

City of New York, NY – General Obligation Bonds

Issuer: City of New York, NY

Assigned	Rating	Outlook
General Obligation Bonds, Fiscal 2006 Series J, Subseries J-A	AA+	Stable
General Obligation Bonds, Fiscal 2008 Series A, Subseries A-4	AA+	Stable
General Obligation Bonds, Fiscal 2008 Series C, Subseries C-4	AA+	Stable
General Obligation Bonds, Fiscal 2009 Series B, Subseries B-3	AA+	Stable
General Obligation Bonds, Fiscal 2024, Series C	AA+	Stable

Affirmed	Rating	Outlook
General Obligation Bonds	AA+	Stable

Methodology

- [U.S. Local Government GO Methodology](#)
- [ESG Global Rating Methodology](#)

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Rating Summary: The rating recognizes the City's preeminent role as a domestic and international center of business and culture, the historic resiliency of its broad and diverse economic base, elevated, yet manageable debt obligations, and institutionalized procedures and plans for confronting near-term financial challenges. The combination of the City's role on the world's stage and the legal protections described herein further support the assigned rating. Counterbalancing the aforementioned strengths is an economic base that, while highly diversified, remains susceptible to economic cyclicalities; continuing, out-year budgetary imbalances now exacerbated by costs associated with the asylum seeker crisis; and a geographic footprint that is increasingly vulnerable to climate change-driven weather events, including severe flooding.

General Obligation Bonds ("G.O. Bonds") of the City of New York ("NYC" or the "City") are secured by the City's faith and credit pledge. All City taxable real property is subject to the levy of ad valorem taxes, without limitation as to rate or amount, for payment of debt service. Pursuant to the Financial Emergency Act for the City of New York (the "FEA" or the "Act"), a general debt service fund ("the Fund") is established for G.O. Bonds and certain notes. Payments of the City real estate tax must be deposited upon receipt into the Fund and retained under a statutory formula. Since its inception in 1978, the Fund, which is held by the State Comptroller as Custodian, has been fully funded at the beginning of each payment period.

On the conversion date, on or about March 7, 2024, outstanding Fiscal 2006 Series J, Subseries J-2 Bonds and Fiscal 2006 Series J Subseries J-3 Bonds are expected to be redesignated as Fiscal 2006 Series J, Subseries J-A Bonds, and along with the three other Subseries listed above, converted from floating rate to fixed rate mode. Fiscal 2024 Series C proceeds will be used for capital purposes and for the payment of certain costs of issuance.

With support from significant federal stimulus funding, most sectors of the City's expansive and diverse economy have fully rebounded from the severe economic dislocation of the COVID-19 pandemic, as reflected in the near complete recovery in business, cultural, tourism and retail activity. Wall Street profitability continues to normalize following a peak in 2021, although conditions remain volatile.

As of November 2023, total employment had increased by 1.6 percent year-over-year (YoY), with approximately 100 percent of the jobs lost in the City at the height of the pandemic recaptured. This rebound exceeds earlier City forecasts of full job recovery by mid-2024, although, similar to the nation, growth is decelerating as the economy stabilizes. Reflecting the severity of New York City's pandemic-related job loss, the unemployment rate reached 21 percent in May 2020, and has now receded to 5.1% as of December 2023.

The City's diversified revenue portfolio of local taxes, user charges, and federal and State unrestricted and categorical grants tempers the impact of economic volatility on the budget. Total projected FY 2024 tax revenue of \$73.0 billion, as of the January 2024 Financial Plan, is slightly below FY 2023 results. Real property taxes, which comprise 44.8 percent of projected FY 2024 tax revenues, are forecast to grow by 3.8 percent, which contrasts with the 2.5 percent decline in projected FY 2024 non-property taxes (personal income tax, business, transaction, sales, and all other taxes). Fiscal years 2025-2028 reflect projected tax revenue growth of between 2.6 percent and 3.6 percent, with non-property taxes increasing more rapidly, ranging from 3.1 percent to 4.2 percent between fiscal years 2025 and 2028.



