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## Summary:

# New York City Transitional Finance Authority; General Obligation; Joint Criteria; Liquidity Facility; Miscellaneous Tax

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

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### Credit Profile

|  |            |     |
|--|------------|-----|
| US\$650.0 mil future tax sec'd subord bnds fiscal 2013 subseries F-1 due 02/01/2039  |            |     |
| <i>Long Term Rating</i>  | AAA/Stable | New |
| US\$229.0 mil future tax sec'd subord bnds fiscal 2013 ser G due 11/01/2031          |            |     |
| <i>Long Term Rating</i>  | AAA/Stable | New |
| US\$100.0 mil taxable subord bnds (qual sch const bnds) subseries F-2 due 02/01/2038 |            |     |
| <i>Long Term Rating</i>  | AAA/Stable | New |
| US\$21.0 mil future tax taxable sec'd subord bnds fiscal 2013 ser H due 11/01/2022   |            |     |
| <i>Long Term Rating</i>  | AAA/Stable | New |

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to New York City Transitional Finance Authority's (TFA) fiscal 2013 series F subseries F-1 and F-2 future tax-secured subordinate-lien bonds, fiscal 2013 series G future tax-secured subordinate-lien bonds, and fiscal 2013 series H 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.

We understand the authority plans to convert \$37 million of its fiscal 2003 subseries 2C, \$86.4 million of its fiscal 2003 subseries 2D, and \$107 million of its fiscal 2003 subseries 3B-2 future tax secured bonds into fixed-rate mode on April 18, 2013. We expect to assign an 'AAA' rating and stable outlook to the bonds on conversion.

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 -- The city 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 requirements.

We understand the authority intends to use series F bond proceeds to finance various capital improvements. Proceeds of the fiscal 2013 series G and H bonds will be used to refund various series of outstanding bonds for debt service savings. We also understand the authority intends to issue the fiscal 2013 subseries F-2 bonds as taxable Qualified School Construction Bonds (QSCBs) pursuant to the Hiring Incentives to Restore Employment Act of 2010 and that it will receive a direct subsidy payment from the U.S. Treasury. The authority has not pledged the subsidy payment as security for the bonds. In addition, it is our understanding the authority will make sufficient annual sinking fund payments, coupled with sinking fund investment earnings, to pay maturing principal on the subseries C-2 bonds on Feb. 1, 2038.

TFA has roughly \$4 billion of outstanding Build America Bonds (BABs) and QSCB debt 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 outstanding debt 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 Jan. 31, 2013, the city and authority's debt-incurring capacity was \$22.7 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 24.7% to \$6.7 billion in fiscal 2009, PIT revenue rebounded in fiscal years 2010 and 2011 because of economic recovery. PIT revenue increased by \$659 million to a total of \$7.6 billion in fiscal 2011 and by another \$368 million to a total of roughly \$8 billion in fiscal 2012. Although revenue projections have moderated somewhat because of lagging compensation in the financial services industry in 2011, officials still expect

steady growth in this revenue stream to \$8.5 billion in fiscal 2013, \$8.5 billion in fiscal 2014, \$9.1 billion in fiscal 2015, \$9.5 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 in fiscal 2012, a \$254 million increase over fiscal 2011 results. Projections have sales tax revenue increasing to \$6.1 billion in fiscal 2013, \$6.4 billion in fiscal 2014, \$6.6 billion in fiscal 2015, \$6.8 billion in fiscal 2016, and \$7.1 billion in fiscal 2017. 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. Combined revenue of \$13.8 billion in fiscal 2012 covered MADS on all senior- and subordinate-lien bonds and recovery bonds by, in our view, a strong 7.5x on a pro forma basis; this assumed floating-rate bonds will bear interest at the maximum rate. We also considered actual fiscal 2012 DSC a strong 9.2x. Fiscal 2013 revenues are expected to increase to \$14.6 billion, which would provide DSC coverage of 8.2x, a level we still consider very strong. With additional planned debt issuance, city officials are projecting DSC to decrease slightly but remain what we view as a strong 6.41x in fiscal 2017. Historical coverage calculations assume the maximum rate on variable-rate debt. Projected coverage does not include the federal subsidy for BABs and QSCBs; projections, however, assume a 5% interest rate on tax-exempt variable-rate debt, a 7% rate on taxable variable-rate debt, and a 6% rate on all planned bond issuances through 2017.

