



RATING ACTION COMMENTARY

Fitch Rates NYC Transitional Finance Auth's \$1.5B Fiscal 2025 Series D Bonds 'AAA'; Outlook Stable

Fri 18 Oct, 2024 - 4:16 PM ET

Fitch Ratings - New York - 18 Oct 2024: Fitch Ratings has assigned a 'AAA' rating to the New York City Transitional Finance Authority's (TFA) \$1.5 billion future tax secured (FTS) tax-exempt subordinate bonds, fiscal 2025 series D.

The series D bonds will be sold through negotiated sale on Oct. 22 and 23. Proceeds of the bonds will be used to finance general city capital expenditures.

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

[VIEW ADDITIONAL RATING DETAILS](#)

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

Declines in PIT were reflective of larger declines in non-withholding revenue, inclusive of PTET, following strong fiscal 2023 performance. Approximately 77% of PIT revenue were collected through withholding, which exceeds the 10-year average of 71%. Growth in these revenues is projected to improve by 10.6% in fiscal 2025 to levels slightly above those for fiscal 2023, reflecting, in part, stronger financial services activity. PIT revenues are projected to moderate and improve by 1.1%, 5.3% and 4.0% for fiscal years 2026, 2027 and 2028, respectively (as per the city's June 30, 2024 financial plan for fiscal years 2024 through 2028).

SUT revenues experienced more moderate growth, 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 of between 4%-5% from fiscal 2025 through fiscal 2028.

Pro forma all-in debt service coverage remains very strong at 4.7x based on fiscal 2024 pledged revenue compared to projected fiscal 2028 debt service of \$5.5 billion, which assumes the issuances of \$21.2 billion in new debt through fiscal 2028 for general city capital purposes after giving effect to the issuance of the series D bonds.

The city projects pledged revenue will grow during fiscal 2025 by 8.4% with annual growth projected at more moderate levels of 2.3% in fiscal 2026, 4.7% in fiscal 2027 and 4.1% in fiscal 2028.

Fitch considers the city's pledged revenue projections to be reasonable as it expects a moderation of economic growth through the remainder of calendar 2024 and during 2025 due to the still relatively high interest rate environment, reduced spending levels due to a slowing of household income, and a deceleration of job growth. Tourism levels, which have bounced back close to pre-pandemic levels, are expected to remain relatively healthy.

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 exceeds pre-pandemic levels. Total employment in the city as of August 2024 grew by 2.2% yoy based on data provided by the New York State Department of Labor.

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.

Date of Relevant Committee

05 September 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.

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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

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Endorsement Policy

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New York City Transitional Finance Authority (NY)

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