Personal income tax (“PIT”) and pass-through entity tax collections, the City’s second largest source of tax revenue, are projected to decline by 6.9 percent in FY 2024, reflecting a fall-off in non-wage income somewhat offset by modest growth in wage income. A 6.4 percent increase in PIT revenue is anticipated for FY 2025, with succeeding increases ranging from 2.2 percent to 5.8 percent through FY 2028. It is noteworthy that the November and January Plans have contained upward revisions in budgeted PIT, as the economy has surpassed expectations, to date. Sales taxes, the City’s third-largest revenue source, are projected to increase by 4.0 percent over FY 2023, following two years of double-digit growth as wage earnings growth eases, inflation abates, and tourism slows.

The FY 2025 tentative property tax assessment roll (“taxable billable assessed value”), which reflects real estate activity from January 2023 through January 2024, is \$11.9 billion or 4.2 percent, above the FY 2024 final assessment roll (“taxable billable assessed value”) of \$287 billion. However, the City, like other large U.S. urban areas, is experiencing a lag in the recovery of key commercial sectors. Most of the more than 1.5 million employees who commuted to New York City offices prior to the pandemic have adopted hybrid work schedules which entail their presence in the office fewer than five days per week. The impact of this hybrid work paradigm, which is likely to be permanent in KBRA’s view, has lessened demand for office space, contributing to an office vacancy rate in excess of 22 percent. This represents the highest vacancy rate since 2000, with more than 90 million square feet of office space presently available for lease. Given the significant contribution of Class 4 office space to the City’s property assessment roll, and the spillover impact of lower office occupancy on the supporting ecosystem, KBRA sees further weakening in the market for commercial office space as a possible risk to the Financial Plan. Office vacancy rates peaked in 2023, and the Financial Plan assumes that vacancy rates will recover modestly thereafter to approximately 20 percent in 2028.

KBRA views the City’s financial management and capital planning practices as very strong. The FEA and the City Charter require balanced budgets, with year-end results required to be balanced under generally accepted accounting principles (“GAAP”), and a four-year Financial Plan, updated quarterly, that must show current year balance and, starting in January, balance in the following fiscal year. City-wide cash flow reports are generated monthly, and the Financial Management System provides current information on the operating and capital budgets. Cash balances of nearly \$10.6 billion as of as of the end of 1Q 2024 far exceed pre-pandemic levels. The City’s Program to Eliminate the Gap (PEG) - through efficiencies, expense re-estimates, and debt refinancings - saves almost \$9.2 billion in fiscal years 2024 through 2027. In addition, a PEG related to asylum seekers is estimated to reduce costs by \$515 million and \$1.23 billion in fiscal years 2024 and 2025, respectively. The implementation of a Medicare Advantage plan for City retirees pursuant to a 2021 agreement between the City and the Municipal Labor Committee was expected to generate \$600 million in annual retiree health benefit cost savings, to be earmarked for deposit to the Health Insurance Stabilization Fund to offset outstanding financial obligations. However, retiree litigants have thus far prevailed in lawsuits challenging the plan’s implementation, and the City has appealed to the Court of Appeals.

The receipt of federal pandemic aid totaling more than \$22 billion between fiscal years 2020 and 2023, along with \$3.6 billion and \$551 million budgeted in FY 2024 and 2025, respectively, has been highly beneficial to financial operations and provides essential out-year support. The funds have assisted with COVID response and recovery and allowed for restoration of spending reductions, payment of expenses previously funded with City-generated revenues, and program expansions and improvements. Federal grant monies, along with significantly stronger than anticipated revenue performance, particularly PIT, facilitated the City’s decision to significantly increase reserves. The January 2024 Financial Plan provides for reserve levels of \$8.0 billion, exceeding ten percent of projected City Fund revenues, with no appropriation of reserves expected. Notwithstanding the augmentation of reserves, KBRA believes finances would benefit from policies that set targets for reserves and conditions for draws.

