FitchRatings

Fitch Rates NYC Transitional Finance Auth's $1B Future Tax Sec'd Sub Bonds 'AAA'; Outlook Stable

Fitch Ratings-New York-04 February 2016: Fitch Ratings has assigned an 'AAA' rating to the following New York City Transitional Finance Authority (TFA) future tax secured (FTS) subordinate bonds fiscal 2016 series E:

--$750,000,000 subseries E-1 (tax-exempt bonds);
--$195,420,000 subseries E-2 (taxable bonds);
--$54,580,000 subseries E-3 (taxable bonds).

The bonds are scheduled to sell Feb. 5 through 9 through negotiation. The bonds are being issued as multi-modal bonds in the fixed-rate mode. Proceeds will fund capital projects and costs of issuance. Simultaneously with this issuance, the authority expects to issue $150 million in parity adjustable-rate bonds. Fitch expects to issue long- and short-term ratings on those bonds closer to closing.

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

--$25.5 billion subordinate bonds;
--$906 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

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 fiscal 2020 is expected to remain strong at over 6x.

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. The city's economic dependence on Wall Street is still notable but declining as employment in other sectors grows more quickly than in financial services.

RATING SENSITIVITIES

REVENUE DECLINES: While TFA revenues are vulnerable to downside risk, Fitch believes the bonds are well protected from a potential rating downgrade by both legal provisions (3x 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 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 (GO bonds rated 'AA'). 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.

PLEDGED REVENUES EXHIBIT STABILITY; RENEWALS EXPECTED

The PIT made up 61% of fiscal 2015 FTS revenue. 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. 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 authorized 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. However, even this highly unlikely scenario results in sound coverage. The base rate alone would result in coverage estimated by TFA of about 4x in fiscal 2020, assuming continued issuance and moderate growth in base PIT and sales tax revenues.

STRONG COVERAGE EXPECTED EVEN WITH FUTURE DEBT ISSUANCE

Debt service coverage on all FTS bonds from fiscal 2015 pledged revenue was 8.6x. Combined with sizable debt issuance plans, coverage is expected to remain high at a minimum of 6.25x through fiscal 2020 using TFA's projected annual pledged revenue growth assumptions, or 5.2x 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.

The city in its fiscal 2017 preliminary budget and four-year financial plan assumes minimal PIT growth in fiscal 2017 after 3.8% growth in the current fiscal year. The fiscal 2017 projection includes moderate growth in wage rates and improved private sector bonuses but a decline in non-wage income. In fiscal 2018-2020 personal income tax revenues are projected to grow 3.8% annually. The budget assumes continued strong visitor-related spending and moderate economic growth will yield annual sales tax growth in the 4% range. Fitch believes these tax revenue growth forecasts are reasonable but vulnerable to downside risk.

Coverage projections assume the issuance of approximately $17.6 billion in FTS bonds in fiscal 2016 - 2020, in accordance with the city's capital improvement plan. 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 NOT 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. City management expects another record year in 2015 when figures are finalized.

The city's economic profile also benefits from good wealth levels; per capita personal income is 130% of the U.S. However, the above-average individual poverty rate of 20.3% in 2014, compared to 15.3% for the U.S., indicates significant income disparity.

The city's economy (and operating budget) is still strongly linked to the financial sector, which accounts for approximately 11% of total employment but 27% of earnings. Financial activities employment grew slightly in 2014 and 2015 but is still 1.5% below the 2008 peak. In contrast, total employment declined only slightly during the economic downturn and in 2015 was 10.8% above the prior 2008 peak.

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Date of Relevant Rating Committee: Sept. 29, 2014

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

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 February 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 less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published in 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.

Applicable Criteria
Exposure Draft: Incorporating Enhanced Recovery Prospects into US Local Tax-Supported Ratings (pub. 02 Feb 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?
rpt_id=875108&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ2NjAxNzUsInNlc3Npb25LZXkiOiJYUk5SWVZaT1pBMkdQUzVaV0lKUjNZTjNIS0MyF
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?
rpt_id=869942&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ2NjAxNzUsInNlc3Npb25LZXkiOiJYUk5SWVZaT1pBMkdQUzVaV0lKUjNZTjNIS0MyF
Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?
rpt_id=686015&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ2NjAxNzUsInNlc3Npb25LZXkiOiJYUk5SWVZaT1pBMkdQUzVaV0lKUjNZTjNIS0MyF
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?
rpt_id=685314&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NTQ2NjAxNzUsInNlc3Npb25LZXkiOiJYUk5SWVZaT1pBMkdQUzVaV0lKUjNZTjNIS0MyF

Additional Disclosures
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=999093)
Endorsement Policy (https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)