MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 ratings to $1 billion of NYC Transitional Finance Authority (NY) new money and refunding bonds

Global Credit Research - 15 Mar 2013

$21.6 billion of Future Tax Secured bonds outstanding, outlook is stable

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY, NY
Cities (including Towns, Villages and Townships)
NY

Moody's Rating

ISSUE		RATING
Future Tax Secured Subordinate Bonds, Fiscal 2013 Series F, Subseries F-1		Aa1
Sale Amount	$650,000,000	
Expected Sale Date	03/20/13	
Rating Description	Special Tax: Non-Sales/Non-Transportation	
Future Tax Secured Subordinate Bonds, Fiscal 2013 Series H		Aa1
Sale Amount	$21,000,000	
Expected Sale Date	03/20/13	
Rating Description	Special Tax: Non-Sales/Non-Transportation	
Future Tax Secured Subordinate Bonds, Fiscal 2013 Series G		Aa1
Sale Amount	$229,000,000	
Expected Sale Date	03/20/13	
Rating Description	Special Tax: Non-Sales/Non-Transportation	
Future Tax Secured Subordinate Bonds, Fiscal 2013 Series F, Taxable Subseries F-2 (Qualified School Construction Bonds)		Aa1
Sale Amount	$100,000,000	
Expected Sale Date	03/20/13	
Rating Description	Special Tax: Non-Sales/Non-Transportation	

Moody's Outlook

Opinion

NEW YORK, March 15, 2013 --Moody's Investors Service has assigned Aa1 ratings to $1 billion of New York City Transitional Finance Authority Future Tax Secured Subordinate Revenue Bonds, consisting of $650 million Fiscal 2013 Series F, Subseries F-1; $100 million Taxable Subseries F-2 (Qualified School Construction Bonds), $229 million Fiscal 2013 Series G and $21 million Fiscal 2013 Series H. Proceeds of the Subseries F-1 and F-2 bonds will be used to finance portion of the City of New York's (Aa2/stable) capital plan. Proceeds of the Series F and G bonds will be used to refund outstanding future tax secured bonds for upfront savings. Concurrently, we have also affirmed the Aa1 ratings assigned to the authority's $37 million outstanding New York City Recovery Bonds, Fiscal 2003, Series 2, Subseries 2C, $86.4 million outstanding Subseries 2D, and $107 million outstanding Subseries 3B-2 in conjunction with their conversion from adjustable rate mode to fixed rate mode. Recovery bonds are on parity with the authority's other outstanding subordinate lien bonds. The Fiscal 2013 Series F, G and H bonds are scheduled to price on March 20. The pricing of the bonds converting to fixed rate is scheduled for April 9 and is scheduled to close on April 18; the short-term ratings will be withdrawn from the bonds on that day.

SUMMARY RATING RATIONALE

TFA's senior lien bonds are rated Aaa and its subordinate lien bonds are rated Aa1. The ratings reflect the high debt service coverage provided by the pledge of New York City personal income tax and sales tax revenues, a strong legal structure that insulates TFA from potential city fiscal stress (New York City general obligation bonds rated Aa2 with a stable outlook), the open subordinate lien that permits future leverage of the pledged revenues, and New York State's (rated Aa2 with a stable outlook) ability to repeal the statutes imposing the pledged revenues. The outlook is stable.

STRENGTHS

-- Strong legal and structural insulation from city fiscal stress

-- High debt service coverage provided by a broad stream of pledged revenues, New York City's personal income and sales taxes, and the healthy historical performance of those sources

CHALLENGES

-- The state retains the right to alter or repeal the statutes imposing the taxes pledged to the bonds

-- The cyclicality of the personal income tax, particularly as it relates to New York City's financial services industry, and more recent volatility in the sales tax

-- The indenture's open lien for subordinate bonds, which could reduce coverage, although issuance is subject to an additional bonds test requiring 3 times coverage of maximum annual debt service