Tentative or ratified labor contract settlements have been reached with District Council 37 (“DC 37”), the Police Benevolent Association (PBA) and others, which together represent approximately 94% of the City’s unionized workforce, the full cost of which is reflected in the Financial Plan, which addresses a major source of fiscal uncertainty. The Financial Plan also reflects the rest of the City workforce based on the pattern set by the DC 37 or PBA framework. The respective pattern framework provides raises totaling 16.21% for civilian workers and 18.98% for uniformed workers over a 60-month contract term. the City’s largest municipal employee union, and

The June 2023 Financial Plan reflected asylum seeker costs of \$2.9 billion in FY 2024 and \$1.0 billion in FY 2025. In August 2023, the forecast was sharply raised to \$4.7 billion in FY 2024 (\$1.8 billion increase) and to \$6.1 billion (\$5.1 billion increase) in FY 2025. No costs were assumed for FY 2026 and FY 2027. In the intervening months, FY 2024 and FY 2025 estimated costs have moderated somewhat, with PEG support. The January Financial Plan estimates total FY 2024 expenses of \$4.22 billion (\$2.3 billion City responsibility), \$4.87 billion in FY 2025 (\$3.5 billion City responsibility) and \$2.5 billion and \$1.5 billion has been added to FY 2026 and FY 2027, respectively, with no assumed costs in FY 2028. KBRA believes that since the influx of asylum seekers continues, related expenditures may have to be adjusted upward. While the State of New York has committed additional support, the federal government response has been extremely limited, and currently, it appears likely the City will primarily shoulder the burden of additional costs.



The preliminary \$109.44 billion FY 2025 budget is balanced, and the Financial Plan indicates budget gaps of \$5.15 billion, \$5.12 billion, and \$6.04 billion for fiscal years 2026 through 2028. In general, outyear gaps reflect additional costs relating to asylum seekers, workforce labor settlements, and agency expenses. KBRA continues to believe that officials will achieve budgetary balance as each out-year approaches, as is legally required and has been consistently demonstrated over time, yet out-year gaps remain wide, and costs associated with the asylum seeker humanitarian crisis pose highly significant unquantifiable risks going forward.

In early September 2023, the Mayor announced measures to stabilize City finances, including a 5 percent reduction in City-funded agency budgets in each of the next three financial plans starting with the November Plan, and a hiring freeze starting October 1, with exemptions for positions supporting public health, public safety, and revenue generation. In January 2024, certain of the cuts were reversed as the City’s financial outlook improved. On February 21, 2024, the Mayor announced a cancellation of the next round of Agency spending cuts due to the effectiveness of cost containment measures, including asylum seeker spending, and better than anticipated economic performance resulting in an upward revenue revision. Also announced was an additional 10 percent reduction to asylum seeker spending on top of the 20 percent asylum seeker PEG in the Preliminary Budget. KBRA believes the tenor of the originally proposed cuts, if carried through, would likely have had an adverse effect on service delivery and quality of life, as the City already has approximately 18,000 full-time vacant positions budgeted in FY 2024.

Underlying these challenges is the difficulty in quantifying the effects of potential economic headwinds or a mounting decline in commercial real estate valuations on revenues, the impact of reduced market returns on the City’s pension contributions, and the influence of inflation-related cost pressures on spending, including contractual services, procurements, labor-related expenses and expenditures related to accommodating the aforementioned asylum seekers. KBRA also notes that while federal aid supports critical fiscal needs, new recurring spending supported by stimulus payments has also been added. KBRA believes the absence of identified City funding sources may exacerbate out-year gaps as federal resources are depleted.

The Stable Outlook reflects the resilient performance of the City’s diverse tax revenues and the increase in financial reserves, underscored by the well-established fiscal oversight and tracking mechanisms embedded in the FEA and City Charter. Recent trends in operating performance and accumulation of reserves serve as a buffer against expected further declines in commercial real estate valuation, budget uncertainties related to asylum seekers, and the possible effects of an economic downturn.

Key Credit Considerations

The rating was assigned because of the following key credit considerations:

Credit Positives

- City’s role as international business and cultural center commensurate with its status as the nation’s largest city, and position as the center of a large metropolitan economy.
- Institutionalized policies and procedures and tenor of actions enacted during the pandemic support financial stability.
- Long range financial and capital planning; pension funded ratios and unfunded liabilities have trended positively, while annual debt service requirements continue to be maintained at below 15 percent of City tax revenues.

Credit Challenges

- Economic base remains susceptible to financial services sector cycles, although reliance has moderated with increasing diversification.
- The Financial Plan identifies out-year budget gaps, now exacerbated by the asylum seeker crisis, which must be closed.
- Absent significant Federal and/or State funding to assist the City in handling the continuing influx of asylum seekers, further increases in projected outyear budget gaps are likely. The crisis may also pressure provision of services and have quality of life implications.
- Coastline location and associated exposure to climate change related rising sea levels and intensifying storms.

