MOODY'S

Rating Action: Moody's assigns Aa1 to NYC TFA's (NY) Future Tax Secured Subordinate Bonds, Fiscal 2023 Series D, Subseries D-1, D-2 & D-3; outlook stable

21 Oct 2022

New York, October 21, 2022 -- Moody's Investors Service has assigned Aa1 ratings to the New York City Transitional Finance Authority's (NY) (TFA) $950 million Future Tax Secured Subordinate Bonds, Fiscal 2023 Series D, Subseries D-1 (Tax-Exempt); $210.4 million Future Tax Secured Subordinate Bonds, Fiscal 2023 Series D, Subseries D-2 (Taxable); and $139.6 million Future Tax Secured Subordinate Bonds, Fiscal 2023 Series D, Subseries D-3 (Taxable). Moody's has also assigned a Aa1 rating to TFA's $70.9 million Future Tax Secured Subordinate Bonds Fiscal 1999 Subseries A-1 in conjunction with their reoffering and conversion to subordinate lien fixed rate bonds. Moody's also maintains Aaa ratings on $175 million of outstanding TFA senior Future Tax Secured bonds and Aa1 ratings on $44 billion of outstanding subordinate bonds. Following the reoffering and conversion of the Fiscal 1999 Subseries A-1 bonds, there will be $100 million of senior bonds outstanding. The outlook is stable.

RATINGS RATIONALE

The Aa1 ratings reflect strong debt service coverage provided by the pledge of City of New York 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 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 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 possible 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 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 of 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. Based on the debt limit and current debt-funded capital spending plans the city's debt incurring margin will decline over the next four fiscal years absent changes in capital plans or other ways to finance them, or increases in property values. The city sought state legislation to increase TFA's borrowing capacity by $19 billion. Although legislation authorizing additional capacity was not enacted, the city intends to seek additional TFA borrowing capacity in the future. As of September 30, 2022 the city's and TFA's combined debt incurring margin was $39.7 billion.

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 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. Additionally, the indenture requires that calculations of annual debt service 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.

Based on actual fiscal 2022 revenue, coverage of aggregate senior and subordinate maximum annual debt service (MADS) was a very strong 7.1x. Using forecast fiscal 2023 revenue, coverage of MADS on outstanding bonds is forecast to decrease to 6.7x based on an 8.3% decrease in personal income tax and much slower 0.7% growth in sales taxes.

USE OF PROCEEDS

Proceeds of the Fiscal 2023 Series D bonds will be used to help finance New York City's capital plan. The Fiscal 1999 Subseries A-1 bonds will convert outstanding senior variable rate demand bonds to subordinate fixed rate bonds.

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/api/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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