

# RatingsDirect®

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## Summary:

# New York City Transitional Finance Authority; Sales Tax

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### Credit Profile

US\$1500.0 mil future tax secured tax-exempt subord bnds fiscal 2025 ser D dtd 10/30/2024 due 02/01/2054

*Long Term Rating*

AAA/Stable

New

### Credit Highlights

- S&P Global Ratings assigned its '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 outlook is stable.

### Security

Personal income tax (PIT) revenue and, if needed, sales and use tax revenue generated within New York City (NYC) secures the subordinate FTS bonds.

The proceeds of the fiscal 2025 series D bonds will fund citywide capital expenditures.

### Credit overview

The 'AAA' long-term rating incorporates our view of very strong coverage and liquidity metrics, as well as very strong economic fundamentals. Overall, NYC's economic trajectory remains positive, as reflected in overall favorable tax revenue performance and upward revisions to the June 2024 financial plan accompanying the adopted fiscal 2025 budget. Within the financial plan, combined fiscal 2025 pledged revenues are expected to grow to \$27.7 billion (or 8.4%) from their actual fiscal 2024 revenues of \$25.6 billion. This is primarily due to a projected 10.6% increase in PIT revenue, while fiscal 2025 sales tax revenue is forecast to rise by 5.0%, which is a faster growth rate compared with the 3.8% sales tax growth rate for fiscal 2024.

While the city's pledged revenue growth assumptions are typically conservative, we note that S&P Global Ratings Economics forecasts U.S. real GDP growth will slow from above-trend growth this year (2.7%) to below-trend (1.7%) in 2025, accompanied by a further rise in unemployment rate and lower inflation; and we view the gradual easing of interest rates as more of a preventative measure for growth from slipping too far below potential than instantly juicing the real economy (for more information, see "Economic Outlook U.S. Q4 2024: Growth And Rates Start Shifting To Neutral," published Sept. 24, 2024, on RatingsDirect). In our view, the city's more conservative sales tax growth expectations reflect tempered consumer spending, coupled with a withholding extension of sales tax revenues for payment to the New York State Agency Trust Fund to provide relief for financially distressed hospitals and nursing home facilities through March 31, 2028, enacted in the New York State budget, which we believe will have a modest effect on sales tax revenues. Nevertheless, we expect coverage will remain very strong, underpinned by NYC's ongoing economic expansion and diversification--underscored by reputable universities, first-class health care providers, a

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growing technology startup sector, and attractiveness as a leisure and business travel destination--which generates the pledged revenues.

Also supporting the high investment-grade rating is the city's transfer of its rights, title, and interest in pledged revenue to the authority that enhances the statutory and legal mechanisms that separate control of the revenue from the city, supporting an obligor linkage that we view as remote. However, risks to the priority-lien rating remain in the form of its linkage to the city's creditworthiness, which is equivalent to the general obligation (GO) rating on NYC ('AA'). The GO rating is constrained by the city's elevated debt and contingent liability profile relative to that of higher-rated peers, which proactive and well-embedded management practices offset.

New York State's enacted fiscal 2025 budget amended the New York City Transitional Finance Authority Act, increasing the number of FTS bonds authorized to be outstanding that will not be subject to the city's debt limit by a total of \$14.0 billion, to \$27.5 billion from \$13.5 billion. Beginning July 1, 2024, \$8 billion of such increased capacity is available, with the remaining \$6 billion available beginning on July 1, 2025. We believe management will structure future debt plans to ensure that pledged revenue continues to provide very high coverage in line with historical trends. However, we continue to monitor coverage levels and whether increased debt could materially reduce maximum annual debt service (MADS) coverage to less than 4x, or substantially diminish the flow of excess tax revenues to the city after payment of debt service, which we believe could potentially pressure the ratings.