Rating Sensitivities

<ul style="list-style-type: none"> ▪ Maintenance of the City’s sound fiscal posture, revenue resiliency and employment growth trend in the face of prevailing economic and social headwinds. ▪ Adoption of guidelines for target size of reserves and conditions for withdrawal. ▪ Reduction in out-year budget gaps. 	+
<ul style="list-style-type: none"> ▪ Secular economic decline and/or deterioration in a key economic segment, such as commercial real estate, of sufficient magnitude to challenge budgetary balance. ▪ Relaxation of, or less adherence to, well-established policies and procedures. 	-



The City of New York

FY 2023 Key Facts

Net Indebtedness Per Capita ¹	\$12,550
Overall Debt as a % of Full Market Value	7.7%
Debt Amortization Within 10 Years	52.3%
General Fund Balance as a % of General Fund Expenditures	3.4%
Fixed Costs as a % of Governmental Expenditures	13.3%
Population Estimate - Change (2013-2022) ²	
City of New York	-2.7%
State of New York	0.1%
United States	5.2%
Per Capita Income (2022) ³	
New York City as % of State	105.7%
New York City as % of U.S.	121.8%

1. For purposes of calculating debt per capita and debt as a percentage of full market value, KBRA considers Indebtedness of the City to include i) GO debt net of assets held for debt service and inclusive of net premiums (discounts), ii) capital leases, iii) PBC indebtedness subject to appropriation, which includes ECF, DASNY (Municipal Health Facilities Lease Revenue Bonds, Court Facilities Program Bonds and approximately half of rental payments for City University Construction Fund bonds relating to community college facilities), iv) IDA Stock Exchange Bonds; v) the amount of the City's contingent obligations to HYIC and HHC as of June 30, 2022, subject to appropriation and vi) TFA-FTS Senior and Subordinated Bonds. Although TFA-FTS indebtedness does not constitute debt of, and is not paid by the City, it is included in the debt ratios because it is payable from personal income tax revenues and, if necessary, sales tax revenues of the City which would otherwise be available for operations, and because of the TFA's significant role in funding the City's capital needs. The City's obligations to cover contingent liabilities have not been triggered in recent years.

² Source: 2023 ACFR, Bureau of Economic Analysis and U.S. Census

³ Source: Bureau of Economic Analysis, U.S. Census Bureau



Rating Determinants (RD)

1. Management Structure and Policies	AA+
2. Debt and Additional Continuing Obligations	AA
3. Financial Performance and Liquidity Position	AA+
4. Municipal Resource Base	AA+

A review of Rating Determinants 1 and 4 and can be found in prior KBRA reports, the most [recent](#) of which was published on September 25, 2023.

Rating Determinant 2: Debt and Additional Continuing Obligations

KBRA considers net indebtedness to include i) General Obligation indebtedness of the City, ii) indebtedness and certain contract liabilities of public benefit corporations (“PBC’s”) to which the City has entered into agreements to make payments, subject to appropriation, for debt service on certain obligations, and iii) other issuer’s indebtedness for which the City is either directly or contingently obligated either to make payment of debt service subject to appropriation, or to restore capital reserves. New York City Transitional Finance Authority (“TFA”) Future Tax Secured Bonds do not constitute debt of and are not paid by the City. However, because TFA Senior and Subordinate FTS Bonds are secured by personal income tax and, if necessary, sales tax revenues which would otherwise be available for City operations, certain of KBRA’s debt metrics include such obligations as indebtedness of the City.

Net indebtedness,¹ totaled \$104.61 billion as of June 30, 2023, and was comprised primarily of GO debt (38.2%), capital lease obligations (13.9%) and TFA-FTS debt (44.8%). From FY 2018 through FY 2023, net indebtedness grew at a compound annual growth rate (“CAGR”) of 5.8%, attributable primarily to growth in outstanding TFA-FTS debt. The level of outstanding GO debt remained relatively flat during this period. The City’s FY 2023 capital lease liability of \$13.5 billion reflected the City’s adoption in FY 2022 of GASB Statement No. 87, which resulted in the re-characterization of certain contracts that meet GASB 87’s definition of a lease as long-term liabilities. (Figure 1).

