

RATING ACTION COMMENTARY

Fitch Rates NYC Transitional Finance Auth \$1.6B Fiscal 2025 Ser F and G Bonds 'AAA'; Outlook Stable

Fri 07 Feb, 2025 - 6:00 PM ET

Fitch Ratings - New York - 07 Feb 2025: Fitch Ratings has assigned a 'AAA' rating to the following New York City Transitional Finance Authority's (TFA) \$1.6 billion future tax secured (FTS) tax-exempt subordinate bonds, fiscal 2025 series F and series G:

--\$1,298,260,000 subseries F-1 (tax-exempt);

--\$81,425,000 subseries F-2 (taxable);

--\$195,375,000 subseries G-1 (tax-exempt);

--\$42,230,000 subseries G-2 (taxable).

The series F and series G bonds will be sold through negotiated sale on Feb. 11 and Feb. 12. Proceeds of the bonds will be used to refund a portion of the authority's outstanding FTS bonds.

The TFA's outstanding subordinate lien FTS bonds are rated 'AAA'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
New York City Transitional Finance Authority (NY)		
New York City Transitional Finance Authority (NY) /NYC TFA Future Tax Secured - Subordinated/2 LT	LT AAA Affirmed	AAA

PREVIOUS

Page of 1

▼

NEXT

[VIEW ADDITIONAL RATING DETAILS](#)

The 'AAA' rating on the subordinate future tax-secured (FTS) revenue bonds reflects 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 the legally permitted amount. However, 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 additional bonds test (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 Transitional Finance Authority (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 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 ABT requires that pledged revenue for the most recent fiscal year must equal at least 3x the sum of \$1.32 billion (the covenanted MADS for senior lien bonds) plus the 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 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

Pledged revenues benefit from the city's unique economic profile, which reflects its identity as an international center for numerous industries and institutions, and a major tourist destination. Fitch believes pledged revenue growth in the long term may slow from the record fiscal 2023 levels but remain solid, at levels between long-term rates of inflation and U.S. GDP. This level of revenue growth is consistent with an 'aa' assessment.

Strong Legal Framework

The issuer's bankruptcy-remote status, defined by state legislation, and a bond structure with a first-perfected security interest in the PIT and SUT revenue are key credit strengths. The payment of the PIT and SUT revenue to the TFA is not subject to city or state appropriation. Statutory covenants prohibit any 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'/ Stable.

PROFILE

Pledged revenue for fiscal 2024 (ended June 30) reached \$25.6 billion, a 4.2% yoy decline, but still covered annual debt service by a very strong 7.3x. This followed record growth in pledged revenues of 5.7% and 16.9%, for fiscal 2023 and 2022, respectively. PIT revenue fell by 8.7% to \$15.7 billion, while SUT revenue grew by 3.8% to \$9.9 billion yoy, following yoy growth of 2.8% and 11.3% for PIT and SUT revenue, respectively, during fiscal 2023.

The PIT declines reflected larger declines in non-withholding revenue, including PTET, following strong fiscal 2023 performance. Approximately 77% of PIT revenues were collected through withholding, exceeding the 10-year average of 71%.

PIT revenue is projected to improve by 11.3% in fiscal 2025 to levels moderately above the high fiscal 2023 levels (as per the city's Jan. 16, 2025 financial plan for fiscal 2025 through 2029), mostly due to stronger financial services activity. PIT revenues are projected by the city to moderate and improve by 1.6%, 4.0%, 4.0% and 4.5% for fiscal years 2026, 2027, 2028 and 2029, respectively.

SUT revenues experienced more moderate yoy growth, reflective of a spend-down of excess savings, inflationary pressures and a slowing labor market. City projections indicate SUT revenue will continue to experience moderate growth of 4.6%, 4.1%, 4.3%, and 3.3% for fiscal 2026, 2027, 2028 and 2029, respectively.

Pro forma all-in debt service coverage remains very strong at 4.2x, based on fiscal 2024 pledged revenue compared to the projected fiscal 2029 debt service of \$6.1 billion. The projection assumes the issuances of \$30 billion in new debt through fiscal 2029 for general city capital purposes.

The city projects pledged revenue will grow by 8.5% during fiscal 2025, with annual growth projected at more moderate levels of 2.7% in fiscal 2026, 4.1% in fiscal 2027, 4.1% in fiscal 2028, and 4.0% in fiscal 2029.

Fitch views the city's pledged revenue projections as reasonable, considering robust tourism activity and continued job growth through the first half of fiscal 2025, combined with projections for strong Wall Street profits for the current fiscal year.

Fitch expects a moderation of economic growth through the remainder of fiscal 2025 due to the still relatively high-interest rate environment, reduced but still active spending levels, and the uncertainty surrounding the impact of the new federal administration's potential policy actions. Fitch expects job growth to decelerate, however, tourism levels, which have bounced back and surpassed pre-pandemic levels, are expected to remain relatively healthy.

As of Dec. 31, 2024, the city's and the TFA's combined remaining debt-incurring power was approximately \$34.4 billion. The state's fiscal 2025 budget increased the total authorized amount of FTS bonds to be outstanding, and not subject to the city's

debt limit by \$14 billion, to \$27.5 billion from \$13.5 billion, with \$8 billion of such increased capacity available beginning on July 1, 2024 and the remaining \$6 billion available beginning on July 1, 2025.

The Governor's Executive Budget for the state of New York proposes an additional \$3.0 billion increase in the total amount of FTS bonds authorized to be outstanding and not subject to the city's debt limit, with such amount increasing to \$30.5 billion as of July 1, 2025. The statutory debt limits are binding on the TFA but are not covenants with bondholders and can be changed by legislation adopted by the state.

Fitch expects the city will manage future debt issuances to comply with city debt policies and that future TFA debt service coverage levels will 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 as a major tourism destination, as well as its proven resilience through the recent and prior severe economic disruptions, as credit strengths. Job growth following the pandemic picked up notably during calendar years 2022 and 2023, and reached record highs through calendar year-end 2024.

The local economy and operating budget remain strongly linked to the financial activities sector, which was relatively unaffected by the pandemic. The sector accounts for 25% of earnings, compared with 10% for the U.S., according to 2023 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.

The city's economic profile features high wealth levels, with per capita personal income approximately 129% of the U.S. average in 2023. 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, which is also common in other large urban U.S. cities.

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

Date of Relevant Committee

05-Sep-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

Not applicable, as Fitch has not assigned an Issuer Default Rating to the issuer.

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

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](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

New York City Transitional Finance Authority (NY)

EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating s

[READ MORE](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

