RATING ACTION COMMENTARY

Fitch Downgrades New York City, NY GOs, IDR to 'AA-' from 'AA'; Outlook Remains Negative

Tue 08 Dec, 2020 - 9:18 PM ET

Fitch Ratings - New York - 08 Dec 2020: Fitch Ratings has assigned a 'AA-' rating to New York City's approximately $1.386 billion GO bonds, fiscal 2021 series D and $114 million GO bonds, fiscal 2021 series E. Both series are taxable.

Fitch has downgraded to 'AA-' from 'AA' the rating on New York City's approximately $38 billion in GO bonds and its Issuer Default Rating.

In addition, Fitch has downgraded its ratings on the following obligations, which the city supports through its commitment to appropriate for debt service:

-- Approximately $582 million Hudson Yards Infrastructure Corp (HYIC) revenue bonds, first indenture fiscal 2012 series A to 'A+' from 'AA-';

-- Approximately $2.1 billion Hudson Yards Infrastructure Corp (HYIC) revenue bonds, second indenture fiscal 2017 series A and series B (taxable) to 'A' from 'A+';

-- Approximately $30 million special revenue bonds (New York City-New York Stock Exchange Project) series 2019A and bank bonds associated with $30 million in special

revenue bonds (New York City-New York Stock Exchange Project) series 2004B, issued by the New York City Industrial Development Agency (IDA) to 'A+' from 'AA-'.

The Rating Outlook on all obligations is Negative.

The bonds will be priced by negotiation on Dec. 16. Proceeds will refund outstanding GO bonds and pay costs of issuance.

SECURITY

The GO bonds carry a pledge of New York City's faith and credit, supported by a levy by the city of ad valorem taxes (without limit as to rate or amount) on all real property within the city, subject to taxation. The city is not subject to New York State's property tax cap.

New York City IDA bonds: On or before March 31 of each year, the IDA certifies to the city the amounts payable (including debt service on the IDA bonds) under the facility financing agreement. The city covenants that the mayor will include in the executive expense budget submitted to the city council each fiscal year an appropriation equal to the amounts projected to be payable under the agreement. The agreement also provides that the mayor will seek to increase appropriations during the fiscal year if necessary to pay the amounts due under the agreement. The IDA pledges and assigns to the trustee its rights under the agreement, including the amounts received from the city. The administration of all city appropriation and lease-backed debt is centralized and treated as a single unit of appropriation in the city's debt service budget.

HYIC bonds: the bonds are special obligations of HYIC payable from a combination of recurring and non-recurring revenues expected to be generated from development in the Hudson Yards area of Manhattan after payment of HYIC's operating expenses. Bond interest is supported by interest support payments (ISPs) from the City of New York, subject to annual appropriation, if HYIC revenues are insufficient. The city is not obligated to pay principal on the bonds. The fiscal 2012A bonds were issued under what is now the first indenture, which was closed with the issuance of the series fiscal 2017 bonds. The series fiscal 2017 bonds were issued under the second indenture, with a subordinate lien on the pledged revenues.

ANALYTICAL CONCLUSION

The downgrade of the city's IDR to 'AA-' from 'AA' and one-notch downgrade on associated securities reflects Fitch's expectation that the impact of the coronavirus and related containment measures will have a longer-lasting impact on New York's economic growth than most other parts of the country. This view is informed by the weak rebound to date in employment, real estate transactions, tourism and mass transit usage. Very low rates of employees returning to offices and the potential for a longer-term trend of lower office usage could exacerbate current economic pressures on the city's credit profile. Exceptionally strong budget monitoring and controls support expectations for an adequate level of financial resilience through the current and future downturns. Fitch expects that the city's elevated liability burden will increase but remain consistent with the current assessment. Pressure to increase capital spending is an ongoing concern as is the large other post-employment benefit (OPEB) liability.

The Negative Outlook reflects Fitch's concern that the effects of the virus will be more significant than expected even once a vaccine is widely available. Slower economic growth began to emerge before the coronavirus pandemic hit, and if growth slows further it would make matching recurring expenses to recurring revenues more difficult. Fitch believes slower ongoing revenue growth would also make rebuilding reserves more difficult following needed drawdowns in light of the extraordinary revenue declines triggered by the pandemic containment efforts. A resulting downward adjustment in Fitch's financial resilience assessment could lead to an additional downgrade.