The level of outstanding indebtedness reflects the City’s vast capital funding responsibilities, which are far greater in scope than those of other major U.S. cities and translate into a very high debt burden, both on a per capita basis and as a percentage of the full market value of real property. FY 2023 net indebtedness of the City and the other entities listed above (inclusive of restated capital lease obligations) was \$12,550 per capita. Indebtedness of the City as a percentage of the full value of real property is above average at 7.7%.

KBRA calculates the City’s FY 2023 debt service obligation at 3.3% of governmental expenditures. This calculation considers only debt service on those obligations for which the City is directly (but not contingently) obligated to make payments in amounts equal to debt service, or for which it is obligated to make debt service subject to appropriation. Such obligations include City GO Bonds, DASNY Municipal Health Facilities Improvement Lease Revenue Bonds, and IDA Stock Exchange Bonds. TFA-FTS debt service is not included in this calculation.

Figure 1

New York City

FY 2023 Debt Ratios¹

Indebtedness of the City and Certain Other Entities Per Capita	\$12,550
Indebtedness of the City and Certain Other Entities as a % of Full Market Value	7.7%
Debt Service on GO and other absolute, unconditional obligations ² as % of Governmental Expenditures	3.4%
Net Pension Liability as Percentage of Full Market Value	3.0%
Fixed Cost as % of Governmental Expenditures	13.3%

1. For purposes of calculating debt per capita and debt as a percentage of full market value, KBRA considers Indebtedness of the City to include i) GO debt net of assets held for debt service and inclusive of net premiums (discounts), ii) capital leases, iii) PBC indebtedness subject to appropriation, which includes ECF, DASNY (Municipal Health Facilities Lease Revenue Bonds, Court Facilities Program Bonds and approximately half of rental payments for City University Construction Fund bonds relating to community college facilities), iv) IDA Stock Exchange Bonds; v) the amount of the City’s contingent obligations to HYIC and HHC as of June 30, 2023, subject to appropriation and vi) TFA-FTS Senior and Subordinated Bonds. Although TFA-FTS indebtedness does not constitute debt of, and is not paid by the City, it is included in the debt ratios because it is payable from personal income tax revenues and, if necessary, sales tax revenues of the City which would otherwise be available for operations, and because of the TFA’s significant role in funding the City’s capital needs. The City’s obligations to cover contingent liabilities have not been triggered in recent years.

2. For purposes of calculating debt service as a percentage of governmental expenditures, KBRA considers only debt obligations for which the City is directly (but not contingently) responsible, or for which it is obligated to make debt service payments subject to appropriation. Such obligations include City GO Bonds, DASNY Municipal Health Facilities Improvement Lease Revenue Bonds, and IDA Stock Exchange Bonds.

Source: ACFRs, U.S. Census Bureau.

¹ Net indebtedness is assumed to be net of assets held for debt service and inclusive of premiums for GO, TFA-FTS, IDA and HYIC Construction Loan.



