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Research Update:

New York City Transitional Finance Authority 2026 Series S-1, S-2, And S-3 Building Aid Revenue Bonds Rated 'AA'

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to the New York City Transitional Finance Authority's (TFA) $1.36 billion tax-exempt building aid revenue bonds (BARBs), consisting of the $842.4 million fiscal 2026 series S-1 bonds, $500.1 million fiscal 2026 series S-2 bonds, and $19.5 million fiscal 2026 series S-3 bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term and underlying (SPUR) ratings on the authority's BARBs outstanding.
- The outlook is stable.

Rationale

Security

The fiscal 2026 bonds are secured by state building aid allocated to New York City in support of educational facilities for the benefit of elementary and secondary school students, subject to annual appropriation by New York State. Under an amended assignment of state aid--dated Oct. 19, 2006--the city assigns all state building aid to TFA, and the authority has directly assigned state building aid to the trustee for payment of the bonds. The fiscal 2026 series S-1 bonds are being reoffered as multimodal bonds, initially in fixed-rate mode, while the fiscal 2026 S-2 and S-3 bonds are being issued as multimodal bonds, initially in the fixed-rate mode.

Further securing the bonds and parity obligations outstanding is an intercept mechanism of state education aid established under section 99-b of the State Finance Law. Under section 99-b, in the event a bondholder files a verified statement with the New York State Comptroller alleging a debt service payment default, the comptroller will investigate the circumstances and file a certificate with the New York City Comptroller, the Chancellor of New York City Schools, and chief fiscal officer of TFA, detailing the amount that shall be deducted or withheld from the city’s next succeeding allotment, apportionment, or payment of education aid due to the city or the school district, and this amount will be transferred by the state to the trustee for the payment of the bonds. Under our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," Nov. 20, 2019, the timing and notification procedures associated with the intercept mechanism occur following a debt service default rather than an advanced notification to the state. Due to the absence of a pre-default intercept mechanism, our rating for the fiscal 2026 bonds and parity debt outstanding is based on the security provided by contractual assignment of state building aid by TFA for the payment of debt service, subject to annual appropriation.

Proceeds from the fiscal 2026 series S-1 bonds reflect a reoffering of portions of the fiscal 2015 series S-1 and fiscal 2015 series S-2 BARBs, which were originally issued by the authority to fund project costs approved under one or more of the five-year plans as applicable in accordance with section 2590-p of the education law. Proceeds from the fiscal 2026 series S-2 and series S-3 bonds will be used to refund certain BARBs outstanding.

The authority has $7.23 billion of BARBs outstanding (not including the fiscal 2026 reoffered or refunding BARBs).

Credit highlights

We rate the fiscal 2026 BARBs one notch lower than New York State’s general creditworthiness (AA+/Stable), based on our view of the non-appropriation risk associated with state building aid allocated to the authority. We view New York State’s relationship to the authority’s obligations as strong, reflecting both constitutional and statutory commitments to fund public education, which we believe establishes a strong incentive to appropriate. The state’s demonstrated commitment to appropriate state building aid to New York City through various economic and budget cycles is indicated by a 49.3% cumulative increase in state building aid allocated to New York City between fiscal years 2015-2024, with no annual reductions over this period. Although state building aid represents a narrower portion of all state education aid allocated to New York City, the authority projects fiscal 2025 state building aid received by the city increased to $1.66 billion, or 7% above the previous fiscal year, further supporting our view of the stability of building aid in future years.

Confirmed building aid (which is building aid payable with respect to existing projects approved by the New York State Department of Education) to New York City for fiscal 2026 is $1.6 billion. The estimated BARB maximum annual debt service (MADS) following issuance of the fiscal 2026 bonds is in 2032, totaling approximately $674 million. Confirmed state building aid (based on projected state building aid for fiscal 2026) provides 2.4x MADS coverage and projected state building aid for fiscal 2032 provides 1.95x MADS coverage, each of which will exceed the requirement that debt service coverage (DSC) on existing and proposed bonds equal 1x. In our view, given the city's significant capital program for education-related projects that will receive building aid reimbursement in the future, with the current five-year plan covering 2025 through 2029 totaling about $20.5 billion, the actual receipt of state building aid assigned to TFA annually will likely provide a significant margin of DSC.

Furthermore, we view the bond provisions, established under statute and the indenture, that direct the state comptroller to transfer building aid directly to the trustee for the benefit of bondholders and retained in advance of the debt service payment due date as further evidence of the state's support of the program. Following satisfaction of the flow of funds and retention of building aid available at a level equal to 110% of debt service due in the following fiscal year, the remaining revenue is released to New York City as soon as practicable, but no later than the last day of each month.