ECONOMIC RESOURCE BASE

Fitch considers the city's unique economic profile, as an international center for numerous industries, and its historically resilient labor market, a credit strength. Employment remained relatively stable during the Great Recession and grew at a steady clip through most of the recovery. However, current economic and employment conditions remain quite weak, although improved from the early months of the coronavirus. In particular, Fitch believes the city's large tourism sector faces considerable headwinds and a slow recovery to pre-virus trend. Fitch still considers the long-term economic trajectory positive but less robust than pre-pandemic. The local economy and operating budget are still strongly linked to the financial activities sector, which accounts for approximately 23% of earnings compared with 10% for the U.S., according to 2018 data.

KEY RATING DRIVERS

Revenue Framework: 'aa'

Going into the pandemic, revenues showed solid to strong growth and little volatility. Fitch believes growth prospects were starting to slow, potentially affected by the continued shift of job gains away from the high-wage financial services sector to a more diverse mix. Recent office space acquisitions by major technology companies could offset this trend somewhat. Nevertheless, the impact of the coronavirus in Fitch's view will slow revenue growth prospects for the city even after the pandemic abates. The city has sound independent legal ability to adjust property tax rates and a variety of fees and charges to offset the modest revenue declines expected in a typical economic downturn. Rates for other important revenue sources (mainly income and sales taxes and state aid) are not within management's independent control.

Expenditure Framework: 'a'

Carrying costs are sizable and many labor contracts are subject to binding arbitration, but the city has demonstrated adequate expenditure flexibility. Fitch expects cost pressures in a number of service areas would cause the pace of spending to exceed that of revenues over time if offsetting policy actions were not taken.

Long-Term Liability Burden: 'a'

Debt and pension liabilities represent an elevated but still moderate burden in relation to the resource base at approximately 26% (Fitch-adjusted) of personal income. New debt issuance will likely exceed the amount of outstanding debt that amortizes each year. The future trajectory of the liability burden will depend in part on whether economic growth matches the increase in debt levels, which Fitch expects to be on pace with or faster than pension liabilities. Exceptionally large OPEB liabilities weigh on this assessment and are also likely to continue to grow.

Operating Performance: 'aa'

The 'aa' assessment reflects the city's close budget monitoring and control as demonstrated by its ability to achieve consistent balance and manage out-year gaps. These characteristics somewhat offset concerns that the city's financial cushion, mainly in the form of expense prepayments and accumulated reserves in the retiree health benefits trust (RHBT), is likely to be weakened over the medium term. A high level of inherent budgetary flexibility provides protection against periodic revenue volatility, which Fitch expects to be low post-pandemic. The ability to restore a satisfactory financial cushion without overreliance on nonrecurring measures once the current crisis has abated will drive future assessments of this key rating driver and potential changes in the IDR and related ratings. Fitch believes the city has sufficient liquid resources to address operating cash needs for pandemic response, a sharp but temporary drop-off in economically sensitive revenues and potentially reduced property tax collection rates.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--The Rating Outlook could be revised back to Stable upon an indication that revenue growth will regain a solid pace once more robust levels of economic activity resume;

--The Rating Outlook could be revised back to Stable if the city demonstrates the ability to absorb the fiscal challenges presented by the current economic contraction and subsequently regain its historically very strong gap-closing capacity.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--An erosion in the city's near-term revenue and financial performance beyond the expectations assumed in Fitch's coronavirus downside scenario;

--Indications of longer-term weakening of the city's reserve cushion relative to spending or other indications of reduced ability to use related budget management tools such as the annual prepayment of expenditures;

--Emergence of an increased ongoing gap between the natural pace of revenue and expenditure growth due either to a slowing of revenues, an acceleration of spending growth or both.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CURRENT DEVELOPMENTS

Sector-Wide Coronavirus Implications

The outbreak of coronavirus and related government containment measures worldwide has created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the reports titled, "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update" (https://www.fitchratings.com/research/sovereigns/fitch-ratings-coronavirus-scenarios-baseline-downside-cases-update-08-09-2020), published Sept. 8, 2020 and updated on Dec. 7 (https://www.fitchratings.com/research/sovereigns/fitch-ratings-coronavirus-scenarios-baseline-downside-cases-update-07-12-2020) and "Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Tax-Supported Issuers" (https://www.fitchratings.com/research/us-public-finance/fitch-ratings-updates-coronavirus-scenarios-for-us-state-local-tax-supported-issuers-01-10-2020), published on Oct. 1, 2020 on www.fitchratings.com.