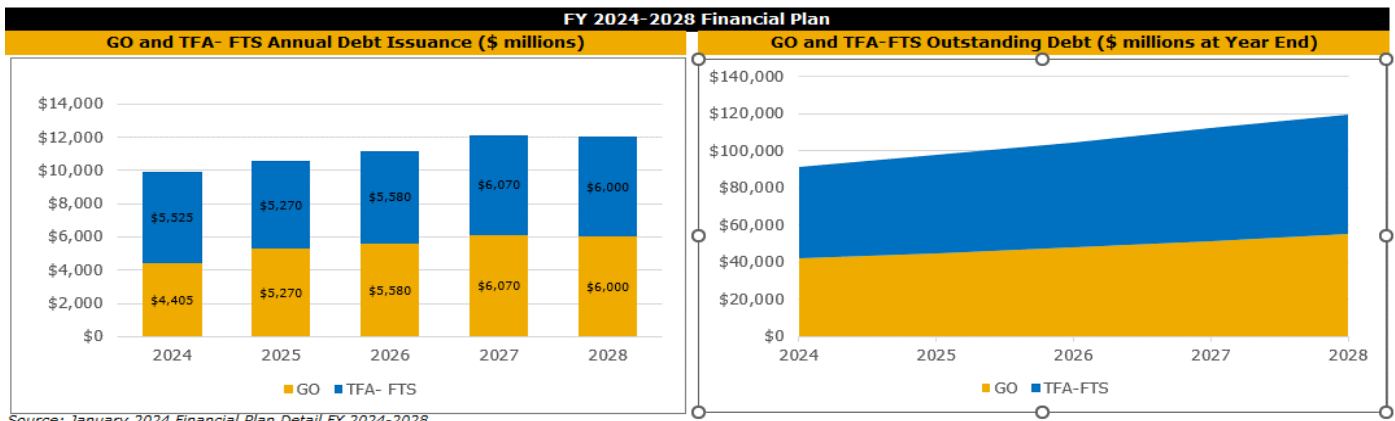
Long-term debt may only be issued to fund capital projects and certain pollution remediation costs, and to provide capital grants to other entities. New York State’s constitutional debt limit and Local Finance Law restrict the amount of indebtedness that the City may contract to no more than 10% of the most recent five-year average full value of City taxable real estate. The constitutional debt limit as of January 31, 2024, was \$131.6 billion. Indebtedness counting against the debt limit (including outstanding GO debt, capital contract liabilities and outstanding TFA debt above \$13.5 billion²) totaled \$99.9 billion, leaving remaining debt incurring power of \$31.7 billion. To increase future debt capacity, the Governor’s Executive Budget includes a proposal to increase the total amount of TFA-FTS Bonds authorized to be outstanding and not subject to the City’s debt limit to \$25.5 billion, with \$6 billion of increased capacity available as of July 1, 2024, and the remaining \$6 billion available on July 1, 2025.

The City’s Modified Capital Commitment Plan for fiscal years 2024-2028 authorizes City-funded capital commitments of \$76.9 billion and City-funded capital expenditures of \$67.7 billion. Approximately 94% of total expenditures are to be City funded, with remaining funding to come from Federal, State, and other reimbursable capital sources.

Capital expenditures are initially paid from the General Fund and reimbursed with bond proceeds, with portions of multiple projects funded with each bond issuance. The FY 2024-2028 Financing Program contemplates the issuance of \$55.8 billion of long-term borrowing including \$27.3 billion GO bonds (49%) and \$28.4 billion TFA-FTS bonds (51%)³.

Figure 2

Figure 3



Factoring in planned GO and TFA-FTS borrowings, annual debt service⁴ is expected to increase from \$7.5 billion or 6.6% of budgeted governmental expenditures in FY 2024 to \$10.2 billion (8.9% of projected governmental expenditures and 12.6% of projected tax revenues) by FY 2028, remaining below the City’s debt affordability policy cap of 15% of tax revenues assuming revenue projections are met.

Local Finance Law limits the issuance of variable rate debt to 25% of the general debt limit.⁵ The City, per its debt policy, seeks to maintain variable rate exposure at no more than 20% of outstanding debt across both the GO and TFA-FTS credits. As of December 31, 2023, approximately \$39.73 billion of GO debt was outstanding, of which 87.3% was fixed rate, and 12.7% was variable rate. Variable rate demand bonds (“VRDBs”) with accompanying bank facilities represent the majority of the City’s variable rate portfolio.

While General Fund balances, which are primarily invested in short-term assets, serve as an internal hedge against rising interest rates, the City is also specifically authorized by Local Finance Law to enter into interest rate exchange agreements. An Interest Rate Exchange Agreement Policy governs the City’s use of derivative contracts in connection with debt. Interest rate exchange agreements entered in connection with GO debt and City related debt of the Dormitory Authority of the State of New York, in the aggregate notional amount of \$157.45 million were outstanding as of December 31, 2023. As of that date, these agreements had a combined negative mark-to-market value of (\$9.6 million). All outstanding derivative instruments include ratings-based collateral posting requirements on the part of both the City and the counterparty.

² Capital commitments are funded with both GO and TFA Bonds. In July 2009, the State Legislature authorized the issuance of TFA-FTS bonds above the initial authorization of \$13.5 billion, with the condition that such amounts would be counted against the City’s general debt limit.

³ An additional \$9.9 billion of revenue bonds and commercial paper is expected to be issued for the water and sewer system’s capital program through FY 2028.

⁴ Including primarily GO and TFA-FTS debt service, prior to budget stabilization and discretionary transfers for debt service.

