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# Rating Action: Moody's assigns Aa1 ratings to NYC TFA Future Tax Secured Subordinate Bonds Fiscal 2019 Series B; outlook stable

**28 Aug 2018**

New York, August 28, 2018 -- Moody's Investors Service has assigned Aa1 ratings to the New York City Transitional Finance Authority's (TFA) Future Tax Secured Subordinate Bonds, Fiscal 2019 Series B, consisting of $750 million Subseries B-1, $186.4 million Subseries B-2, and $313.6 million Subseries B-3. We maintain Aa1 ratings on Future Tax Secured Subordinate Bonds, Fiscal 1999 Series A, Subseries A-2 on Future Tax Secured Subordinate Bonds, Fiscal 2007 Series A, Subseries A-3 in conjunction with their conversion from adjustable rate mode and reoffering as fixed rate bonds (certain maturities of Series 1999, Subseries A-2 are already outstanding as fixed rate bonds). The bonds are expected to price September 6. The outlook is stable.

RATINGS RATIONALE

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

RATING OUTLOOK

The rating outlook for 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 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

- For the subordinate lien, a higher additional bonds test or other indenture provision increasing bondholder protections against possible dilution of coverage

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Significant weakening of the pledged revenues 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 has covenanted not to exercise those rights related to personal income taxes if debt service coverage would fall 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 "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 debt limit. As of July 31, 2018, the city had $35.8 billion of debt 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). The subordinate lien is open, subject to a conservative additional bonds test that requires at least 3 times the sum of $12 billion (covenanted MADS for senior bonds) and MADS on outstanding subordinate bonds. Additionally, the indenture requires that calculations of MADS reflect variable rate bonds bearing interest at their maximum rate.

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 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, 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 MADS, sales tax revenues are available to pay debt service. Additionally, 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.

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 July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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