The authority has approximately \$21.6 billion of outstanding future tax-supported debt, consisting of \$2.3 billion of senior-lien bonds and \$19.3 billion of subordinate-lien debt, including \$1.3 billion of recovery bonds. It has \$1.1 billion of senior-lien variable-rate debt and \$2.6 billion of subordinate-lien variable-rate debt. Based on the city's current financial plan, the TFA intends to issue \$1.6 billion in fiscal 2013, \$3.2 billion in fiscal 2014, \$2.7 billion in fiscal 2015, \$2.4 billion in fiscal 2016, and \$2.1 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 March 14, 2013)**

**Ratings Detail (As Of March 14, 2013) (cont.)**

|   |                  |          |
|---|------------------|----------|
| New York City Transitional Fin Auth Future Tax Secured (adj Rate)   |                  |          |
| <i>Long Term Rating</i>   | AAA/NR/Stable    | Affirmed |
| New York City Transitional Fin Auth adj rate fiscal 2003 ser 3 subseries 3G   |                  |          |
| <i>Long Term Rating</i>   | AAA/A-1+/Stable  | Affirmed |
| New York City Transitional Fin Auth adj rate fiscal 2003 ser 3 subser 3H  |                  |          |
| <i>Long Term Rating</i>   | AAA/A-1+/Stable  | Affirmed |
| New York City Transitional Fin Auth adj rate recov bnds fiscal 2003 ser 3 subser 3  |                  |          |
| <i>Long Term Rating</i>   | AAA/NR/Stable    | Affirmed |
| New York City Transitional Fin Auth adj rate recov bnds fiscal 2003 ser 3 subser 3C   |                  |          |
| <i>Long Term Rating</i>   | AAA/A-2/Stable   | Affirmed |
| New York City Transitional Fin Auth adj rate recov bnds fiscal 2003 ser 3 subser 3D   |                  |          |
| <i>Long Term Rating</i>   | AAA/A-2/Stable   | Affirmed |
| New York City Transitional Fin Auth future tax  |                  |          |
| <i>Long Term Rating</i>   | AAA/Stable       | Affirmed |
| <i>Unenhanced Rating</i>  | AAA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth future tax secd bnds fiscal 1998 ser C  |                  |          |
| <i>Long Term Rating</i>   | AAA/A-1          | Affirmed |
| <i>Unenhanced Rating</i>  | AAA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth future tax secd bnds fiscal 1998 ser C  |                  |          |
| <i>Unenhanced Rating</i>  | AAA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth future tax secd subordinate   |                  |          |
| <i>Long Term Rating</i>   | AAA/Stable       | Affirmed |
| New York City Transitional Fin Auth future tax secrd VRDO ser 2003A-2 & 2003A-3   |                  |          |
| <i>Long Term Rating</i>   | AAA/A-1          | Affirmed |
| New York City Transitional Fin Auth future tax secrd VRDO ser 2003A-2 & 2003A-3 dtd 07/02/2002 RMKT dtd 11/01/2011 due 11/01/2029 |                  |          |
| <i>Long Term Rating</i>   | AAA/A-1          | Affirmed |
| New York City Transitional Fin Auth future tax secured bnds fiscal 2010 subseries G-5 subord bnds                                 |                  |          |
| <i>Long Term Rating</i>   | AAA/A-1/Stable   | Affirmed |
| New York City Transitional Fin Auth future tax secured bnds (adj rate bnds)   |                  |          |
| <i>Long Term Rating</i>   | AAA/A-2/Stable   | Affirmed |
| New York City Transitional Fin Auth future tax VRDB s   |                  |          |
| <i>Long Term Rating</i>   | AAA/NR/Stable    | Affirmed |
| <i>Unenhanced Rating</i>  | AAA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth future tax VRDB scd ser 99A   |                  |          |
| <i>Long Term Rating</i>   | AAA/A-1+/Stable  | Affirmed |
| New York City Transitional Fin Auth future tax VRDB secd bnds fiscal 2001 ser C tax exempt adj rate bnds                          |                  |          |
| <i>Long Term Rating</i>   | AAA/NR/Stable    | Affirmed |
| New York City Transitional Fin Auth future tax VRDB secd bnds fiscal 2003 ser C sub-ser C2 C4                                     |                  |          |
| <i>Long Term Rating</i>   | AAA/A-1+/Stable  | Affirmed |

