S&P Global Ratings

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New York City Transitional Finance Authority; Non-School State Programs

Primary Credit Analyst:
Rahul Jain, New York + 1 (212) 438 1202; rahul.jain@spglobal.com

Secondary Contact:
Nora G Wittstruck, New York (1) 212-438-8589; nora.wittstruck@spglobal.com

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Credit Profile		
US$1192.745 mil bldg aid rev bnds ser S-3A due 07/15/2038		
Long Term Rating	AA/Stable	New
US$199.57 mil bldg aid rev bnds ser SERIE S-3B due 07/15/2023		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' rating to New York City Transitional Finance Authority's (TFA) $1,392,315,000 building aid revenue bonds (BARBs), consisting of the $1,192,745,000 fiscal 2019 series S-3A tax-exempt bonds, and the $199,570,000 fiscal 2019 series S-3B taxable bonds. At the same time, S&P Global Ratings affirmed its 'AA' rating on the authority's almost $8.3 billion of BARBs parity debt outstanding. The outlook is stable.

The rating reflects what we view as:

- Strong bond provisions, established under statute and indenture, directing the flow of building aid directly to the trustee for the benefit of bondholders and retained in advance of debt service due;
- The stability of building aid flowing to the TFA, along with the state's steady commitment to fund this program over time even in difficult budget periods;
- Strong debt service coverage (DSC) from building aid confirmed on previously approved projects;
- The capture of building aid in the fiscal year before the debt service payment requirement; and
- New York State's constitutional and statutory commitment to fund education.

The 2019 series S-3A and 3B bond proceeds, along with other money, will be used to refund a portion of the authority's existing debt for present value savings.

The bonds are secured by New York State building aid for educational purposes on a direct payment basis and retained in advance of debt service payment and, in the event of a default, are further secured by an intercept of state education aid under section 99-b of state law.

Outlook

The stable outlook reflects our stable outlook on New York State as well as our understanding that state building aid has been, and will continue to be, funded on a consistent basis over time. In our opinion, the bond structure established to divert building aid revenue to fund debt service is strong. Although existing building aid pledged to the bonds provides solid DSC, the significant capital program for New York City schools should, in our opinion, ensure a steady flow of additional building aid to TFA. If building aid was not appropriated or leverage accelerated and building aid did not increase, the rating could be pressured. If we were to raise the rating on New York State's general obligation bonds, we could raise the rating on the TFA's BARBs.

Structure

All state building aid payable to the city secures the building aid revenue bonds on a direct payment basis and is retained in advance of debt service payment, plus in the event of default, an intercept of state aid to New York City for education available under section 99-b of state law. The School Financing Act approved by the New York State Legislature in 2006 authorized up to $9.4 billion BARBs, notes, or other obligations outstanding. The TFA currently has approximately $8.3 billion of BARBs outstanding. The act authorizes New York City to assign all state building aid received under Section 3602.6 of the state education law to the TFA, with funds paid directly to a trustee from the state comptroller for payment on the bonds.

State education building aid pledged to the payment of the BARBs, and income and sales tax revenue pledged to the TFA tax-secured bonds, are deposited into a common collection account, in which there is a tax revenue subaccount, receiving tax revenues, and a building aid subaccount, receiving state building aid.

State education building aid in the building aid subaccount is used first to pay senior pre-2007 S-1 TFA tax-secured debt to the extent there are shortfalls in pledged income and sales tax revenues; second to pay authority operating expenses allocable to the pre-2007 S-1 debt to the extent that tax revenues are insufficient; third to pay junior-lien pre-2007 S-1 TFA tax-secured debt to the extent there are shortfalls in pledged income and sales tax revenues; and fourth to pay the TFA BARBs, including the series 2019 S-3A and S-3B and parity debt. The remaining revenues are released to New York City free of any lien by at least the last day of each month. State building aid is retained in the school bond account that pays debt service once the amount of state building aid remaining to be received within the fiscal year equals 110% of the amount of school bond debt service payable in the following fiscal year.

