FitchRatings

16 AUG 2024

Fitch Rates New York City, NY's $1.8B Fiscal 2025 Ser C GO Bonds 'AA'; Outlook Stable

Fitch Ratings - New York - 16 Aug 2024: Fitch Ratings has assigned a 'AA' rating to the following city of New York, NY general obligation (GO) bonds:

--$1,500,000,000 fiscal 2025 (tax-exempt), subseries C-1;

--$300,000,000 fiscal 2025 (taxable), subseries C-2.

The subseries C-1 bonds will be priced on August 20 via negotiation and the subseries C-2 bonds will sell competitively on August 21. Proceeds will be used for capital purposes.

The city's Issuer Default Rating (IDR) is 'AA'.

The Rating Outlook is Stable.

Analytical Conclusion

New York City's 'AA' Long-Term IDR and GO bond ratings reflect New York City's exceptionally strong budget monitoring and controls, supporting Fitch's 'aa' financial resilience assessment, given the city's 'high' revenue control, 'mid-range' expenditure control and Fitch's expectation that the city will maintain reserves at or above 7.5% of spending.

For its calculation, Fitch includes unrestricted general fund reserves (the sum of committed, assigned and unassigned), the available balance in the retirees' health benefits trust (RHBT) and the fiscal year-end budget stabilization and discretionary transfers of surplus for prepayment of certain of the following year's operating expenditures. The available balance as of fiscal year end (FYE) 2023 was $12.8 billion, equal to 11.8% of expenditures and transfers out.

The city's demographic and economic trend and level metrics are assessed as 'weak' and 'mid-range', respectively, relative to Fitch's local government ratings portfolio. High educational attainment levels and 'midrange' income and unemployment levels mitigate the city's 'weak' population trend.

These factors help offset the city's elevated long-term liability burden, which Fitch assesses as 'weak' due to exceptionally high liabilities-to-personal income metric of 27%, elevated carrying costs and moderate liabilities compared to total governmental revenues when compared to Fitch's local government ratings portfolio. Fitch expects the city's long-term liabilities to remain elevated compared to personal income levels. This expectation is based on future debt needs, the status of the city's net pension liabilities (NPLs) over time (assuming actuarial assumptions are met) and improvement in the resource base.

The rating additionally reflects the application of a one-notch positive additional analytical factor recognizing the city's important role and significant contributions to the growing New York-Newark-Jersey City, NY-NJ-PA metropolitan statistical area (MSA), the largest MSA in the nation. The MSA is the largest contributor of national metropolitan area real GDP, accounting for 9.5% of the total generated in 2022.

The city experienced record revenue performance and strong recovery coming out of the pandemic, as well as improvement in reserve levels, which will help management navigate future economic downturns. The city's near-term challenges include expected deceleration of revenue growth, rising personnel costs, continued management of asylum seeker costs and other uncertainties associated with a high inflationary environment.

Long term, Fitch expects that management will continue to achieve general fund operational stability while maintaining reserves at close to or better-than-current levels. Fitch's expectations for the resumption of revenue growth, following near-term economic interruptions due to elevated interest rates and high inflation, coupled with continued careful expense management and use of budgetary tools support these expectations. The prepayment of expenses and availability of reserves will further mitigate risks associated with unexpected cost pressures or revenues falling short of budget.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

-- A sustained erosion of the city's reserve cushion to levels below 7.5% of spending, which would lead to a change in the financial resilience assessment to below 'aa';

-- An approximate 50% sustained increase in long-term liabilities associated with debt and NPLs and carrying costs, assuming current levels of personal income and governmental resources;

-- Weakened underlying economic and demographic performance, particularly around median household income (MHI) and unemployment rates;

-- Fitch's view that the capacity to manage changes in the city's OPEB benefits is constrained and, as a result, unfunded OPEB liabilities will remain very high.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- Expectation for maintenance of available reserves above 10% of general fund spending;

-- An approximate 30% decrease in long-term liabilities and carrying costs, assuming current levels of personal income, governmental revenues and spending;

-- Notable improvement in the city's demographic and economic strengths metrics, evidenced most notably by higher resident income and improved population trends.

SECURITY

The GO bonds carry a pledge of New York City's full faith and credit, supported by a levy by the city of ad valorem taxes (without limit as to rate or amount) on all real property within the city subject to taxation. The city is not subject to New York State's property tax cap.

