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Ratings

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New York City Transitional Finance Authority; Miscellaneous Tax

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New York City Transitional Finance Authority; Miscellaneous Tax

Credit Profile		
US$850.0 mil future tax secd sub bnds fiscal (Tax-exempt) ser 2018 B-1 due 08/01/2045		
Long Term Rating	AAA/Stable	New
US$140.0 mil future tax secd sub bnds fiscal (Taxable Bnds) ser 2018 B-2 due 08/01/2029		
Long Term Rating	AAA/Stable	New
New York City Transitional Finance Authority future tax secd subordinate bnds fiscal (Taxable Bnds) ser 2017F-3 due 05/01/2029		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Finance Authority future tax secd subordinate bnds fiscal (Taxable Bnds) ser 2017 F-2 due 05/01/2027		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating, and stable outlook, to the New York City Transitional Finance Authority's (TFA) fiscal 2018 tax-exempt subseries B-1, and taxable subseries B-2 future tax-secured subordinate bonds. At the same time, S&P Global Ratings affirmed its 'AAA' ratings on TFA's existing future tax-secured senior and subordinate bonds. Finally, S&P Global ratings affirmed its ratings on various issuances where the short-term ratings reflect the liquidity support from various financial institutions.

We rate the TFA's future tax-secured debt above the sovereign. We believe the authority can maintain better credit characteristics than the U.S. (AA+/Stable/A-1+) 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 one of the world's leading employment centers 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 2021 of continued very strong coverage, which, despite an anticipated dip in sales tax revenues in fiscal 2017, is expected to remain stable over the next few years; and
- Strong bond provisions, including what we consider a conservative additional bonds test (ABT).

A subordinate lien on authority tax revenues, which include personal income tax (PIT) and sales tax revenue, and some accounts held by the trustee, secures the bonds. Bond proceeds will finance general city capital expenditures.

PIT and sales tax revenue secure 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 bonds outstanding; the PIT covers MADS by about 3.48x. The MADS coverage calculation is based on fiscal 2016 revenues and includes all existing senior and subordinate bonds as well as the estimated debt service for the 2018 series B bonds, calculated at the maximum rate for variable-rate 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. However, in 2009, the New York State Legislature authorized the TFA to have $13.5 billion of future tax-secured bonds outstanding, excluding recovery obligations, with additional amounts subjected to the city's debt limit. Subordinate-lien debt is not subject to the quarterly debt service requirement under the terms of the indenture for senior-lien bonds. The 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 60% of pledged revenue in fiscal 2016 (the most recently audited fiscal year). Collections increased 1.3% in 2016 to $10.79 billion, and we expect them to continue increasing, alongside the economic recovery, throughout the forecast period. 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. That year's 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. City officials project collections of $11.1 billion in 2017, $11.9 billion in 2018, $12.1 billion in 2019, $12.7 billion in 2020, and $13.2 billion in 2021, for total revenue growth of approximately 19%. We believe these projections are reasonable; PIT growth averaged 7.3% annually over the past five audited years compared with 4.2% over the forecast period. We note that the personal income tax is imposed on city residents according to a schedule of rates (the base rate) and is subject to an additional 14% surcharge, with a resulting maximum rate of 3.876%. The base rate and the 14% surcharge are scheduled to expire Jan. 1, 2021. At that time, and unless legislation is passed that extends the base rate and the 14% surcharge, a lower rate schedule with a maximum rate of 1.48% is to become effective. The base rate has been scheduled to decline to the reduced base rate on many occasions but did not because the base rate was extended. The most recent such extension occurred in June 2017.

A sales tax is the other leading TFA revenue source: It accounted for 40%, or $7.3 billion, of pledged revenue in fiscal 2016, an 8.3% increase from fiscal 2015. 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 $150 million in 2019. At this point, we don't consider this a negative credit factor given the income tax pledge's strength. Sales tax collections are expected to grow throughout the plan period after decreasing slightly in 2017 to $7.0 billion in 2017; and grow to $7.3 billion in 2018, $7.9 billion in 2019, $8.3 billion in 2020, and $8.6 billion in 2021, for total growth of approximately 23%. The projections for fiscal 2019 do not incorporate the impact of state legislation.

MADS coverage (including the fiscal 2018 series B bonds) is very strong. Fiscal 2016 actual pledged revenue collections of $18.08 billion provided what we consider very strong 5.84x MADS coverage assuming a stress scenario with variable-rate bonds bearing interest at the maximum bond rate, and 6.22x at the 4.25% budgeted adjustable rate. Based on actual debt service paid, fiscal 2016 pledged revenues provided very strong annual DSC of 9.54x. Fiscal 2017 projections show combined pledged revenues increasing 0.1% to $18.1 billion, which would provide MADS coverage of 5.84x based on the maximum rate on variable-rate bonds, and 6.23x at the 4.25% budgeted adjustable rate, respectively--levels that we consider very strong.