Coronavirus Impact on New York City

Coronavirus and related containment efforts have had a significant impact on New York City's economy and revenues. The rate of infection has fallen significantly from early in the crisis, when the city was one of the epicenters of the virus. However, recently growing infection rates and continued efforts to confine the virus' spread present risks to a robust near-term economic recovery.

The Fitch-adjusted unemployment rate (adding workers who dropped out of the labor force into the calculation) remains quite high at 17.5% in October; the median for the 50 largest U.S. metro areas was 10.5%. As of September, the metro area had recovered only 46% of the jobs lost since the onset of the pandemic, lagging the nation's 58%. The 13.1% reported unemployment rate for October was twice that of the nation's.

Consumer spending and tourism are reduced, the latter drastically, and changes in residency are reportedly elevated, due in part to a high level of remote workers. A September report by the New York City Comptroller indicated that real estate transactions have been down dramatically since the onset of the pandemic -- in August, residential and commercial transactions were down 57% and 43%, respectively, from August 2019. While reduced prices and activity may provide buying opportunities in a high-priced market, Fitch believes the city is at risk of a longer term slowing of prior growth rates. The same report indicated that New York State's personal income increased 22% in Q2 2020 from Q1, behind the nation's 34%.

The city's fiscal 2020 revenues (FYE June 30) were up more than $3 billion from fiscal 2019 levels and $1 billion above prior estimates, due largely to better tax revenue growth and receipt of coronavirus-related federal aid. Property and personal income tax (PIT) revenues were close to adopted budget levels. Sales and use tax (SUT) revenues were down 5.6% and other taxes (including real estate transaction-related taxes) were down 20.2% despite solid growth in the first eight months of the fiscal year. The city received $1.45 billion under the Coronavirus Aid, Relief and Economic Security (CARES) Act, and has been allocated $2.65 billion in FEMA funding, most of which has not yet been received.

Fiscal 2020 expenditures increased commensurate with federal aid; the city estimates coronavirus-related expenses to total $5 billion, of which $2.6 billion was expended in fiscal 2020, while other expenditures were curbed. The city used nearly $1.0 billion of its $4.7 billion RHBT for OPEB payments and a net $400 million in budget stabilization reserves (amounts rolled forward from prior fiscal years minus amounts rolled into future years) to balance fiscal 2020.

The fiscal 2021 adopted budget is balanced with some use of reserves, including another $1.6 billion from the RHBT. The financial plan includes compensation increases pursuant to settled labor contracts, with a modest deferral ($639 million) of increases into fiscal 2022, as well as $1 billion in labor savings, some of which are not yet identified. Funding wage increases may be challenging given how much weaker revenues are than anticipated at the time the contracts were settled. The financial plan assumes no wage increases in fiscal 2022 or 2023, followed by 1% annual increases, well below recent 3% increases for some unions.

The state has withheld a total of at least $800 million in payments to the city and other local governments but has not yet announced reductions despite the state's inclusion of $8.2 billion in cuts to aid to localities for fiscal 2021 (FYE March 31). The city's budget does not assume state aid cuts, which Fitch believes is optimistic given the size of the state's budget gap.

Tax revenues forecast for fiscal 2021 in the November budget modification are $748 million above the $59.4 billion included in the adopted budget, providing a slight reduction in this year's budget pressure. Management has developed a citywide savings program, $786 million in fiscal 2021 and $537 billion in fiscal 2022. The majority of the savings are from expected debt refinancing. Projected out-year gaps are consistent with those of other periods of financial stress including the fiscal years following the Sept. 11 attack and the Great Recession.

Budgeted fiscal 2021 revenues included in the November modification show a decline in SUT from fiscal 2020 actual results of about 8.2%, following a 5.6% decline in fiscal 2020. Similarly, PIT revenues are budgeted to decline 12% after flat performance in fiscal 2020. SUT and PIT represent 7% and 13%, respectively, of total fiscal 2021 forecast revenue. Property taxes, the largest general fund source at one-third of total revenues, are forecast to increase 3% based on a rising historical five-year average of assessed value.

The most recent financial plan anticipates a strong recovery in fiscal 2022, with SUT exceeding fiscal 2019 actual revenues and PIT nearly back to fiscal 2019 levels, and an increase in non-property taxes of 12% over fiscal 2021. Use of $1.6 billion of the RHBT (which Fitch considers to be the city's primary reserve fund) will leave a balance of about $2.2 billion (2% of fiscal 2021 budgeted expenditures). Revenue estimates for the out years may be somewhat optimistic given the uncertainty related to the widespread availability of a vaccine and resulting reopening of the economy.