Fitch’s Local Government Rating Model

The Local Government Rating Model generates Model Implied Ratings which communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the Model Implied Rating will be the IDR except in certain circumstances explained in the applicable criteria). The MIR is expressed via a numerical value calibrated to Fitch's long-term rating scale, which ranges from 10.0 or higher ('AAA'), 9.0 ('AA+'), 8.0 ('AA') and so forth down to 1.0 ('BBB-' and below).

Model Implied Rating reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile, and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

Ratings Headroom & Positioning

New York City Model Implied Rating: 'AA' (Numerical Value: 8.53)

-- Metric Profile: 'AA-' (Numerical Value: 7.53)

-- Net Additional Analytical Factor Notching: +1.0

Individual Additional Analytical Notching Factors:

-- Economic and Institutional Strength: +1.0

New York City's Model Implied Rating is 'AA'. The associated numerical value of 8.53 is in the middle of the 8.0 to 9.0 range for its current 'AA' rating.

Key Rating Drivers

Financial Profile

Financial Resilience - 'aa'

New York City's financial resilience is driven by the combination of its 'High' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

-- Revenue control assessment: High

-- Expenditure control assessment: Midrange

-- Budgetary flexibility assessment: High Midrange

-- Minimum fund balance for current financial resilience assessment: >=7.5%

-- Current year fund balance to expenditure ratio: 11.8% (2023)

-- Five-year low fund balance to expenditure ratio: 8.6% (2023)

Revenue Volatility - 'Strongest'

New York City's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 5.5% increase for the three-year period ending fiscal 2011

-- Median issuer decline: -4.5% (2023)

Demographic and Economic Strength

Population Trend - 'Weakest'

Based on the median of 10-year annual percentage change in population, New York City's population trend is assessed as 'Weakest'.

Population trend: -0.2% 2022 median of 10-year annual percentage change in population (7th percentile)

Unemployment, Educational Attainment and MHI Level - 'Midrange'

The overall strength of New York City's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Midrange' on a composite basis, performing at the 44th percentile of Fitch's local government rating portfolio. This is due to high education attainment levels offsetting low median-issuer indexed adjusted MHI and elevated unemployment rate.

-- Unemployment rate (for the MSA) as a percentage of national rate: 122.2% 2023 (26th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 40.2% (2022) (75th percentile)

-- MHI as a percent of the portfolio median: 89.0% (2022) (32nd percentile)

Economic Concentration and Population Size - 'Strongest'

New York City's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the MP are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 8,335,798 (2022) (above the 15th percentile)

-- Economic concentration: 36.5% Analyst Input (above the 15th percentile) (vs. 34.4% 2023 Actual)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

A one-notch positive additional analytical factor has been applied to recognize the city's important role and significant contributions to the growing New York-Newark-Jersey City, NY-NJ-PA MSA, the largest MSA in the nation. The MSA is the largest contributor of national metropolitan area real GDP, accounting for 9.5% of the national total generated in 2022. The MSA accounts for close to 10.3 million jobs and ranks as the largest job market in the nation.

Long Term Liability Burden

Long-Term Liability Burden - 'Weak'

New York City's carrying costs to governmental expenditures and liabilities to personal income remain weak while liabilities to governmental revenue remain midrange. The long-term liability composite metric in 2023 is at the 24th percentile, indicating a somewhat elevated liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 27.0% Analyst Input (1st percentile) (vs. 27.3% 2023 Actual)

-- Liabilities to governmental revenue: 161.9% Analyst Input (58th percentile) (vs. 163.6% 2023 Actual)

-- Carrying costs to governmental expenditures: 19.0% (2023) (24th percentile)

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts or non-recurring events that may otherwise skew the time series.

Direct debt was adjusted to reflect principal amortization through the end of fiscal 2024 and includes this issuance, the planned privately placed series 2025C-3 bonds, and the addition of city GO bond and

TFA revenue bond issuances occurring subsequent to the end of fiscal 2023.

PROFILE

Fitch considers the city's status as an international center for numerous industries and a major tourism destination, as well as its proven resilience through the recent and prior severe economic disruptions, as credit strengths. Employment recovery had lagged national trends following the pandemic, but job growth picked up notably during calendar years 2022 and 2023 and employment in the city has now recovered to pre-pandemic levels.

