FITCH RATES NEW YORK CITY TFA'S $1.4 BILLION BUILDING AID REVS 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-12 October 2018: Fitch Ratings has assigned a 'AA' rating to the following New York City Transitional Finance Authority (TFA) building aid revenue bonds, fiscal 2019 series S-3:

--$1,192,745,000 subseries S-3A tax-exempt bonds;
--$199,570,000 subseries S-3B taxable bonds.

The bonds are scheduled to price the week of Oct. 15, with the tax-exempt bonds offered by negotiated sale and the taxable bonds offered by competitive sale.

The Rating Outlook is Stable.

The issuance of the fiscal 2019 series S-3 bonds does not affect the 'AAA' rating on the TFA's future tax secured bonds.

SECURITY

The bonds are payable from annual New York State appropriations of building aid to New York City, assigned and paid to TFA.

KEY RATING DRIVERS

LINK TO NEW YORK STATE CREDIT: School building aid that secures the bonds requires annual state legislative appropriation. Therefore, the rating is linked to the State of New York's credit quality (AA+/Stable).

STRONG STATE SUPPORT OF EDUCATION: Appropriation risk is minimal given the constitutional mandate for, and strong history of, state support for education.

STRUCTURAL PROTECTIONS STRENGTHEN CREDIT: The additional bonds test (ABT) only considers aid associated with projects that have already been approved even though aid related to additional projects that will be approved by the state in the future is also pledged to the bonds. Monies for debt service are retained in the city fiscal year prior to the year in which the debt service is due.

RATING SENSITIVITIES

STATE'S GENERAL CREDIT QUALITY: The rating on New York City TFA building aid revenue bonds is sensitive to changes in New York State's 'AA+' IDR, to which it is linked.

MATERIAL CHANGE TO STATE EDUCATION FUNDING: The rating is also sensitive to any future change in New York State's funding of school building aid that materially weakens the revenues payable to building aid revenue bonds.

CREDIT PROFILE

Building aid revenue bonds, which are rated one notch below New York State's 'AA+' IDR, are payable from annual state appropriations of building aid. State building aid assists local school districts across the state with the cost of constructing and improving elementary and secondary education facilities. Appropriation risk is minimal given the constitutional mandate for, and strong history of, state support for education. Moreover, the ABT only considers aid associated with projects already approved by the State of New York, even though aid related to additional projects that will be approved by the state in the future is also pledged to the bonds.

BONDS SUPPORTED BY APPROVED AND FUTURE BUILDING AID

In the 2006 state legislative session, the New York City TFA was authorized to issue an amount up to $9.4 billion outstanding for education; almost $8.3 billion is currently outstanding prior to the current sale. As permitted by the legislation, the city assigned all of its state building aid to the TFA to secure the bonds.

State building aid, which is earned on an individual project basis, consists of confirmed building aid and incremental building aid. Confirmed building aid refers to aid payable for projects already approved by the state. Such aid is subject to annual state appropriation but is not subject to any additional statutory or administrative conditions or approvals. The state has covenanted that the calculation of reimbursable costs for a project will not change once the project is approved. The level of reimbursement can change over time pursuant to a statewide formula calculated every year; however, this ratio has shifted gradually over time. Incremental building aid refers to state building aid to be received for projects approved by the state in the future.

Both confirmed and incremental building aid are the property of the TFA and are pledged to the bonds. However, the ABT considers only confirmed building aid. In order for additional bonds to be issued, confirmed building aid payable in the fiscal year preceding each year in which bonds are scheduled to be outstanding must be at least 1x debt service in that year. Since state building aid for a given project is provided over 30 years, debt service coverage by confirmed building aid drops from about 2.2x in fiscal 2019 to 1.07x in fiscal 2036. Fitch expects that the incremental building aid generated by the city's ongoing education capital program will result in substantially higher actual coverage in the out years. The base reimbursement rate for education projects in the city is projected at just under 45% in fiscal 2019, and the TFA receives all building aid regardless of whether the project is financed with TFA building aid revenue bonds or through a different financing mechanism.

State building aid revenues are retained for debt service each year when the amount of building aid outstanding before the end of the city's fiscal year equals 110% of the debt service payable on the building aid revenue bonds in the following city fiscal year. Although the state's fiscal year runs from April-March, the state budgets education aid, which includes building aid, based on the city's fiscal/school year (July-June). The retention mechanism is likely to trap building aid in the March through June period for debt service payments in the following July and January. Building aid that is not required to be retained flows to the city. Although in the last recession there were declines in education aid paid by the state to the city as well as delays in the timing of education aid payments, building aid continued to increase.

SUBORDINATION TO PRE-2007 TFA FUTURE TAX SECURED BONDS

Pursuant to the TFA indenture, since building aid is TFA revenue it must be available first to TFA future tax secured bonds issued prior to the first issuance of building aid revenue bonds in fiscal 2007. Given the very strong coverage that the pledged personal income and sales tax revenues provide for future tax secured bonds, it is very unlikely that building aid would ever be needed for this purpose. Only $604 million in TFA future tax secured debt remains outstanding from before the first issuance of building aid revenue bonds. TFA future tax secured bonds sold after the date of the initial issuance of the building aid bonds, which currently totals $37.5 billion, have no claim on building aid.

In addition to previously outstanding TFA future tax secured bonds, the payment of building aid is also subject and subordinate to certain other limited prior statutory and state constitutional claims on education aid, of which building aid is a part. Fitch does not believe that these will impair the ability to pay debt service. Holders of the TFA building aid revenue bonds benefit from statutory covenants in the original TFA Act prohibiting action that would impair bondholders and the bankruptcy-remote nature of the issuer. However, since the pledged revenue stream requires annual state appropriation, the bondholders do not enjoy the same insulation from government operations that is a key factor in the 'AAA' rating of the TFA future tax-secured bonds.

CREDIT QUALITY OF NEW YORK STATE

New York State's 'AA+' IDR reflects its considerable economic resources, solid economic performance and strong revenue growth prospects, low liability burden, very strong ability to control the budget, and responsive budget management. The state is in a materially improved position to address future economic and revenue cyclicality relative to past experience, in Fitch's view, due to budget management improvements.

For more information on the state's general credit, see 'Fitch Affirms New York State's 'AA+' IDR and Related Bond Ratings; Outlook Stable' (July 9, 2018), available at 'www.fitchratings.com'.

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Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
https://www.fitchratings.com/site/re/10024656