Based on the current financial plan, TFA expects to issue $3.3 billion in 2018, $4.5 billion in 2019, $4.7 billion in 2020, and $4.6 billion in 2021 of future tax-secured bonds for general city capital purposes. In 2009, the New York State Legislature authorized the TFA to have $13.5 billion of future tax-secured bonds outstanding, excluding recovery obligations. The legislature also authorized the issuance of additional future tax-secured bonds provided that the amount of these additional bonds, together with the amount of debt contracted by the city, does not exceed the city's debt limit. We understand New York City intends to continue alternating the issuance of general obligation bonds and future tax-secured bonds. As of Aug. 31, , 2017the city and authority's debt-incurring capacity was $32.8 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 6.15x in fiscal 2021 based on assumed variable interest rates of 4.25% on tax-exempt variable-rate bonds outstanding and 6% on all planned bond issuances through 2021. Projected coverage does not include the federal subsidy for Build America Bonds and qualified school construction bonds.

The authority has approximately $33.9 billion of future tax-secured debt outstanding. This consists of $791.2 million of senior-lien bonds and $33.1 billion of subordinate-lien debt, including $721.8 million of recovery bonds. It has $771.5 million of senior-lien variable-rate debt, and $3.18 billion of subordinate-lien variable-rate debt, representing approximately 11.6% of authority debt outstanding. The authority has $710.9 million of index rate bonds in a direct placement with financial institutions, and we do not believe this poses liquidity risks. There are no acceleration provisions or restrictive covenants. Based on the financial plan, the TFA expects to issue $3.3 billion in 2018, $4.5 billion in 2019, $4.7 billion in 2020, and $4.6 billion in 2021 of future tax-secured bonds for general city capital purposes.

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 lower the rating in the next two years.

If coverage were to significantly weaken to levels we no longer consider comparable with that of 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 potentially negative credit event.

Bond Provisions

The state legislative act that created the TFA--Chapter 16 of the Laws of 1997, as amended--has authorized up to $13.5 billion of notes and bonds for capital purposes and the refunding of notes and bonds that support New York City's capital improvement program. The legislature has amended the act several times since. Most recently, in 2009, the legislature authorized $13.5 billion of future tax-secured bonds outstanding for the TFA, excluding recovery obligations, with additional amounts subject to the city's debt limit. The legislature also authorized the TFA to have outstanding $9.4 billion of bonds to finance a portion of the city's educational facilities' capital plan; state building aid payable to the TFA, not PIT and sales tax revenue, secures these bonds.

Legislation enacted in 2006 provided the city with an additional $2 billion of authorization to fund capital projects. Legislation enacted in June 2000 increased the authorization to $11.5 billion from $7.5 billion, as well as the amount of variable-rate debt the TFA could issue to $2.3 billion from $750 million. In September 2001, the legislature amended the legislation that created the TFA to authorize $2.5 billion of bonds or notes outstanding to pay the costs in New York City's budget related to, or stemming from, the Sept. 11 terrorist attacks; these costs could be operating or capital costs associated with recovery efforts at the World Trade Center.

Subordinate and recovery bonds are subordinate to the senior TFA bonds, but they share the same revenue sources as security. The ratings on the senior- and subordinate-lien bonds and notes are the same due to the strength of the legal structure established to pay debt service and the high DSC on all TFA bonds.

According to the bond indenture, senior-lien debt cannot exceed $12 billion in principal outstanding and is subject to a maximum quarterly senior-lien debt service payment that cannot exceed $330 million. Subordinate-lien debt is not subject to the quarterly DSC requirement under the indenture's terms for senior-lien bonds. Subordinate-lien debt must still comply with what we regard as the conservative and more-traditional ABT with DSC calculated annually, requiring 3x coverage. 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 New York State Department of Tax & Finance receives PIT and sales tax revenue, and it is the servicer for this bond program. There is a quarterly retention of tax revenue to cover senior and subordinate bonds. The New York State comptroller holds these funds and remits them to the trustee on or before the 15th day of each month. In the case of sales tax revenue, the comptroller only transfers funds to the TFA if New York City's mayor certifies PIT revenue will not provide at least 150% MADS coverage.

Statutory Revenue

City estimates have the statutory revenue supporting the TFA's bonds at $18.1 billion at fiscal year-end 2017. PIT and sales tax revenue are critical to funding city operations, and they account for over one-third of budgeted city tax revenue in fiscal 2016. Coupled with the long history of the levying of both taxes, this enhances bondholder security. The two sources have experienced cyclical growth and decline over time; the growth trend, however, has been positive for both. Either tax source easily covers debt service, but the TFA pledges both revenue streams. New York City's most recent financial plan update forecasts steady growth in each revenue source, and we understand the city is projecting statutory revenue to increase by 21% from fiscal 2017 to $21.8 billion in fiscal 2021.