Coverage Considerations

The existing TFA indenture for future tax-secured bonds was amended to establish a building aid subaccount where revenue is segregated to fund debt service for the BARBs. Because the existing TFA indenture was used, building aid is pledged on a basis subordinate to all TFA future tax-supported bonds secured by city income and sales taxes that were outstanding (senior, subordinate, and recovery bonds), up to and including the TFA's series 2007 S-1 building aid bond issue, as well as subordinate to operating costs of the TFA to the extent not otherwise paid by tax revenues. Building aid is not available to pay debt service on TFA future tax-secured bonds issued after the series 2007 S-1 bonds. Due to the strong coverage of TFA future tax-secured debt by pledged tax revenue without regard to building aid, and the quarterly retention features of the existing TFA future tax-secured revenue bond structure (the current rating is 'AAA' based on the security of city income and sales taxes), we do not consider this a material credit consideration. TFA future tax-secured income tax and sales tax revenue in fiscal 2017, the latest audited fiscal year, covered annual TFA future tax-secured debt service 8.82x, and has maintained coverage levels of at least 8.62x in the past five fiscal years. However, we anticipate that coverage levels will decline over the next few years, but will remain above 5.0x.

In the event of a failure to pay debt service on BARBs, the state comptroller may use state education aid due to the city to pay debt service on BARBs. The pledge of building aid to the building aid bonds is subordinate to New York Municipal Bond Bank Agency's prior claims bonds. Competing claims in such event for state education aid include New York City educational construction fund bonds to the extent needed to restore the debt service reserve, and defaulted New York City GO or TFA bonds issued for school purposes. Total state education aid to New York City is estimated to be $10.7 billion in fiscal 2018. A memorandum of understanding with the state comptroller prioritizes other state aid first--other than state building aid--for the competing claims bonds. Assuming bond defaults on all other competing claims bonds, which we view as highly unlikely, combined education aid in fiscal 2017 of $10.3 billion covered combined annual debt service on contingent claim bonds, plus estimated new maximum annual debt service (MADS) on BARBs and bank bond agency MADS, by 3.79x, which we consider strong.

Confirmed building aid (which is building aid payable with respect to existing projects that have been approved by the State Education department) to New York City for fiscal 2019 covers estimated BARB MADS in 2023 of $650.7 million at 1.76x, which we consider strong. Confirmed building aid in fiscal 2019 is $1.146 billion, in line with fiscal 2018 amounts. Confirmed building aid assigned to TFA must cover debt service on debt outstanding and proposed debt by 1x. Given the city's significant capital program for education-related projects that will receive building aid reimbursement in the future, with the current five-year plan covering 2015-2019 totaling about $16.5 billion, the actual flow of state building aid assigned to TFA on an annual basis will likely provide a significant margin of DSC, in our view.

Ratings Detail (As Of October 12, 2018)		
New York City Transitional Finance Authority bldg aid rev bnds fiscal (Taxable) ser 2018 S-4B due 07/15/2022		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Finance Authority bldg aid rev bnds fiscal (Tax-exempt) ser 2018 S-4A due 07/15/2037		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Finance Authority bldg aid rev bnds ser 2009 S-1 dtd 10/07/2008 due 07/15/2010-2025 2028 2031 2038		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City Transitional Finance Authority bldg aid rev bnds ser 2018 S-1 due 07/15/2036		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Finance Authority bldg aid rev bnds ser 2018 S-2 due 07/15/2036		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Finance Authority bldg aid rev bnds fiscal (Tax Exempt) ser 2018 S-3 due 07/15/2047		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Finance Authority bldg aid rev fiscal 2019 taxable bnds ser 2019 S-2B due 07/15/2025		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Finance Authority bldg aid rev fiscal 2019 tax exempt bnds ser 2019 S-1 due 07/15/2047		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Finance Authority bldg aid rev fiscal 2019 tax exempt bnds ser 2019 S-2A due 07/15/2038		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth bldg aid		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of October 12, 2018) (cont.)		
New York City Transitional Fin Auth bldg aid rev bnds ser 2016 S-1 due 07/15/2045		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth bldg aid (ASSURED GTY) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
New York City Transitional Fin Auth		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth APPROP		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth APPROP		
Long Term Rating	AA/Stable	Affirmed
New York City Transitional Fin Auth (BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.