The local economy and operating budget remain strongly linked to the financial activities sector, which was relatively unaffected by the pandemic and accounts for 25% of earnings compared with 10% for the U.S., according to 2022 data. Professional and business services accounted for 21% of earnings during the same period, and this sector, along with the financial activities sector, has a higher share of wage earnings than the other service-producing and governmental sectors in the city based on 2022 data.

Residents' per capita personal income was approximately 122% of the U.S. level in 2022. However, the city's above-average individual poverty rate of 17.2% exceeds the national rate of 12.5%, indicative of some income disparity and the demand for social services, also common in other large urban U.S. cities.

Estimated census figures for July 2023 report New York City's population at 8,258,035, a 6.2% decrease from 2020. The city is the most populous city in the U.S. and its population is larger than the combined populations of Los Angeles and Chicago, the next two most populous cities in the nation.

The city's tourism sector is an important driver of revenues, with a reported record of nearly 67 million visitors in 2019 and 62 million visitors in 2023, according to New York City Tourism + Conventions. The city experienced reduced activity due to the pandemic; however, activity has rebounded, as evidenced by improved levels of hotel occupancy during 2023 when compared with pre-pandemic levels and higher average daily room rates and air traveler numbers, as reported by the Port Authority of New York and New Jersey.

Fitch does not expect the current hybrid work-from-home arrangements to change materially in the near term. These arrangements will likely adversely affect commercial property values and tax revenues and could constrain future growth of tax revenues generated by retail and entertainment activity. The full impact on commercial real estate tax revenues will take longer to become clear, as commercial lease terms are typically up to 10 years. Additionally, the high interest rate environment has stalled commercial transactions and limited refinancing opportunities for property owners with costly variable-rate mortgages. Manhattan office vacancy rates remain high by historical standards and Fitch expects that they could remain stubbornly high over the near to medium term.

Depending on the magnitude of decline, a change in a property's market value is typically phased-in over five years. The taxable billable assessed value (TBAV) is the basis for the tax levy and is based on the lower of the actual value (45% of the current year market value) or transitional assessed value (which is the cumulative value of the phase-ins from the five-year market value changes). This phase-in of changes in value helps mitigate the potential volatility of tax revenue changes and impacts on annual operating budgets.

The fiscal 2025 TBAV of $299 billion rose by 4.3% yoy, following growth of 4% in fiscal 2024, 7% in fiscal 2023 and a 5% decline in fiscal 2022 due to the pandemic. Class 4 TBAV, which consists of commercial properties such as office buildings, factories, stores and vacant land, increased 2.3% in fiscal 2025. The increases are being supported by new trophy buildings, which have garnered demand. For the June 2024 five-year financial plan, city-wide TBAV is projected to increase by a more conservative 2.2%, 3.0% and 1.9% in fiscal years 2026, 2027 and 2028, respectively.

Office buildings accounted for approximately 18.5% of the total net billed property tax levy in fiscal 2023 of $32.3 billion, and about 5.5% of total all city funds revenues. Office buildings accounted for close to half of the class 4 property tax levy.

Fitch considers class 4 office and retail properties to be currently vulnerable to downward changes in value, but also recognizes that these associated revenues are a smaller part of the city's overall diverse revenue base, while changes in value are potentially mitigated by the phase-in process. Stability of other property class values and growth in non-property tax revenues will be key to offsetting any larger-than-anticipated declines. The city has been proactive in supporting the re-purposing of office buildings for residential use, but such transitions can be difficult and costly for developers, depending on the building format, and are expected to be a longer-term solution to higher vacancy rates.

Management continues its efforts to improve the supply of affordable housing to help retain existing residents and attract new residents considering the rising cost of rental properties and limited availability city-wide.

Date of Relevant Committee

24 July 2024

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Fitch Ratings Analysts

Kevin Dolan
Director
Primary Rating Analyst
+1 212 908 0538
Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

Michael Rinaldi
Senior Director
Secondary Rating Analyst
+1 212 908 0833

Karen Ribble
Senior Director
Committee Chairperson
+1 415 732 5611

Media Contacts

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
New York City (NY) [General Government]					
• New York City (NY) /General Obligation - Unlimited Tax/	LT	AA	Affirmed		AA

ENTITY/DEBT	RATING		RECOVERY	PRIOR
1 LT				

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	⊡	

Applicable Criteria

U.S. Public Finance Local Government Rating Criteria (pub.02 Apr 2024) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

New York City (NY)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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