⁵ The TFA may issue up to 20% of its debt capacity as variable rate bonds pursuant to Public Authorities Law.



The City Comptroller is the legal custodian of the assets of the City’s five primary Public Pension Funds, which include the New York City Employees’ Retirement System (“NYCERS”), Teachers’ Retirement System of the City of New York (TRS), New York City Police Pension Fund (Police), New York City Fire Pension Fund (Fire) and the New York City Board of Education Retirement System (BERS), collectively, (the Systems). The Police and Fire pension funds are single employer plans, while the other three are cost-sharing plans for which the City holds primary responsibility. Institutionalized governance, including oversight of actuarial practices and assumptions, and the City’s decades-long policy of fully funding the actuarially determined contribution have contributed to stable pension funding progress. Pension metrics are favorable. The Systems’ FY 2023 aggregate net pension liability (“NPL”) of \$40.2 billion equates to a favorably low 3.0% of full market value, \$4,817 per capita and 6.0% of personal income.

The FY 2023 pension contribution of \$9.0 billion equated to a moderate 7.3% of governmental expenditures. In recent years, the City has limited growth in the pension liability through the imposition of new benefit tiers for newly hired employees. The City and State have not, however, taken steps to transition the pension plans of new employees to a defined contribution system. The State Constitution limits changes to benefits for current employees.

The OPEB plan includes i) direct, pay-go funding of OPEB from general City resources, and ii) the New York City Retiree Health Benefits Trust (“RHBT”), which holds and disburses accumulated assets in an irrevocable trust and is dedicated solely to the payment of OPEB costs. The balance of the RHBT at FYE 2023 was \$5.3 billion, of which \$500 million was designated for the payment of FY 2024 pay-go OPEB costs.

The City’s OPEB contributions reimburse the RHBT on a pay-go basis and may provide additional contributions for the payment of future benefits. The FY 2023 OPEB contribution of \$3.3 billion equated to 2.7% of governmental expenditures. The plan fiduciary net position (funded status) was 5.3% of the net OPEB liability of \$100.3 billion.

Fixed costs were a manageable 13.3% of FY 2023 governmental expenditures⁶. Notwithstanding the broad scope of its capital funding responsibilities, New York City’s fixed cost burden compares favorably to that of other major cities and reflects actions to consistently fund the full pension ADC.

Rating Determinant 3: Financial Performance and Liquidity

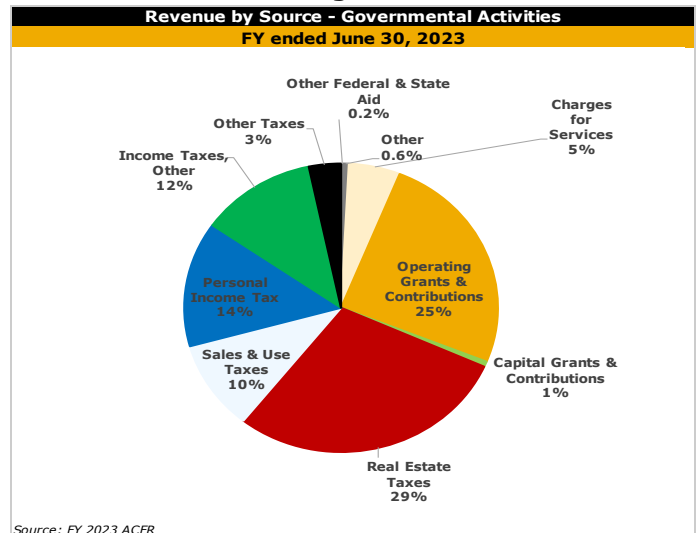
Revenue Sources

City revenues are derived from varied sources that include local taxes, user charges, miscellaneous revenues, and federal and state categorical and unrestricted grants. Local taxes include the real property tax (29.4 percent of FY 2023 revenues); multiple other taxes (38.8 percent), including personal income, general corporation, unincorporated business income, and sales; and miscellaneous revenues (5.4 percent), including fines and forfeitures, charges for services, licenses, permits and franchises. State categorical grants (15.8 percent) and federal categorical grants (9.3 percent) are additional important revenue components.

