Moody's

Rating Action: **Moody's assigns Aa1 to NYC TFA, NY's Future Tax Secured Subordinate Bonds, Fiscal 2024 Series F, Subseries F-1 & F-2; outlook stable**

02 Feb 2024

New York, February 02, 2024 -- Moody's Investors Service has assigned Aa1 ratings to the New York City Transitional Finance Authority, NY's (TFA) $1 billion Future Tax Secured Subordinate Bonds Fiscal 2024 Series F, Subseries F-1 (Tax-Exempt) and $250 million Future Tax Secured Subordinate Bonds Fiscal 2024 Series F, Subseries F-2 (Taxable) The Subseries F-1 bonds are scheduled to price via negotiated sale February 6 and 7 and the Subseries F-2 bonds are scheduled to price via competitive sale February 7. Moody's also maintains Aa1 ratings on $47.3 billion of outstanding subordinate lien future tax secured bonds. The outlook is stable.

RATINGS RATIONALE

The Aa1 subordinate lien rating reflects strong debt service coverage provided by the pledge of City of New York personal income tax and sales tax revenue; a strong legal structure that insulates TFA from potential city fiscal stress; the open subordinate lien; and New York State's ability to repeal the statutes imposing the pledged revenues.

RATING OUTLOOK

The rating outlook is stable. Strong legal and structural payment mechanisms help to insulate the bonds from potential city and state fiscal stress, including short-term liquidity strain. Even through periods of economic weakness, coverage of maximum annual debt service (MADS) remains strong, and while the TFA credit will continue to be used to finance New York City capital needs, we expect strong coverage to be maintained.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

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

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

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

- Large additional bond issuances that materially dilute coverage

LEGAL SECURITY

A key strength of TFA is its insulation from New York City bankruptcy risk. The state 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 is restricted from altering the structure as related to personal income taxes if debt service coverage falls below 1.5 times MADS on outstanding bonds. Since the creation of 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.

TFA's original statutory authorization of $7.5 billion has been increased several times to $13.5 billion (plus $2.5 billion o recovery bonds) for senior and subordinate lien bonds. In 2009, legislation was enacted that allows TFA to exceed the $13.5 billion cap but counts debt over that amount, along with city general obligation debt, against the city's overall deb limit. As of December 31, 2023 the city's and TFA's combined debt incurring margin was $32.4 billion. The governor's fiscal 2025 executive budget includes a proposal to increase TFA's bonding capacity and the mayor is separately seeking legislation to increase TFA's borrowing capacity

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); there are no senior bonds currently outstanding. The subordinate lien is open, subject to a conservative additional bonds test that requires tax revenues (defined as total sales tax and personal income tax revenues) for the prior fiscal year to be at least 3 times the sum of $1.32 billion (covenanted MADS for senior bonds) and annual debt service on outstanding subordinate bonds. The annual debt service calculation assumes the maximum interest rate for any variable rate bonds outstanding.

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 and TFA's operational costs in the following quarter (with the collection quarters beginning each August, November, February and May). Half of each quarterly set-aside is made beginning on the first day of the first month of each collection quarter and the second half is made beginning 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 months, the trustee continues to set aside funds in the third month, daily, until debt service is fully funded. 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 MADS, sales tax revenues are available to pay debt service.

Based on actual fiscal 2023 revenue, coverage of maximum annual debt service (MADS) was a very strong 6.9x. Based on the forecast of fiscal 2024 pledged revenue MADS coverage would decrease slightly to 6.7x based on a 2.6% decline in pledged revenue. Not accounting for new issuance, MADS coverage is expected to increase to more than 7x in fiscal 2025 through fiscal 2028.

USE OF PROCEEDS

Proceeds of the bonds will be used to help finance New York City's capital plan.

PROFILE

TFA was created by the state legislature in 1997 as a public benefit corporation of the state 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.

METHODOLOGY

The principal methodology used in these ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://ratings.moodys.com/rmc-documents/70024. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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