The PIT

The PIT is the TFA bonds' primary source of security; it generated 60% of statutory revenue in fiscal 2016. New York City has imposed a PIT since 1966. In 2006, the city returned to a lower schedule of base rates and a 14% surcharge, which resulted in a maximum rate of 3.648%. In 2010, the base rate increased for taxpayers with taxable income of more than $500,000, which increased the maximum rate to 3.876%. The base rate and the 14% surcharge are scheduled to expire on Jan. 1, 2021. At this time, and unless legislation is passed that extends the base rate and the 14% surcharge, a lower rate schedule with a maximum rate of 1.48% is to become effective. The base rate has been scheduled to decline to the reduced base rate on many occasions but did not because the base rate was extended.

In our opinion, growth in PIT revenue has been strong; however, it has been cyclical due to general economic trends and a reliance on financial sector earnings. Earnings from the financial sector in 2010 accounted for 30.6% of city earnings compared with the national average of 10.9%. After it decreased by 24.1% to $6.7 billion in fiscal 2009, PIT revenue rebounded in fiscal years 2010 and 2011 because of the economic recovery. PIT revenue increased by $182 million to $6.9 billion in fiscal 2010 and by $759 million to $7.6 billion in fiscal 2011. Current city projections estimate steady growth in this revenue stream to $11.1 billion in fiscal 2017, $11.9 billion in fiscal 2018, $12.1 billion in fiscal 2019, $12.7 billion in fiscal 2020, and $13.2 billion in fiscal 2021.

The sales tax

New York City has levied a sales tax since 1934. Taxable sales have generally risen, and have benefited from the city's growing population and role as a major center for employment and tourism. New York City levies a 4.5% sales tax on a broad range of economic activity, including retail sales, utilities, communication sales, services, and manufacturing. In addition, it levies a 6% tax on receipts from parking, garaging, or storing motor vehicles in the city. Sales taxes generated approximately $7.3 billion of statutory revenue in fiscal 2016, a $560 million increase from fiscal 2015, which also reflects a higher-than-usual audit collection of $239 million. City projections have sales tax revenue declining to $7.0 billion in fiscal 2017, increasing to $7.3 billion in fiscal 2018, $7.9 billion in fiscal 2019, $8.3 billion in fiscal 2020, and $8.6 billion in fiscal 2021. The projected growth stems, in part, from continued growth in the economy and what we consider the city's strong tourism sector.

New York City's Economy

We consider New York City's economy strong. With an estimated population of 8.5 million, the city is the most populous in the nation and continues to grow. It also anchors the broad and diverse New York-Newark-Jersey City metropolitan statistical area (MSA) and has a projected per capita effective buying income of 105.1% of the national level. New York City's full valuation increased 5.8% year-over-year to $1.04 trillion in fiscal 2017, resulting in a per capita market value of $123,928. Its weight-averaged unemployment rate was 5.2% in 2016.

The city's economy remains robust. It serves as the economic engine for the Mid-Atlantic region. Its major employment sectors are trade, financial services, professional services, education, health care, and government. Despite recent economic diversification, there is still a higher-than-average reliance on the financial sector, which accounted for approximately 25.4% of wages and 11.0% of employment in 2015.

The city's housing market continues to have good, stable value despite high prices. Real estate prices in New York City held steady while those in other MSAs nosedived when the housing bubble burst. The residential real estate market continues to experience overwhelming demand and a consistent undersupply of living space. This is relevant for New York City because 29% of its revenues (44% of its total tax revenues) are derived from the real estate tax.

Despite the continued employment strength, the state of the city's infrastructure continues to hamper its long-term growth prospects. Given the large population that commutes into New York City daily, this could worsen as its infrastructure ages. The construction sector will remain a vital part of the MSA's economy. The state has committed about $1 billion in state funds for the rebuilding of the Tappan Zee Bridge. In our opinion, this will have the combined impact of supporting the local labor force and mitigating some of the MSA's infrastructure needs. The direction and magnitude of capital spending on city infrastructure will be integral to the MSA's growth prospects, in our opinion.

Ratings Detail (As Of October 13, 2017)		
New York City Transitional Finance Authority future tax secd subordinate bnds fiscal (Tax-exempt Bnds) ser 2017 F-1 due 05/01/2044		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secdsub bnds (Fixed Rt Tax Exempt) ser 2017B-1 due 08/01/2042		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secdsub bnds (Fixed Rt) ser 2017B-2,3 due 08/01/2028		
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/A-1+/Stable	Affirmed
New York City Transitional Fin Auth MISCTAX		
Long Term Rating	AAA/A-1/Stable	Affirmed

Ratings Detail (As Of October 13, 2017) (cont.)		
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/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/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