The city reports a cash balance of $7.3 billion at the end of Q1 (September 30), up $1.2 billion from Q12020. The improvement is due in part to the deferral of $1.2 billion in

payroll tax payments into fiscal years 2022 and 2023. Nevertheless, Fitch anticipates that available liquidity, aided by the city's broad cash management tools including prioritizing vendor payments, reviewing contract spending, delaying hiring and slowing capital spending, will be sufficient for near-term operating needs. The city reports property tax collection rates are down slightly from last year but remain solid. The city does not plan to borrow for short-term liquidity needs, but may pursue state authorization for deficit borrowing by the New York City Transitional Finance Authority. Fitch will evaluate the effect of any such borrowing in conjunction with structural policy actions on the city's expenditure flexibility and long-term liability burden.

CREDIT PROFILE

Economic Resource Base Details

The economic profile of the city provides for high wealth levels; per capita personal income is approximately 142% of the U.S. However, the above-average individual poverty rate indicates significant income disparity. The city's tourism sector is an important driver, with a reported record nearly 67 million visitors in 2019, but a vulnerability in the current environment. Various metrics rank New York City as the leading American city for both domestic and international tourism.

The city remains an economic force, but expansion may have been approaching a cyclical peak prior to the pandemic. The U.S. census-estimated population for 2019 was 8.3 million, up 2% since 2010, which is about one-third the rate of national population growth. This remains ahead of the less than 1% growth for the state. Labor market gains were plateauing with the labor force declining slightly since 2014 and employment growth essentially flat.

Prior to the pandemic, overall resident employment remained well above pre-Great Recession levels and the unemployment rate was much closer to the national rate after trending higher in the first years after the Great Recession. However, the most recent labor market statistics indicate a 15% year-over-year decline in employment for October, compared with 10% for the state and 5% for the nation.

REVENUE FRAMEWORK

The city has a diverse revenue profile, in part because it serves the functions of a city, county and school district. Property tax revenues are the largest source at 30-35% of general fund revenues. The tax levy for operations is limited to 2.5% of the average full value of taxable real estate of the current and last four fiscal years. This phase-in process both stabilizes the maximum tax levy and provides good visibility on future-year revenue growth and limitations. Taxable assessed value has grown by over 6% in each of the last several fiscal years, although growth is expected to moderate due to the current sluggish real estate market.

Sales and income taxes are also substantial components of revenues; their rates are controlled by the state. Intergovernmental revenues typically make up another quarter of the general fund total, but are currently elevated due to CARES Act and FEMA funding.

Lower Revenue Growth Expectations

Fitch believes the city's longer-term revenue growth prospects may weaken somewhat given evidence of slower revenue growth prior to the coronavirus pandemic; improvement to historically strong growth now appears less likely. The city's high density and reliance on public transit could delay or dampen its ability to resume pre-pandemic activity. Indications that revenue growth will slow to close to the rate of inflation once the current crisis has abated would result in a downward revision of Fitch's revenue growth prospects assessment.

Fitch estimates revenue growth over the past 10 years would have been roughly in line with national GDP growth absent property tax rate increases. Fitch does not incorporate the expected near-term pandemic-related drop in revenues into its assessment of revenue growth prospects, focusing on longer-term trends.

The city's operating levy is generally at least slightly below the 2.5% cap even with the inclusion of a portion of GO debt service, affording sound flexibility to offset what Fitch anticipates would be a modest revenue decline in a moderate recession. Components of the sales and income tax rates are subject to periodic state legislative renewal. Fitch considers such approval pro forma, although modest changes to certain components (such as increases in exclusions) are expected.

EXPENDITURE FRAMEWORK

New York's responsibilities are very broad, providing city, county and education services. In addition, New York State counties and New York City are responsible for a portion of Medicaid spending, and the city's public hospital system is a component unit that receives ongoing city general fund support. The largest expenditure category is education, typically representing one-third of general fund spending, followed by health and social services at 20%-25%. Public safety's share is normally 10%-15% of spending, a relatively low share for a local government, reflecting the city's broad responsibilities.

Pace of Spending Requires Active Budgetary Management

Given these pressures and a potential slowing of revenue growth, Fitch believes the natural pace of spending will be above natural revenue growth. Carrying costs are sizable, typically about 20% spending and expected to increase. Robust capital planning and debt management should keep debt service beneath the city's policy cap of 15% of tax revenues (about 10% of total spending). The city's projections show this ratio rising to over 13% by fiscal 2024; if revenue growth does not meet expectations management might have to choose between reducing capital spending or violating the cap.

