

Rating Action: Moody's assigns Aa2 to NYC TFA Building Aid Revenue Bonds, Fiscal 2023 Subseries S-1A and S-1B; outlook stable

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New York, July 15, 2022 -- Moody's Investors Service has assigned a Aa2 rating to the New York City Transitional Finance Authority's (TFA) \$557.3 million Building Aid Revenue Bonds, Fiscal 2023 Subseries S-1A Tax-Exempt Bonds and \$71.2 million of Building Aid Revenue Bonds, Fiscal 2023 Subseries S-1B Taxable Bonds. The bonds will price the week of July 18. Moody's also maintains Aa2 ratings on TFA's \$8.2 billion of outstanding Building Aid Revenue Bonds, Aaa ratings on \$175 million of outstanding senior Future Tax Secured bonds and Aa1 ratings on \$43 billion of its outstanding subordinate bonds. The outlook is stable.

RATINGS RATIONALE

The Aa2 rating is one notch below New York State's Aa1 issuer rating and reflects the state's strong commitment to provide building aid payments to New York City (Aa2 stable), which assigns the payments to the TFA. The rating also reflects the subject-to-appropriation nature of the state aid payments securing the bonds, the state's constitutional mandate to fund education aid, a statutory framework that assigns the city's state building aid to the TFA, and non-impairment provisions.

RATING OUTLOOK

The rating carries the state's stable outlook, which reflects the resources and budget management tools available to the state to align spending and revenue. The state's moderate leverage will allow it to absorb some increased debt for its own needs and those of the MTA, and various budget management tools that provide financial flexibility will enable the state to achieve budget balance if developments cause the state's revenue and spending trends to diverge from the baseline.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Stronger protections for the pledged revenues
- State issuer rating upgrade

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant decrease in debt service coverage
- Failure of state to appropriate education aid payments
- State issuer rating downgrade

LEGAL SECURITY

The bonds are payable from monies appropriated by the New York State legislature of state aid payments for New York City's school construction program under a state enabling act. Under the act, the city assigns to the TFA all of the state building aid payable to the city, under Section 3602.6 of the state education law. Bonds outstanding to finance educational facilities are capped at \$9.4 billion, with \$8.2 billion of this authorization currently outstanding, not including this issuance.

Aid is provided subject to project approval and formulas. Once the State Education Department (SED) has approved the project, the state is statutorily required to provide a 30-year stream of building aid payments, subject to annual appropriation.

The state has covenanted not to impair the rights of bondholders in any way. Although the state is able to vary the building aid ratio on a year-to-year basis, which alters the amount of confirmed building aid payable to the city, we believe that given the covenant the state is not likely to reduce its building aid payments below the amortization level initially calculated for each project, with the provision that the interest rate used in the

calculation may be reset every 10 years.

The TFA's Future Tax-Secured Bonds backed by city personal income and sales taxes that were issued prior to the Series 07 S-1 bonds have a senior claim on state building aid if tax revenues are insufficient to pay debt service. The risk of recourse to building aid to pay the senior claim is miniscule since the amount of pre-2007 bonds outstanding is a vanishing portion (\$75.4 million) of total Future Tax-Secured bonds outstanding and coverage of aggregate maximum annual debt service (MADS) on outstanding Future Tax-Secured bonds by fiscal 2021 tax revenues was 6.1 times, which would increase to 7.0 times based on estimated fiscal 2022 tax revenue.

Further supporting bondholder security is the fact that the state aid intercept provision of Section 99-B of the School Finance Law is available to these bonds. However, because the 99-B program provides for post-default payment, with the state comptroller withholding education aid in amounts required to pay debt service if necessary, it does not add to the credit rating assigned to this transaction.

New York City's education aid is subject to certain competing claims, including those from holders of State of New York Municipal Bond Bank Agency Special School Purpose Revenue Bonds. These claims are minimal in amount. There are also contingent competing claims from the 99-B intercept post-default program, holders of New York City Education Construction Fund Revenue Bonds, certain New York City general obligation bonds, TFA Future Tax-Secured bonds issued for school purposes and possible withholdings by the state if the city fails to provide certain educational services. Through a memorandum of understanding (MOU) between the city, the TFA, the State Education Department, and the New York State comptroller, the state comptroller has agreed to satisfy such competing claims from other school aid before state building aid. New York City has agreed to pay to the TFA any amounts of building aid that may be diverted for these claims.

The additional bonds test (ABT) requires 1.0 times coverage of outstanding state building aid appropriation bond debt service by confirmed building aid revenue in every year. This ABT does not rely on any future approval of New York City education capital projects or on the associated incremental building aid: it relies solely on approved projects for which the state has committed to provide a 30-year stream of building aid payments subject to annual appropriation. Based on confirmed building aid through fiscal 2052, debt service coverage on outstanding Building Aid Revenue Bonds (including coverage of debt service on the bonds to be refunded by the Fiscal 2023 Series S-1 bonds but not coverage of the debt service on the refunding bonds themselves), falls from a projected 2.21 times in fiscal 2023 to 1.40 times in 2035, before rising again. As New York City continues to add capital projects for education in the future, incremental associated building aid will be added, increasing coverage and providing more debt capacity.

Additionally, a constitutional mandate to fund education supports the inclusion of appropriations for educational aid, including building aid, in the state's annual budget.

USE OF PROCEEDS

Proceeds of the Fiscal 2023 Subseries S-1A and S-1B bonds will be used to refund certain outstanding bonds previously issued by the TFA for school construction purposes for net present value savings.

PROFILE

New York State is the 4th largest US state by population. Located in the Northeastern US, New York has a large and diverse economy with high per capita income at 120% of the US average and gross state product of \$1.85 trillion.

METHODOLOGY

The principal methodology used in these ratings was US States and Territories Methodology published in March 2022 and available at <https://ratings.moody.com/api/rmc-documents/356901>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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