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Summary:

New York City Transitional Finance Authority; Miscellaneous Tax

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Table Of Contents

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Credit Profile		
US$775.0 mil tax-ex bnds ser 2014B-1 due 11/01/2033		
Long Term Rating	AAA/Stable	New
US$350.0 mil tax-ex fixed rate rfdg bnds ser 2014C due 11/01/2030		
Long Term Rating	AAA/Stable	New
US$75.0 mil tax-ex adj rate new money bnds ser 2014B-3 due 02/01/2031		
Long Term Rating	AAA/Stable	New
US$50.0 mil taxable bnds ser 2014B-2 due 11/01/2022		
Long Term Rating	AAA/Stable	New
US$45.7 mil fixed rate bnds rmktd 1/15/2014 ser 2001B due 02/01/2031		
Long Term Rating	AAA/Stable	New
New York City Transitional Fin Auth future tax VRDB s		
Long Term Rating	AAA/NR/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
New York City Transitional Fin Auth future tax secd bnds		
Preliminary	NR(prelim)	
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating, and stable outlook, to New York City Transitional Finance Authority's (TFA) fiscal 2014 subseries B-1 tax-exempt fixed rate bonds, subseries B-2 taxable fixed rate bonds, series B-3 tax-exempt adjustable rate bonds, series C tax-exempt fixed rate refunding bonds, and fiscal 2001 subseries B-3 tax exempt fixed rate bonds.

At the same time, Standard & Poor's affirmed its 'AAA' long-term rating, 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, in our view, 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 and is one of the nation's leading employment centers;
- The resilient nature of the sales and income tax revenue supporting the bonds. Although this revenue stream is

susceptible to economic slowdowns, generally, as evidenced by recent decreases, it has been quick to recover; 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.

The fixed rate bonds are secured by a subordinate lien on tax revenues of the authority and certain accounts held by the trustee. We understand that officials plan to use proceeds of the tax-exempt subseries B-1 and B-3 bonds to finance general city capital expenditures and proceeds of the taxable subseries B-2 bonds for other discrete capital purposes. The 2014 series C bonds will partially refund fiscal 2001 series B adjustable rate bonds, while the balance will be converted to a fixed rate. We understand that the city plans to enter into a standby bond purchase agreement to provide liquidity for the fiscal 2014 subseries B-3 bonds.

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 $23.3 billion. We believe the TFA could issue additional debt while maintaining what we consider strong debt service coverage (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, requiring 3x 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 bonds and notes have been cyclical during recessions. The PIT is the primary statutory revenue source: It accounted for 60% of pledged revenue in fiscal 2013. After decreasing by 24.1% to $6.7 billion in fiscal 2009, PIT revenue began to recover in fiscal 2010, and have continued to grow through fiscal 2013, increasing by $368 million, or 4.8% in fiscal 2012, and by $1.2 billion, or 15.4% in 2013. We understand that the growth in fiscal 2013 collections is partially attributable 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. As a result, fiscal 2014 collections are projected to decrease approximately 9.3% to $8.4 billion, before growing again to $9.1 billion in fiscal 2015, $9.4 billion in fiscal 2016, and $9.8 billion in fiscal 2017, for projected aggregate growth of 6%.

The sales tax is the other leading revenue source: It accounted for approximately 40% or $6.1 billion of pledged revenue in fiscal 2013, a $294 million increase from fiscal 2012 results. Collections are expected to increase to $6.4 billion in fiscal 2014, $6.6 billion in fiscal 2015, $6.6 billion in fiscal 2015, $6.9 billion in fiscal 2016, and $7.1 billion in fiscal 2017 for aggregate growth of 16%. The sales tax is levied on a variety of economic activities including retail, services, utilities, manufacturing, and other sales (construction, wholesale trade, arts, entertainment and recreation, and other sales).

Despite decreases during the recession, revenue performance and MADS coverage have been strong, in our opinion. Fiscal 2013 actual pledged revenue collections of $15.4 billion provide what we consider very strong 6.8x MADS coverage on all current and existing senior and subordinate bond series, conservatively assuming the maximum bond rate on the variable-rate debt, and 7.26% at budgeted rates. Based on actual interest rates paid, fiscal 2013 pledged revenues provided annual DSC of 9.1x. Fiscal 2014 estimates show pledged revenues decreasing to $14.8 billion, primarily due to the personal income spin-up, which still provides projected annual DSC coverage of 8.16x, and MADS coverage of 6.6x and 7.0x based on the maximum bond rate and assumed 5% adjustable rate, respectively, a level we still consider very strong.

With additional planned debt issuance, city officials are projecting DSC to decrease slightly but to remain what we view as strong at 6.5x in fiscal 2017 based on assumed variable interest rates of 5% on tax-exempt variable-rate bonds outstanding, 7% on taxable variable-rate bonds outstanding, and 6% on all planned bond issuances through 2017. Projected coverage does not include the federal subsidy for Build America bonds (BABs) and qualified school construction bonds (QSCBs).

The authority has approximately $23.5 billion of future tax-supported debt outstanding, consisting of $2.0 billion of senior-lien bonds and $21.5 billion of subordinate-lien debt, including $974 million of recovery bonds. It has $1.1 billion of senior-lien variable-rate debt and $2.3 billion of subordinate-lien variable-rate debt representing approximately 14.5% of authority debt outstanding. Based on the city's current financial plan, TFA intends to issue $2.8 billion in fiscal 2014, $2.9 billion in fiscal 2015, $2.5 billion in fiscal 2016, and $2.2 billion in fiscal 2017. Approximately $4.1 billion of the authority's debt outstanding consists of BABs and QSCBs 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. The subsidy payments to the authority were reduced by 8.7% in fiscal 2013, or $2 million, and will be reduced by 7.2% in 2014 unless legislative action is taken. However, the revenues have not been pledged as security for the authority's debt outstanding and have not been factored into any DSC calculations. We believe the TFA will be able to absorb these cuts due to the strong cash flow provided by the pledged revenues.

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 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

Related Criteria

USPF Criteria: Special Tax Bonds, June 13, 2007

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