DETAILED CREDIT DISCUSSION

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

The TFA was created by the state legislature in 1997 to provide a method of financing New York City's vital capital construction program but outside the constraints of the debt limit imposed on the city by the state constitution (the city's general obligation bonds are rated Aa2 with a stable outlook). TFA's original statutory authorization was $7.5 billion. In 2000, it was increased by $2.0 billion and following the 2001 World Trade Center attacks, that amount was increased to permit $2.5 billion of subordinate "Recovery Bonds"; a portion of the proceeds of those bonds was used as deficit financing to bolster the city's general fund in fiscal 2003. Authorized issuance was increased again by an additional $2.0 billion in 2006, to an aggregate of $13.5 billion (the Recovery Bonds were excluded from that cap) for senior and subordinate lien bonds.

State legislation enacted in July 2009 amended TFA's debt authorization again, lifting the $13.5 billion aggregate cap. New issuance that would result in an amount of outstanding future tax secured bonds greater than $13.5 billion is permitted, but subject to the additional bonds test and to the constraints of the general debt limitation imposed on New York City by the state constitution. The debt limitation restricts city indebtedness to no greater than 10% of the average full value of taxable real estate in the most recent five years. Currently, the authority has $2.3 billion of senior lien bonds outstanding and $19.3 billion of subordinate lien debt (which includes $1.3 billion of Recovery bonds). With that amount outstanding and based on the statutory debt limitation as of January 31, 2013 the city had $22.7 billion of total debt issuing capacity.

The January update to the city's capital plan reflects $2.9 billion, $3.2 billion, $2.7 billion, $2.4 billion and $2.1 billion of TFA future tax secured bond issuance in each of fiscal years 2013 through 2017, respectively.

TFA ALSO AUTHORIZED TO ISSUE BARBS

TFA also has the statutory authority to have outstanding $9.4 billion of building aid revenue bonds (BARBs) backed by state appropriations to the city of building aid to help finance the city's school facilities capital expenditures, additionally supported by the education aid intercept program of the state finance law's section 99-b ($6.2 billion is currently outstanding). The pledged personal income and sales taxes do not secure the building aid bonds, which are rated Aa3 based on the state's appropriation (the State of New York's general obligation bonds are rated Aa2 with a stable outlook).

RATINGS REFLECT STRONG LEGAL FEATURES THAT DEDICATE REVENUES TO TFA

Through statute, the State of New York has dedicated New York City's personal income and sales taxes to the TFA and granted TFA the authority to pledge those revenues as security for debt service payments and for payments under agreements such as interest rate swaps. Pursuant to the indenture, TFA has assigned and pledged its revenues to the bond trustee and created a security interest in them for payment of its bonds, notes or other ancillary contracts.

The pledged taxes are collected by the New York State Department of Taxation and Finance and held by the state comptroller, who makes daily transfers to the trustee (net of refunds and the costs of collection). The trustee makes quarterly set-asides of amounts required for debt service due in the following quarter on the outstanding bonds, as well as TFA's operational costs (with the collection quarters beginning each August, November, February and May). Half of each quarterly set-aside is made on the first day of the first month of each collection quarter and the second half is made on the first day of the second month of each collection quarter. If sufficient amounts for debt service are not on deposit after those two transfers, the trustee continues to set aside funds in the third month, on a daily basis, until the deficiency is cured. Functionally, personal income tax revenues are expected to provide sufficient amounts for debt service; if they do not provide at least 1.5 times coverage of maximum annual debt service (MADS), sales tax revenues are available to make up the difference. Additionally, the TFA's future tax secured bonds issued before November 2006 have a first lien on appropriations of state building aid to the city if necessary to meet debt service requirements.

OPEN LIEN FOR SUBORDINATE BONDS, SUBJECT TO 3 TIMES ADDITIONAL BONDS TEST

The TFA indenture limits senior lien debt to $12 billion outstanding at any time, subject to a $330 million limit on debt service payable in any quarter (as well as the additional bonds test described below). The one-notch rating distinction of the subordinate bonds reflects the indenture's open lien, although subject to a conservative additional bonds test that requires at least 3 times coverage of MADS on outstanding bonds. Additionally, the indenture requires that calculations of MADS reflect variable rate bonds bearing interest at their maximum rate.