Other key credit considerations include:

- Ongoing expansion and diversification of New York City's economy, which is largely recovered from the pandemic downturn, supported by the strength of the broader national economy in 2024;
- Fiscal 2024 actual pledged revenues of \$25.6 billion (4.2% below fiscal 2023 collections) provide very strong 7.3x coverage of annual debt service. Following the issuance of the fiscal 2025 series D bonds, fiscal 2024 pledged revenue provided MADS coverage of 5.8x based on the maximum rate on the variable-rate bonds and 6.0x based on the 4.25% budgeted adjustable rate. Considering TFA's additional debt issuance plans over the near term, we expect maintenance of at least 4x MADS coverage of subordinate-lien debt service over the outlook period;
- Strong bond provisions, including what we consider a conservative additional bonds test (ABT) of at least 3x MADS and maximum MADS of \$1.32 billion for senior-lien bonds (none currently outstanding), and at least 3x the sum of covenanted MADS of \$1.32 billion on senior-lien debt plus annual debt service on subordinate debt for the subordinate-lien bonds;
- Nationwide income and sales and use taxes that have historically demonstrated low-to-moderate volatility, with the breadth of the city's sales and use tax base offsetting cyclical volatility associated with PIT; and
- The city's general creditworthiness, which does not constrain the rating but will remain a consideration, as pledged revenue could become pressured if NYC's economy and finances deteriorate.

### Environmental, social, and governance

We view the environmental, social, and governance (ESG) factors that could affect the TFA's economic base on which pledged revenue is collected as similar to those of the city, particularly should exposure to extreme weather events and other chronic physical climate risks disrupt economic activity or pledged revenue collections. We view the governance structure of the authority's FTS statutory and legal mechanisms positively, as it protects the rights of bondholders and

limits the city's ability to divert revenue prior to debt service payment.

### Ratings above the sovereign

We rate the TFA bonds above the sovereign because we believe the authority can maintain better credit characteristics than the U.S. in a stress scenario, based on the locally derived pledged revenue for bondholders and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating above the sovereign is based on our "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" criteria, published Nov. 19, 2013.

### Outlook

The stable outlook reflects our view of growth in the TFA's pledged revenue, which has shown resilience through multiple economic cycles, including the pandemic shock. As a result, we expect the authority's annual debt service coverage and MADS coverage will remain extraordinarily strong.

### Downside scenario

We could lower the rating or revise the outlook to negative in the unlikely event that pledged revenue falls substantially short of the forecast or TFA accelerates borrowing that leads to materially lower MADS coverage of less than 4x.

For more information, see our full analysis, published Sept. 5, 2024, on RatingsDirect.

#### Transitional Finance Authority, City of New York--Key credit metrics

	Metric
<b>Economic data</b>	
Economy	Very strong
EBI level per capita % of U.S.	112.0
Population (obligor)	8,523,772
Broad and diverse MSA	Yes
Population (MSA)	20,321,355
<b>Financial data</b>	
Revenue volatility	Low - very low
Coverage and liquidity	Very strong
Baseline coverage assessment	Other
MADS coverage (x)	6.0
MADS year	2029
Annual debt service coverage (x)	7.3
3-year pledged revenue change (%)	1.2
<b>Bond provisions</b>	
ABT (x)	1
ABT type	MADS
ABT period	Projected
DSRF type	None

Transitional Finance Authority, City of New York--Key credit metrics (cont.)

Metric

**Obligor relationship**

Obligor linkage	Remote
PL rating limit (number of notches above OC)	4

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. MSA--Metropolitan statistical area. MADS-Maximum annual debt service. ABT--Additional bonds test. DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness. N/A--Not available. 3-pronged test--MADS, 10% of principal, or 125% of average annual debt service. Economic data reflects 2023 information reported on a calendar year basis, sourced from S&P Market Intelligence. Annual debt service coverage and MADS coverage are based on actual fiscal 2024 revenues and pro-forma debt service, incorporating the fiscal 2025 series D bonds.

**Related Research**

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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