The city consistently pays the pension ADC and prior to fiscal 2020 had also made regular contributions to the RHBT. Use of reserves to cover pay-go OPEB costs is limited to $2 billion annually. The city expects to have used $2.6 billion of the reserve by the end of fiscal 2021. The high unfunded OPEB liability indicates that annual contributions will rise significantly from the current 2%-3% of governmental spending.

Healthcare Remains Key Expenditure Risk

Fitch assumes that most expenses related to the coronavirus pandemic will be reimbursed by the federal government through FEMA and the CARES Act. However, Fitch has had some concerns about trends in the city's contribution to New York City Health + Hospitals (NYCHH) that began prior to the pandemic due to the adverse implications of ongoing changes in health care delivery methods and funding support at the state and federal level. A substantial increase in the city's ongoing financial support for NYCHH (about $2 billion

annually, including the non-federal share of Medicaid) could increase the pace of expected spending growth and/or reduce the city's flexibility to reduce spending in an economic downturn. NYCHH's management is actively working to increase the operation's efficiency, and recent audited results indicate fiscal improvement, including positive budget variances in each of the last two fiscal years.

Other Ongoing Spending Pressures

Other notable spending pressures include funding for operations, maintenance, and upgrades for the MTA, which has seen a dramatic drop in ridership and farebox revenues, and for New York City Housing Authority (NYCHA) facilities. Some of the required funding will be for capital projects and will likely be debt-financed, which will raise already sizable carrying costs. Fitch expects continued pressure on the city to increase contributions to both authorities as they provide vital city services and have widely reported repair needs beyond levels now being addressed. The dramatic impact of the pandemic on ridership and MTA finances adds to this pressure. Climate change resiliency efforts are another area of ongoing expenditure pressure for the city that could escalate over time.

Workforce Framework Constrained

Overall, the city reports approximately 84% of unionized employees are under contract. The adopted budget and financial plan includes spending to fund the unsettled contracts, assuming their terms are consistent with patterns set in the recently settled contracts for civilian and uniformed personnel, but as mentioned earlier assumes savings from sizable labor concessions or layoffs.

The workforce framework is rather inflexible; recent contracts for large bargaining units include retroactive increases and ascending salary hikes, indicating some wage pressure. Nevertheless, Fitch believes the city retains a reasonable amount of flexibility to contain growth in employee compensation or reduce headcount if needed.

LONG-TERM LIABILITY BURDEN

Debt, pensions and OPEB liabilities are all sizable relative to the city's vast resource base. Debt and Fitch-adjusted net pension liabilities (to reflect a 6% investment return rate) combined are equal to about 26% of the city's personal income, with debt about 57% of the total liabilities. Debt should not increase at a significantly higher rate than the resource

base given the policy capping debt service as a percentage of tax revenues and state restrictions on debt amortization rates.

The city maintains five pension systems, of which two (for police and fire) are single-employer plans. Although the other three are cost-sharing plans, the city bears the responsibility for the majority of the liabilities and virtually all for the two education-related plans. On a combined basis, the ratio of assets to liabilities is 78% on a reported basis as of fiscal 2019, or approximately 70% using Fitch's 6% investment return assumption.

Fitch recognizes that the age and size of the city's infrastructure make capital needs nearly insatiable. New York City conducts an extensive city charter-mandated annual study of its major infrastructure assets (Asset Information Management System, or AIMS), which serves as a guide in developing its operating expenditures for maintenance and its five-year capital commitment plan and 10-year capital strategy. Based on the most recent reconciliation report comparing that study to the city's capital spending plans, the city reported that its fiscal years 2019-2023 capital commitment plan funded 71% of the total investment recommended in the last AIMS report to bring city assets to a state of good repair, and 57% of recommended maintenance in the operating (expense) budget.

Key agencies, including MTA and NYCHA, are not included in the AIMS report. The recent increases for those agencies reflect the broad scope of the city's asset maintenance and investment needs. The long-term liability burden assessment anticipates the city will continue to keep a close eye on affordability and would alter its capital spending plans if conditions made debt more of a burden on resources.