TFA currently has $3.8 billion of variable rate demand obligations outstanding, 17.5% of its total outstanding debt, a figure that will fall to 16.4% after the conversion to fixed rate of the bonds involved in the current transaction. Few of TFA's liquidity facilities include a term-out provisions and it is not a party to any interest rate swaps. Since TFA receives the pledged revenues on a gross basis, interest rate risk on the variable rate bonds is absorbed by the city after TFA's debt service set-asides. TFA also has outstanding $269.2 million of index mode floating rate bonds that do not have a put feature.

LEGAL SEPARATION OF TFA FROM THE CITY PROVIDES KEY STRENGTH; CITY AND STATE BOTH RETAIN THE RIGHT TO ALTER PLEDGED REVENUES

A key strength of the rating on the bonds is TFA's insulation from New York City bankruptcy risk. The legislature established TFA as a separate and distinct legal entity from the city. Further, the state did not grant TFA itself the right to file for bankruptcy. While bondholders are protected from bankruptcy, city or state fiscal stress still could pose risks because both the city and the state retain the right to alter the statutory structure that secures TFA's bonds. The city has covenanted not to exercise those rights if debt service coverage were to fall below 1.5 times MADS on outstanding bonds. Since enactment of the TFA, policy actions have both increased and decreased the pledged revenues. Those actions have included the abolition of the city's income tax on commuters, and establishment of various sales tax exemptions.

PLEDGED REVENUES PROVIDE HIGH DEBT SERVICE COVERAGE EVEN THROUGH ECONOMIC DOWNTURNS, ALTHOUGH INCREASED LEVERAGE IS A RISK

The pledged personal income and sales taxes reflect two diverse and historically stable revenue streams that are firmly embedded in city and state tax policy. Debt service coverage remains high, even despite weakness in the pledged revenues during the economic downturn. Demonstrating the sensitivity of the pledged revenues to economic cycles, in fiscal 2009 they declined by 16.5% (a 24.1% decline in personal income taxes and a 2.9% drop in sales taxes). Even with the declines, that year the pledged revenues provided 6.2 times coverage. New York City's economy has recovered well since then and the pledged revenues have rebounded. Total pledged revenues increased by 3.3% in fiscal 2010, 11.9% in fiscal 2011, and by 4.7% in fiscal 2012. Specifically, personal income taxes increased by 2.7%, 11.1% and 4.8% in fiscal years 2010, 2011 and 2012, respectively. Sales taxes grew by 4.1%, 13.2% and 4.5% in each of those same years.

Based on actual fiscal 2012 collections, coverage of aggregate maximum annual debt service before the current issue is 7.3 times, a figure that reflects variable rate bonds bear interest at their maximum rate. The city's January financial plan reflects TFA pledged revenue growth of 5.5%, 2.0%, 5.3% 3.8%and 3.8% in fiscal years 2013, 2014, 2015, 2016 and 2017, respectively. Based on those revenues and currently planned future issuance, coverage remains strong, with annual revenues providing coverage of annual debt service of between 8.9 times and 7.7 times.

OUTLOOK

The rating outlook of the TFA's Future Tax Secured Bonds is stable. Strong legal and structural payment mechanisms help to insulate the bonds from city and state fiscal stress, including short-term liquidity strain. Even amid current economic weakness, coverage of MADS remains strong, although new ability to leverage the pledged revenues could dilute that going forward.

WHAT COULD MAKE THE RATING GO UP

-- A higher additional bonds test or other indenture provision increasing bondholder protections against possible dilution of coverage

WHAT COULD MAKE THE RATING GO DOWN

-- Significant weakening of the pledged revenues that reduces currently high levels of coverage

-- Large additional bond authorizations that materially dilute coverage

The principal methodology used in this rating was US Public Finance Special Tax Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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