Environmental, social, and governance

In our view, environmental, social, and governance factors align with those of the state.

Outlook

The stable outlook on the fiscal 2026 bonds and parity debt outstanding reflects the stable outlook on New York State and our expectation that the state will remain committed to make timely and consistent appropriations of state building aid to the authority for the payment of debt service.

Downside scenario

If we view there to be a weakened commitment from the state to appropriate state building aid or a disruption to the timely provision of aid to make direct debt service payments, we could lower the rating. In addition, given what we view as the one-notch linkage to the state's general creditworthiness, if we were to lower our rating on the state, we could take a similar negative rating action on the bonds.

Upside scenario

We could raise the rating on the bonds if we were to raise the rating on New York State.

For more information on New York State, see our analysis, March 17, 2025.

Credit Opinion

Bond structure and competing claims

The School Financing Act (the act) approved by the New York State Legislature in 2006 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 directed to a trustee for debt service payment. Furthermore, in the event of default, state aid to New York City for education available under section 99-b of state law is intercepted for payment on the bonds. The act authorizes TFA to have outstanding as much as $9.4 billion BARBs, notes, or other obligations, of which approximately $7.23 billion is currently outstanding (excluding the issuance of the fiscal 2026 BARBs). The state and city have covenanted that they shall not limit or alter the rights of the authority to fulfill the terms of the indenture or impair the rights and remedies of bondholders, but it does not restrict the state's right to amend, modify, repeal, or alter statutes related to state building aid.

State education building aid pledged to the payment of the BARBs, and income and sales tax revenue pledged to the TFA future tax-secured subordinate bonds, are deposited into a common collection account. 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. Under the School Financing Act, the authority's state building aid pledged to the payment of the BARBs is subordinate to prior statutory claims on state education aid and assistance. Pursuant to a memorandum of understanding, the New York State Comptroller shall satisfy any competing claims to education aid (other than state building aid) first, and second, from state building aid if expected sources of funds to pay competing claims from other school aid are unavailable or insufficient. State building aid is pledged on a subordinate basis to the following:

- Under section 99-b of the State Finance Law, New York City's general obligation and TFA future tax-supported bonds considered in default and issued for school purposes;
- Restoration of the debt service reserve fund for the New York City Educational Construction Fund bonds outstanding; and
- The withholding or recovery of state education aid or assistance payable to the city, should there be a failure by the city provide certain educational services (that is, certain number of instructional days, health services, courses in special areas, or willful disobedience of certain laws or directives), or to otherwise correct errors or omissions in apportionments of state education aid or assistance.

Given the strong coverage of TFA future tax-secured debt by pledged tax revenue (secured by city income and sales taxes) without regard to building aid, and the quarterly retention features of the existing TFA future tax-secured revenue bond structure, we do not consider this a material credit consideration. The TFA future tax-secured (FTS) subordinate bonds (there are no FTS senior bonds outstanding) are rated 'AAA'. For more information on the TFA's future tax-secured debt subordinate bonds, please refer to our analysis, Aug. 4, 2025.

Total state education aid received by New York City

In the event of a failure by the trustee to pay debt service on BARBs with state building aid, the state comptroller may use all state education aid allocated to the city. Projected total state education aid to New York City is $13.3 billion for fiscal 2025. Projected education aid for fiscal 2025 covers debt service on all competing claims and the estimated MADS on BARBs following issuance of the fiscal 2026 bonds would provide more than 4x coverage. We view the requirement of education aid to cover all competing claims as extremely unlikely other than as an illustrative stress scenario, but indicative of additional flexibility possessed by the state and TFA to make payments on the BARBs.

Ratings List	
New Issue Ratings	
US$19,500,000 New York City Transitional Finance Authority, New York, Building Aid Revenue Bonds, Series 2026 S-3, dated: October 17, 2025, due: July 15, 2043	
Long Term Rating	AA/Stable
US$842,410,000 New York City Transitional Finance Authority, New York, Building Aid Revenue Bonds, Series 2026 S-1, dated: August 28, 2025, due: July 15, 2043	
Long Term Rating	AA/Stable
US$500,075,000 New York City Transitional Finance Authority, New York, Building Aid Revenue Bonds, Series 2026 S-2, dated: October 17, 2025, due: July 15, 2043	
Long Term Rating	AA/Stable
Ratings Affirmed	
Building Aid Revenue Bonds (BARBs) Outstanding	
New York City Transitional Finance Authority, NY State Aid Intercept State Bldg Aid Rev Bond Indenture 2nd Lien	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.