Without significant action, the exceptionally high OPEB liability (currently about 17% of personal income) is likely to grow more quickly than either debt or pensions, as it is funded on a pay-as-you-go basis with the trust fund essentially re-purposed as a city budgetary reserve fund. Fitch expects the liability to remain sizable and to weigh on Fitch's assessment of the long-term liability burden.

OPERATING PERFORMANCE

The combination of strong revenue control, adequate spending flexibility and available financial cushion and other tools leaves the city well positioned to address the effect of a

moderate economic downturn. An expected temporary decline in available cushion during this crisis would not affect Fitch's view of financial resilience; rather, the agency's concern is that a weak recovery would make the restoration of the cushion to recent levels difficult.

Fitch does not believe reported CAFR numbers for the general fund provide a complete picture of financial resilience, primarily because they exclude the city's budgetary reserve. Due to prior state law and city charter constraints on using a traditional reserve fund, the city utilizes alternative budget tools. Following a city charter amendment, a state law was recently passed to allow for a revenue stabilization fund (RSF) using annual operating surpluses. The balance in the fund at the end of fiscal 2020 was $493 million, or 0.5% of spending.

In addition to the RHBT and now the RSF, the city uses prepayments, or the surplus roll, to apply ending general fund balances in one year to prepay certain expenses for the following fiscal year including debt service, retiree health care costs, and subsidies to entities like NYCHH. In recent years prepayments have been in the range of 5% of spending. Fitch expects the city to maintain the practice of prepayments, with the amounts varying somewhat with the city's budgetary results. Higher roll-outs into the next fiscal year versus roll-ins from the prior fiscal year represent operating surpluses, and vice versa. A consistent trend of lower net rolls would be cause for concern.

The roll into fiscal 2020 from fiscal 2019 of $4.2 billion decreased from the roll into fiscal 2019 of $4.6 billion. This decline of $355 million ($255 million after adjusting for a $100 million RHBT deposit) was the first net decline in the roll since fiscal 2014. The roll into fiscal 2021 from fiscal 2020 was $3.8 billion (down $400 million), which with the use of the RHBT, indicates a somewhat larger operating deficit for fiscal 2020. Budgetary reserves have also declined from $1.3 billion in the fiscal 2020 budget to $100 million in the fiscal 2021 budget.

Fiscal 2020 year-end government-wide cash balances were exceptionally low, covering only 29 days of operations, due largely to the extension of practical deadlines for both property and personal income tax payments into fiscal 2021. According to the city Comptroller's Q1 2021 cash report, balances have since improved significantly. Management reports that property tax collections fiscal year-to-date are only slightly off historical trends and consistent with budgeted levels.

Active Budget Management and Discipline

Fitch considers budget monitoring and control a key strength of the city's operating performance assessment. Fitch expects that officials would address anticipated further erosion in revenues in a reasonably timely and thorough manner.

Fiscal discipline instilled following the city's financial crisis in the 1970s is long institutionalized. The city is required to present a balanced budget on a GAAP basis, publish a four-year financial plan, which is updated three times per year, and present a biennial 10-year capital strategy, based partly on the AIMS report noted above. Plans are thorough and highly detailed and tend to be based on realistic assumptions, in Fitch's view. Outside monitors who regularly report on the city's budget and financial plan include the Financial Control Board, the state comptroller, the city's charter-required Independent Budget Office and the privately funded Citizen's Budget Commission.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR

ENTITY/DEBT	RATING			PRIOR
New York City (NY) [General Government]	LT IDR	AA- Rating Outlook Negative	Downgrade	AA Rating Outlook Negative
• New York City (NY) /City Appropriation - NYSE/1 LT	LT	A+ Rating Outlook Negative	Downgrade	AA- Rating Outlook Negative
• New York City (NY) /General	LT	AA- Rating Outlook Negative	Downgrade	AA Rating Outlook Negative

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Amy Laskey
Managing Director
Primary Rating Analyst
+1 212 908 0568
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Shannon McCue
Director
Secondary Rating Analyst
+1 212 908 0593

Michael Rinaldi
Senior Director
Committee Chairperson
+1 212 908 0833

MEDIA CONTACTS

Sandro Scenga
New York

+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

New York City (NY)	EU Endorsed
New York City Industrial Development Agency (NYCIDA) (NY)	EU Endorsed
New York Liberty Development Corporation (NY)	EU Endorsed

DISCLAIMER

ALL 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 SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION

OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

READ LESS

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or

conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are

authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

SOLICITATION STATUS

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

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

US Public Finance   Infrastructure and Project Finance   North America   United States