STANDARD & POOR'S RATINGS SERVICES

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Summary:

New York City Transitional Finance Authority; Miscellaneous Tax

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Summary:

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Credit Profile		
US$650.0 mil tax-ex rev bnds fiscal 2014 ser A-1 due 11/01/2033		
Long Term Rating	AAA/Stable	New
US$350.0 mil taxable rev bnds fiscal 2014 ser A-2 due 11/01/2030		
Long Term Rating	AAA/Stable	New
US$125.0 mil rev bnds fiscal 2014 ser A-4 due 11/01/2032		
Long Term Rating	AAA/Stable	New
US$92.47 mil Qualified Sch Construction Bnds rev bnds fiscal 2014 ser A-3 due 11/01/2032		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to New York City Transitional Finance Authority's (TFA) fiscal 2014 series A-1-A-4 future tax-secured subordinate-lien bonds. The outlook is stable.

We also affirmed our 'AAA' long-term rating and underlying rating (SPUR), with a stable outlook, on the authority's existing future tax-secured debt, including senior- and subordinate-lien bonds and recovery obligation bonds.

The rating reflects our opinion of:

- A strong bond 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 more than 8 million that has steadily expanded. New York continues its role as a major global center for finance, commerce, tourism, and retail activity; it is one of the nation's leading employment centers;
- The sales and income tax revenue that supports the bonds' resilient nature. Although this revenue stream is susceptible to economic slowdowns, it has generally, as evidenced by recent decreases, been quick to recover; the city has adjusted its rates over time, further insulating pledged revenue; and
- The authority's cash flows and coverage, which are strong and more than sufficient to make timely interest and principal payments under severe stress scenarios.

Officials plan to use proceeds of the tax-exempt subseries A-1 bonds to finance general city capital expenditures; proceeds of the taxable subseries A-2 bonds for other discrete capital purposes; and proceeds of the series A-3 qualified school construction bonds to finance school building projects. Series A-4 bonds are expected to be issued in the adjustable rate mode, with a standby liquidity facility provided by Wells Fargo Bank, N.A.

TFA has approximately $4.4 billion of combined Build America Bonds (BABs) and Qualified School Construction Bonds (QSCB) outstanding for which it receives interest subsidies in the form of cash payments from the federal government. We understand these payments are subject to the federal sequester that took effect on March 1, 2013. Unless additional legislative action is taken, the TFA's subsidy payments will be reduced by 8.7% in fiscal 2013, or $2 million. However, the revenues have not been pledged as security for the authority's debt outstanding and have not been factored into any debt service coverage (DSC) calculations. We believe the TFA will be able to absorb these cuts due to the strong cash flow of pledged revenues.

Personal income tax (PIT) and sales tax revenue secures the bonds. 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 the parity bonds. In 2009, the New York State Legislature authorized $13.5 billion of future tax-secured bonds for the TFA, excluding recovery obligations. The legislature also authorized the issuance of additional future tax-secured bonds subject to the city's debt limitation, coupled with its general obligation (GO) bonds. We understand New York City intends to continue to alternate the issuance of GO bonds and future tax-secured bonds. As of Aug. 31, 2013, the city and authority's debt-incurring capacity was $24.0 billion. We believe the TFA could issue additional debt while maintaining what we consider strong DSC.

The bond indenture includes an agreement that provides that senior-lien debt cannot exceed $12 billion in principal and that senior-lien debt 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 terms of the indenture for senior-lien bonds. Subordinate-lien debt must still comply with what we regard as the conservative and more traditional additional bonds test with DSC calculated annually, requiring 3x DSC. 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.

TFA's statutory revenue consists of PIT and sales tax revenue. Both tax sources supporting the TFA bonds and notes have been cyclical during recessions. The PIT is the primary statutory revenue source: It accounted for 58% of pledged revenue in fiscal 2012. After decreasing 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 $759 million to a total of $7.6 billion in fiscal 2011 and by another $368 million to a total of approximately $8 billion in fiscal 2012.

Although PIT revenue projections have moderated somewhat because of lagging compensation in the financial services industry in 2011, officials are projecting 4.2% average annual growth in the next five years. These projections include some volatility in fiscal years 2013 and 2014 due to an increase in the federal capital gains rate, which has caused city taxpayers to spin up capital gains tax payments to 2013 from 2014. Collections are therefore projected to have increased 14.8% in 2013 to $9.2 billion, then are expected to decline 10.5% in fiscal 2014 to $8.2 billion before growing again to $9.1 billion in fiscal 2015, $9.4 billion in fiscal 2016, and $9.8 billion in fiscal 2017.

The sales tax is the other leading revenue source: It accounted for approximately $5.8 billion of pledged revenue in fiscal 2012, a $254 million increase from fiscal 2011 results. Collections are expected to increase to $6.1 billion in fiscal 2013, $6.3 billion in fiscal 2014, $6.6 billion in fiscal 2015, $6.9 billion in fiscal 2016, and $7.1 billion in fiscal 2017 for aggregate growth of 22%. The projected growth partially stems from a recovering economy and the city's strong tourism sector; the balance is due to an increase in the sales tax rate to 4.5% from 4.0%, the repeal of the exemption for clothing and footwear costing $110 or more, and the extension of the sales tax to electricity and natural gas transmission.

Despite decreases during the recession, revenue performance and MADS coverage have been, in our opinion, strong. Fiscal 2012 actual pledged revenue collections of $13.8 billion provide what we consider very strong MADS coverage of 6.3x, on all current and existing senior and subordinate bond series, conservatively assuming the maximum bond rate on the variable-rate debt. Based on actual interest rates in place, fiscal 2012 pledged revenues provided annual DSC of 9.2x. Fiscal 2013 estimates show pledged revenues increasing to $15.3 billion, which provides projected DSC coverage of 9.06x, a level we still consider very strong, and MADS coverage of 6.9x based on maximum interest rates.

With additional planned debt issuance, city officials are projecting DSC to decrease slightly but to remain what we view as strong at 6.4x in fiscal 2017 based on assumed interest rates on variable-rate debt of 5% on outstanding tax-exempt variable-rate debt, 7.0% on outstanding taxable variable-rate debt, and 6.0% on all planned bond issuances through 2017. Projected coverage does not include the federal subsidy for BABs and QSCBs.

The authority has approximately $22.8 billion of future tax-supported debt outstanding, consisting of $2.1 billion of senior-lien bonds and $20.7 billion of subordinate-lien debt, including $1.1 billion of recovery bonds. It has $1.1 billion of senior-lien variable-rate debt and $2.2 billion of subordinate-lien variable-rate debt representing approximately 15.0% of outstanding debt. Based on the city's current financial plan, the TFA intends to issue $3.2 billion in fiscal 2014, $2.8 billion in fiscal 2015, $2.5 billion in fiscal 2016, and $2.2 billion in fiscal 2017.

Outlook

The stable outlook reflects Standard & Poor's 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, in our view, strong 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 change the rating during the outlook's two-year period.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

Ratings Detail (As Of October 21, 2013)		
New York City Transitional Fin Auth future tax taxable secd sub bnds		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth taxable subord bnds (qual sch const bnds)		
Long Term Rating	AAA/Stable	Affirmed
New York City Transitional Fin Auth future tax secd bnds		
Preliminary Rating	NR(prelim)	Withdrawn
Long Term Rating	AAA/Stable	Affirmed

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