

06 SEP 2024

Fitch Rates NYC Transitional Finance Auth \$1.8B Fiscal 2025 Series C Bonds 'AAA'; Outlook Stable

Fitch Ratings - New York - 06 Sep 2024: Fitch Ratings has assigned a 'AAA' rating to the following New York City Transitional Finance Authority's (TFA) \$1.8 billion future tax secured (FTS) subordinate bonds, fiscal 2025 series C:

--\$1,500,000,000 fiscal 2025 subseries C-1, tax-exempt bonds;

--\$300,000,000 fiscal 2025 subseries C-2, taxable bonds.

The subseries C-1 bonds will be sold through negotiated sale on Sept. 10 and 11 and the subseries C-2 taxable bonds will be sold competitively on Sept. 11. Proceeds of the bonds will be used to finance general city capital expenditures.

Fitch has also affirmed the TFA's outstanding subordinate lien FTS bonds at 'AAA'.

The Rating Outlook is Stable.

The 'AAA' ratings on the subordinate FTS revenue bonds reflect solid long-term growth prospects for pledged revenue and the bonds' highly resilient structure. Fitch anticipates the bond structure can withstand changes in economic cycles and maintain solid debt service coverage.

Fitch's analysis indicates resilience would be strong even if New York City fully leveraged the pledged revenue up to its legally permitted amount, but Fitch expects issuance to be well below that level as excess revenue flows to the city for general operations. A very strong legal structure insulates bondholders from the operating risk of New York City (Issuer Default Rating [IDR] AA/Stable).

RATING SENSITIVITIES

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

A decline in pledged revenue that is more severe and prolonged than anticipated, combined with a significant increase in leverage closer to the ABT.

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

Not applicable as the bonds are rated at Fitch's highest rating category.

Dedicated Tax Security

The bonds are payable from a subordinate lien on revenue derived from a personal income tax (PIT) and a sales and use tax (SUT) (collectively, the pledged revenue) imposed by New York City, as authorized by the state of New York. Payment of the PIT and SUT revenue to the TFA is not subject to city or state appropriation.

All references to PIT revenue also include the revenue from the NYC pass-through entity tax (PTET) on certain partnerships and S corporations that elect to pay such tax and whose partners or shareholders receive a corresponding credit against their PIT liabilities.

SUT revenue will be available for the payment of debt service if PIT revenue is projected to be insufficient to provide at least 150% of the maximum annual debt service (MADS) on the TFA's outstanding bonds.

Additional bonds may be issued as senior bonds if net pledged revenue for the 12 consecutive calendar months preceding authorization is at least 3x the maximum amount of annual senior debt service, including debt service on the bonds to be issued. Senior lien bonds, if issued, are subject to a \$330 million limit on quarterly debt service. The TFA does not have any senior lien obligations outstanding.

The subordinate additional bonds test (ABT) requires that pledged revenue for the most recent fiscal year is at least 3x the sum of \$1.32 billion plus projected maximum annual subordinate debt service, including debt service on the bonds to be issued. Debt service on variable-rate bonds is assumed at the maximum rate for purposes of the ABT.

Dedicated Tax Key Rating Drivers

Robust Resilience: The high coverage levels from growing pledged revenue provide for very strong levels of resilience to changes in the economy and through downturns. Strong legal and practical protection against overleveraging also supports the 'aaa' level of resilience.

Solid Growth Prospects: Statutory revenue benefits from the city's unique economic profile, which centers on its identity as an international center for numerous industries and institutions and a major tourist destination. Fitch believes longer-term growth of pledged revenue may slow from historical levels, but remain solid at levels between long-term rates of inflation and U.S. GDP following record levels of personal income and sales tax revenue during fiscal 2023.

Strong Legal Framework: The bankruptcy-remote, statutorily defined nature of the issuer pursuant to state legislation and a bond structure involving a first-perfected security interest in the PIT and SUT revenue are key credit strengths. Payment of the PIT and SUT revenue to the TFA is not subject to city or state appropriation. Statutory covenants prohibit action that would impair bondholders.

As a true sale structure, TFA's rating is limited to six notches above New York City's IDR of 'AA'/Outlook Stable.

PROFILE

Pledged revenue for fiscal 2023 (ended June 30) of \$26.7 billion grew by close to 6% yoy. PIT revenue was up by 3% yoy and SUT revenue was up by 11% yoy. This follows record levels for SUT and PIT revenue achieved during fiscal 2022 when pledged revenue rose by 17% yoy.

Pro forma all-in debt service coverage is a very strong 4.9x based on fiscal 2023 pledged revenue compared to projected fiscal 2028 debt service, which assumes the issuances of \$22.7 billion in new debt through fiscal 2028 for general city capital purposes after giving effect to the issuance of the series C bonds and \$300 million of adjustable rate GO bonds being offered separately.

The city projects pledged revenue will decline by 3.9% for fiscal 2024 before resuming growth through fiscal 2028 (as per the city's June 30, 2024 financial plan for fiscal years 2024 through 2028). This projection is an improvement from the 5.5% decline projected as of the city's November 2023 financial plan but weaker than the 2.6% projection as of the April 2024 financial plan as PIT revenue performed slightly lower than anticipated through the last quarter of the fiscal year. Pro forma debt service coverage, based on the projected fiscal 2028 debt service compared to projected fiscal 2024 pledged revenue, remains very strong at 4.7x, even with the moderate projected decline.

During fiscal 2023, PIT revenue grew 2.8% yoy to \$17.2 billion and approximately two-thirds of PIT revenue were collected through withholding, which remains close to the 10-year average of 70%. The results were affected by greater than expected April and June estimated payments, and NYC PTET payments of \$2.4 billion.

City projections show PIT revenue for fiscal 2024 declining by 8.7% yoy, reflective of larger declines in non-withholding revenue, inclusive of PTET, following strong fiscal 2023 performance. Growth is projected to resume beginning in fiscal 2025 through fiscal 2028 more in line with pre-pandemic growth levels.

Fiscal 2023 SUT revenue of \$9.5 billion, growth of 11.3% yoy, reflect strong local consumption combined with an inflationary impact on the costs of goods and services and a continued increase in tourist activity in the city. SUT revenue for fiscal 2024 is expected to rise by a more moderate 4.8% yoy, reflective of a spend-down of excess savings, inflationary pressures and a slowing labor market. City projections show SUT revenue continuing to experience moderate growth from fiscal 2025 through fiscal 2028.

Fitch expects the city will manage future debt issuances to comply with city debt policies and expects future TFA debt service coverage levels to remain well above the ABT permitted levels as management relies on surplus revenue to support operations.

Economic Resource Base

Fitch considers the city's status as an international center for numerous industries and institutions, 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.

The economic profile of the city features high wealth levels; per capita personal income was approximately 122% of the U.S. 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 population at 8,258,035, a 6.2% decrease in population from 2020. New York 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.

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

Fitch does not provide ESG relevance scores for New York City Transitional Finance Authority (NY).

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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 Transitional Finance Authority (NY)			

- New York City Transitional Finance Authority (NY) /NYC LT AAA Affirmed AAA TFA Future Tax Secured - Subordinated/ 2 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).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.1.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

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New York City Transitional Finance Authority (NY) EU Endorsed, UK Endorsed

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