelerated and building aid did not increase, the rating could be pressured. If the rating on New York State's GO bonds were to improve, we could raise the rating.

Bond Provisions

State education building aid, and income and sales tax revenue additionally pledged to the TFA tax-secured bonds, are deposited together into a collection account, in which there is a tax revenue subaccount, receiving tax revenues, and a building aid subaccount, receiving state building aid.

State education building aid in the building aid subaccount is used first to pay senior pre-2007 TFA tax-secured debt to the extent there are shortfalls in pledged income and sales tax revenues, second to pay authority operating expenses to the extent that tax revenues are insufficient, and third to pay junior-lien pre-2007 TFA tax-secured debt; fourth to pay the TFA BARBs, including the series 2018 S-1 and S-2 and parity debt; and fifth the remaining revenues are released to New York City free of any lien by at least the last day of each month. State building aid is retained in the school bond account that pays debt service once the amount of state building aid remaining to be received within the fiscal year equals 110% of the amount of school bond debt service payable in the following fiscal year.

Ratings Detail (As Of July 7, 2017)		
New York City Transitional Fin Auth bldg aid		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth bldg aid rev bnds ser 2016 S-1 due 07/15/2045		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth bldg aid ser 2007 S-1 & S-2 (wrap of insured) (FGIC) (ASSURED GTY - SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth bldg aid ser 2007 S-1 (wrap of insured) (FGIC & BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth bldg aid ser 2007 S-2 (wrap of insured) (FGIC, National) (ASSURED GTY-SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth bldg aid (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth APPROP		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth APPROP		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth APPROP		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth APPROP (BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth bldg aid		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Ratings Detail (As Of July 7, 2017) (cont.)

New York City Transitional Fin Auth bldg aid ser 2007 S-1

Unenhanced Rating

AA(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.

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