**Ratings Detail (As Of March 14, 2013) (cont.)**

|  |                  |          |
|--|------------------|----------|
| New York City Transitional Fin Auth future tax VRDB secd bnds fiscal 2003 ser C sub-ser C5       |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1/Stable   | Affirmed |
| New York City Transitional Fin Auth future tax (AGM) (SEC MKT)                                   |                  |          |
| <i>Unenhanced Rating</i>   | AAA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth recov adj rate fiscal 2003 ser 3 subser 3F                   |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1+/Stable  | Affirmed |
| New York City Transitional Fin Auth recov bnds   |                  |          |
| <i>Long Term Rating</i>  | AAA/Stable       | Affirmed |
| New York City Transitional Fin Auth recov bnds ser subser 1A                                     |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1+/Stable  | Affirmed |
| New York City Transitional Fin Auth recov bnds ser subser 2A                                     |                  |          |
| <i>Long Term Rating</i>  | AAA/A-2/Stable   | Affirmed |
| New York City Transitional Fin Auth recov bnds ser subser 2B                                     |                  |          |
| <i>Long Term Rating</i>  | AAA/A-2/Stable   | Affirmed |
| New York City Transitional Fin Auth recov bnds ser subser 2C & 2D                                |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1/Stable   | Affirmed |
| New York City Transitional Fin Auth recov bnds ser subser 2E                                     |                  |          |
| <i>Long Term Rating</i>  | AAA/A-2/Stable   | Affirmed |
| New York City Transitional Fin Auth recov VRDB ser subser 2F                                     |                  |          |
| <i>Long Term Rating</i>  | AAA/NR/Stable    | Affirmed |
| New York City Transitional Fin Auth tax secured (MBIA) (National)                                |                  |          |
| <i>Unenhanced Rating</i>   | AAA(SPUR)/Stable | Affirmed |
| New York City Transitional Fin Auth tax-ex adj rate future tax sec sub bnds                      |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1/Stable   | Affirmed |
| New York City Transitional Fin Auth tax-ex adj rate future tax sec sub bnds                      |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1/Stable   | Affirmed |
| New York City Transitional Fin Auth Future Tax Secured (liq)                                     |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1/Stable   | Affirmed |
| New York City Transitional Fin Auth Fut Tax Sec Bnds   |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1+/Stable  | Affirmed |
| New York City Transitional Fin Auth New York City recovery bnds fiscal 2003 ser A ser subser 1-E |                  |          |
| <i>Long Term Rating</i>  | AAA/NR/Stable    | Affirmed |
| New York City Transitional Fin Auth New York City recov bnds fiscal 2003 ser A ser subser 1-C    |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1/Stable   | Affirmed |
| New York City Transitional Fin Auth VRDB fiscal 2003 ser A 1-D                                   |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1+/Stable  | Affirmed |
| New York City Transitional Fin Auth VRDO ser 2003A-4   |                  |          |
| <i>Long Term Rating</i>  | AAA/A-1+/Stable  | Affirmed |

**New York City Transitional Fin Auth future tax secd bnds**

| <b>Ratings Detail (As Of March 14, 2013) (cont.)</b>          |                  |          |
|---|------------------|----------|
| <i>Unenhanced Rating</i>                                      | AAA(SPUR)/Stable | Affirmed |
| <i>Long Term Rating</i>                                       | AAA/Stable       | Affirmed |
| <b>New York City Transitional Fin Auth future tax VRDB</b>    |                  |          |
| <i>Long Term Rating</i>                                       | AAA/A-2/Stable   | Affirmed |
| <b>New York City Transitional Fin Auth Future Tax</b>         |                  |          |
| <i>Unenhanced Rating</i>                                      | AAA(SPUR)/Stable | Affirmed |
| <b>New York City Transitional Fin Auth Future Tax Secured</b> |                  |          |
| <i>Unenhanced Rating</i>                                      | AAA(SPUR)/Stable | Affirmed |
| <b>New York City Transitional Fin Auth GO</b>                 |                  |          |
| <i>Unenhanced Rating</i>                                      | AAA(SPUR)/Stable | Affirmed |
| Many issues are enhanced by bond insurance.                   |                  |          |

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