MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns Aa1 to NYC TFA's Future Tax Secured Subordinate Bonds, Fiscal 2025 Series C, Subseries C-1 & C-2; outlook stable

06 Sep 2024

New York, September 06, 2024 -- Moody's Ratings (Moody's) has assigned Aa1 ratings to the New York City Transitional Finance Authority's (TFA) $1.5 billion Future Tax Secured Subordinate Bonds, Fiscal 2025 Series C, Subseries C-1 and $300 million Future Tax Secured Subordinate Bonds, Fiscal 2025 Series C, Subseries C-2. We maintain Aa1 ratings on approximately $49 billion of outstanding subordinate future tax secured bonds. The bonds are scheduled to price September 10 and September 11. The outlook is stable.

RATINGS RATIONALE

The Aa1 subordinate lien rating, one notch higher than New York City's issuer rating, reflects very strong debt service coverage provided by the pledge of City of New York personal income tax and sales tax revenue and a very strong legal structure that insulates TFA from potential city fiscal stress, both key strengths that allow TFA's future tax secured bond rating to pierce the city's issuer rating. Those strengths are balanced by the open subordinate lien and New York State's (issuer rating Aa1 stable) ability to repeal the statutes imposing the pledged revenue.

The city's Aa2 issuer rating reflects its robust post-pandemic economic recovery driven by a highly skilled labor force, strong higher education and medical sectors, and significant global connectivity, all underpinned by very strong institutional strength and financial governance. Those strengths balance an above-average debt burden and expenditure pressure from the expansive scope of the city's operations.

RATING OUTLOOK

New York City's stable outlook reflects its continued economic expansion and tax revenue growth, and the expectation that strong financial management will help the City navigate ongoing budget pressures in fiscal years 2026 through 2028 driven by continued but waning costs of the migrant crisis and the end of pandemic-era federal aid. A strong institutional framework, including generally conservative revenue forecasts, frequent multiyear forecasting and multiyear phase-ins of changes in commercial property assessed values, provide the city ample time to make budget adjustments when necessary.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- An upgrade of New York City's issuer rating

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- A downgrade of New York City's issuer rating

- Significant weakening of the pledged revenue or large additional bond issuance that materially dilute debt service coverage

LEGAL SECURITY

The bonds benefit from TFA's legal insulation from New York City bankruptcy risk and strong cash flow protections that transfer pledged revenue directly from the state to the trustee. The state legislature established TFA as a separate and distinct legal entity from the city. Further, the state did not grant TFA itself the right to file for bankruptcy. These structural features are a key reason TFA's future tax secured bond rating pierces the city's issuer rating.

While bondholders are protected from bankruptcy, city or state fiscal stress still could pose risks because both the city and the state retain the right to alter the statutory structure that secures TFA's bonds. The city is restricted from altering the structure as related to personal income taxes if debt service coverage falls below 1.5 times MADS on outstanding bonds. Since the creation of TFA, policy actions have both increased and decreased the pledged revenues. Those actions have included the abolition of the city's income tax on commuters, and establishment of various sales tax exemptions.

TFA's statutory debt authorization has been increased several times. In 2009 legislation was enacted that allows TFA to exceed its statutory debt cap but counts debt over that amount, along with city general obligation debt, against the city's overall debt limit. As of July 31, 2024 the cap was $21.5 billion and the combined city and TFA debt incurring margin was $38.3 billion. Based on legislation enacted earlier this year by the state legislature, the cap will increase again on July 1, 2025, to $27.5 billion.

The TFA indenture limits senior lien debt (none is currently outstanding) to $12 billion outstanding at any time, subject to a $330 million limit on debt service payable in any quarter (as well as the additional bonds test described below). The subordinate lien is open, subject to a conservative additional bonds test that requires tax revenues (defined as total sales tax and personal income tax revenues) for the prior fiscal year to be at least 3 times the sum of $1.32 billion (covenanted MADS for senior bonds) and annual debt service on outstanding subordinate bonds. The annual debt service calculation assumes the maximum interest rate for any variable rate bonds outstanding.

The pledged taxes are collected by the New York State Department of Taxation and Finance and held by the state comptroller, who makes daily transfers to the trustee (net of refunds and the costs of collection). The trustee makes quarterly set-asides of amounts required for debt service and TFA's operational costs in the following quarter (with the collection quarters beginning each August, November, February and May). Half of each quarterly set-aside is made beginning on the first day of the first month of each collection quarter and the second half is made beginning on the first day of the second month of each collection quarter. If sufficient amounts for debt service are not on deposit after those two months, the trustee continues to set aside funds in the third month, daily, until debt service is fully funded. Functionally, personal income tax revenues are expected to provide sufficient amounts for debt service; if they do not provide at least 1.5 times coverage of MADS, sales tax revenues are available to pay debt service.

Based on actual fiscal 2023 revenue, coverage of maximum annual debt service (MADS) was a very strong 6.7x. Based on the forecast of fiscal 2024 pledged revenue (fiscal year end of June 30, 2024) MADS coverage would decrease slightly to 6.4x based on a 3.9% decline in pledged revenue. Not accounting for new issuance, MADS coverage is expected to range between 6.9x and 7.7x in fiscal 2025 through fiscal 2028.

USE OF PROCEEDS

Proceeds of the bonds will be used to help finance New York City's capital plan.

PROFILE

TFA was created by the state legislature in 1997 as a public benefit corporation of the state to provide a method of financing New York City's vital capital construction program but outside the constraints of the debt limit imposed on the city by the state constitution.

New York City is the largest city in the US by population (8.26 million estimated as of July 2023) and by the size of its economy (real GDP of $1.1 trillion). New York City's GDP is larger than all but four states. The size and scope of the city's operations are broader than most local governments: in addition to the city government, New York City is five counties and the nation's largest public school system, with approximately one million students.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425429. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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