RatingsDirect®

Summary:

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

Primary Credit Analyst:
Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

Secondary Contact:
Ladunni M Okolo, Dallas + 1 (212) 438 1208; ladunni.okolo@spglobal.com

Table Of Contents

Summary:

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

Credit Profile		
US$557.285 mil bldg aid rev bnds tax - exempt ser 2023 S-1A due 07/15/2042		
Long Term Rating	AA/Stable	New
US$71.23 mil bldg aid rev bnds taxable ser 2023 S-1B due 07/15/2026		
Long Term Rating	AA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to the New York City Transitional Finance Authority's (TFA) approximately $628.515 million building aid revenue bonds (BARBs) fiscal 2023, series S-1 consisting of approximately $557.3 million tax-exempt subseries S-1A and $71.2 million taxable subseries S-1B. The outlook is stable.

The fiscal 2023 series S-1 bonds are being issued as multimodal bonds, but initially in fixed-rate mode.

Securing debt service on the bonds is building aid allocated to New York City for educational purposes, subject to appropriation by New York State. Additional security is provided by an intercept of state education aid under Section 99-b of state law. The fiscal 2023 series S-1 bond proceeds will refund BARBs outstanding to lower overall debt service requirements. The TFA has about $8.2 billion of BARBs outstanding (not including the fiscal 2023 series S-1 bonds or the redemption of the refunded bonds).

Credit overview

The state's constitutional and statutory commitment to fund education provides strong incentive for the state to continue appropriating building aid to cover debt service on the BARBs. The state has demonstrated this commitment by appropriating building aid to New York City through various economic and budget cycles, leading to stability in building aid received by the TFA. Furthermore, we view the bond provisions, established under statute and the indenture, that direct the state comptroller to transfer building aid directly to the trustee for the benefit of bondholders and retained in advance of the debt service payment due date as further evidence of the state's support of the program.

Environmental, social, and governance

The environmental, social, and governance risks for the fiscal 2023 series S-1 bonds reflect those of the State of New York, given the state's appropriation of building aid that secures the bonds.

For more information on New York State, see our report published June 28, 2022, on RatingsDirect.

Stable Outlook

The stable outlook reflects that on the New York State rating, as well as our expectation that state building aid has been, and will continue to be, funded consistently.

Downside scenario

In our opinion, the bond structure established to divert building aid revenue to fund debt service is strong. If the state does not appropriate building aid or if leverage is accelerated without a corresponding increase in building aid, the rating could come under pressure.

Upside scenario

Conversely, if we were to raise the New York State general obligation rating, we could raise the rating on the TFA's BARBs.

Credit Opinion

Structure

The School Financing Act, approved by the New York State Legislature in 2006, 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 directed to a trustee for debt service payment. Furthermore, in the event of default, state aid to New York City for education available under Section 99-b of state law is intercepted for payment on the bonds. The School Financing Act authorized TFA to have outstanding as much as $9.4 billion BARBs, notes, or other obligations, of which approximately $8.2 billion is outstanding not considering the fiscal 2023 series S-1 bonds or the redemption of the refunded 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. 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. Building aid is pledged to the following prior to the BARBs:

- TFA future tax-supported bonds secured by city income and sales taxes that were issued (senior, subordinate, and recovery bonds), up to and including the TFA's series 2007 S-1 building aid bond issue (of which $75.4 million is outstanding), after which building aid is not available to pay debt service on TFA future tax-supported bonds; and
- TFA operating costs to the extent not otherwise paid by tax revenue.

Given 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, we do not consider this a material credit consideration. The TFA future tax-secured income and sales tax bonds (senior and subordinate) are rated 'AAA'. For more information, see our report published June 24, 2022.

Following satisfaction of the flow of funds and retention of building aid beginning no later than when revenue available to pay debt service due in the following fiscal year is 110% of the next fiscal year's requirements, the remaining revenue is released to New York City as soon as practicable but no later than the last day of each month.

Coverage considerations

Confirmed building aid (which is building aid payable with respect to existing projects approved by the State Education department) to New York City for fiscal 2023 is $1.33 billion on a projected basis. The estimated BARB maximum annual debt service following issuance of the fiscal 2023 series S-1 bonds is in 2028 (on a retention basis) and equals $675.1 million. Confirmed building aid received in that year provides 1.81x maximum annual debt service coverage, which we consider strong and well above the requirement that debt service coverage on existing and proposed bonds equal 1x. In our view, 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 2020 through 2024 totaling about $20.6 billion, the actual receipt of state building aid assigned to TFA on an annual basis will likely provide a significant margin of debt service coverage.

In the event of a failure by the trustee to pay debt service on BARBs with building aid, the state comptroller may use all state education aid allocated to the city. Projected total state education aid to New York City is about $12.2 billion in fiscal 2022. Despite this intercept, there are competing claims on state education aid including:

- New York City general obligation or TFA future tax-secured bonds considered in default and issued for school purposes,
- Bonds issued by the New York Municipal Bond Bank Agency to satisfy prior claims of New York City for amounts owed under the education law, and
- Restoration of the debt service reserve for New York City educational construction fund bonds.

A memorandum of understanding with the state comptroller prioritizes other state aid--other than state building aid--for the competing claims. Projected education aid for fiscal 2022 covers debt service on all competing claims and the estimated maximum annual debt service on BARBs following issuance of the fiscal 2023 series S-1 bonds by just over 4x, which we consider strong. We view the requirement of education aid to cover all competing claims as extremely unlikely other than as an illustrative stress scenario, but indicative of the flexibility to ensure payment on the BARBs.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022