The State Constitution limits the amount of revenue the City can raise from property taxes for operating purposes to 2.5 percent of the average full value of taxable real estate in the City for the current and last four fiscal years. Property tax revenues increased at a compound annual growth rate of 4.3 percent between FY 2017 and FY 2023, and FY 2024 collections are expected to increase by 3.8 percent. Rates of other taxes are set at the state level.

The FY 2025 proposed Budget forecasts 1.6 percent property tax revenue growth, as preliminary estimates of the 2025 property tax roll are stronger than anticipated in the November 2023 Plan, followed by annual increases ranging from 1.8 percent to 2.8 percent. Non-property taxes are forecast to decline 2.5 percent in FY 2024. Personal income taxes drop 6.9 percent as non-wage income declines and wage income growth slows. Transaction taxes decline 27.9 percent as residential transaction volume stays low, due to increased interest rates and declines in commercial activity. Business and total non-property tax revenues are expected to climb 3.5 percent in 2025, as overall economic growth continues in the City albeit at a slower pace, with higher interest rates impacting real estate activity. Personal income taxes rise 6.4 percent after a drop in 2024. Hotel tax continues to recover with growth of 4.3 percent due to higher levels of tourism activity. Sales tax grows 4.9 percent on strength in wages and tourism. Corporate taxes decline 7.3 percent as the pricing power of corporations wanes and Wall Street profits return to long term averages.

Figure 4



⁶ TFA-FTS debt service is not included in KBRA’s calculation of the fixed cost ratio.



Expenditures

Expenditures reflect the City’s wide-ranging responsibilities as it functions as an all-purpose government without overlapping county or school district jurisdictions. As such, the City is exposed to a larger array of spending obligations and potentially unanticipated mandates from the federal and State governments than a city with more narrowly defined obligations. This was underscored by the City’s 2019 agreement with the federal government to spend \$2.2 billion over ten years on rehabilitation of the New York City Housing Authority (NYCHA) facilities, and the Governor’s past proposal for localities to assume a greater share of Medicaid expenses. In addition, the City provides operating and capital support to the Metropolitan Transportation Authority (“MTA”) and subsidies to New York City Health and Hospitals (“NYCHH”).

Education accounts for more than 30 percent of annual expenditures, and social services spending exceeds 18 percent of expenditures, while public safety and judicial, the latter of which is generally a county function, account for a rather low 12.0 percent of expenditures. Total expenditure growth in the preliminary Budget and January Plan is projected at a 1.3 percent CAGR between FY 2024 and FY 2028. The City has reached tentative or ratified contract agreements with bargaining groups representing approximately 94 percent of the City’s unionized workforce, the full cost of which is reflected in the Financial Plan. The agreements provide raises totaling 16.21 percent for civilian workers and 18.98 percent for uniformed workers over a 60-month contract term. Spending is tempered by the City’s Program to Eliminate the Gap (PEG), which is projected to provide \$9.2 billion in expenditure budget relief over the FY 2024 through FY 2027 period. Of the total PEG savings across FY 2024 and FY 2025, \$1.7 billion represents the efforts made to reduce costs associated with asylum seekers. Over 60 percent of the PEG benefits over the Plan period are from re-estimates of revenues and expenditures, or from taking savings from current headcount levels. While salaries and wages, pensions, debt service and other fringe benefits rise, other than personal services (OTPS) declines, reflecting a reduction in administrative OTPS spending due to the expectation of a wind down of certain legal or contractual obligations such as rental assistance and some contracted services at the DOE. While the financial markets exhibited volatility during FY 2023, the City’s pension funds gained on average 8.0 percent, compared with an expected increase of 7.0 percent. As a result, pension contributions of approximately \$9.4 billion in FY 2024, \$10.4 billion in FY 2025, \$10.8 billion in FY 2026, \$10.9 billion in FY 2027, and \$11.9 in FY 2028 in the January Financial Plan were partially offset by respective FY 2024 – FY 2027 reductions of \$273 million, \$43 million, \$84 million, and \$141 million compared to June 2023 Financial Plan assumptions.

The City’s FY 2024 and FY 2025 general fund is balanced. Out-year budget gaps are now projected at \$5.15 billion in FY 2026, \$5.12 billion in FY 2027, and \$6.04 billion in FY 2028. The City has demonstrated an ability to close out-year gaps and KBRA would expect a similar outcome going forward.

Figure 5

**General Fund Expenditures
FY 2023 (\$ millions)**

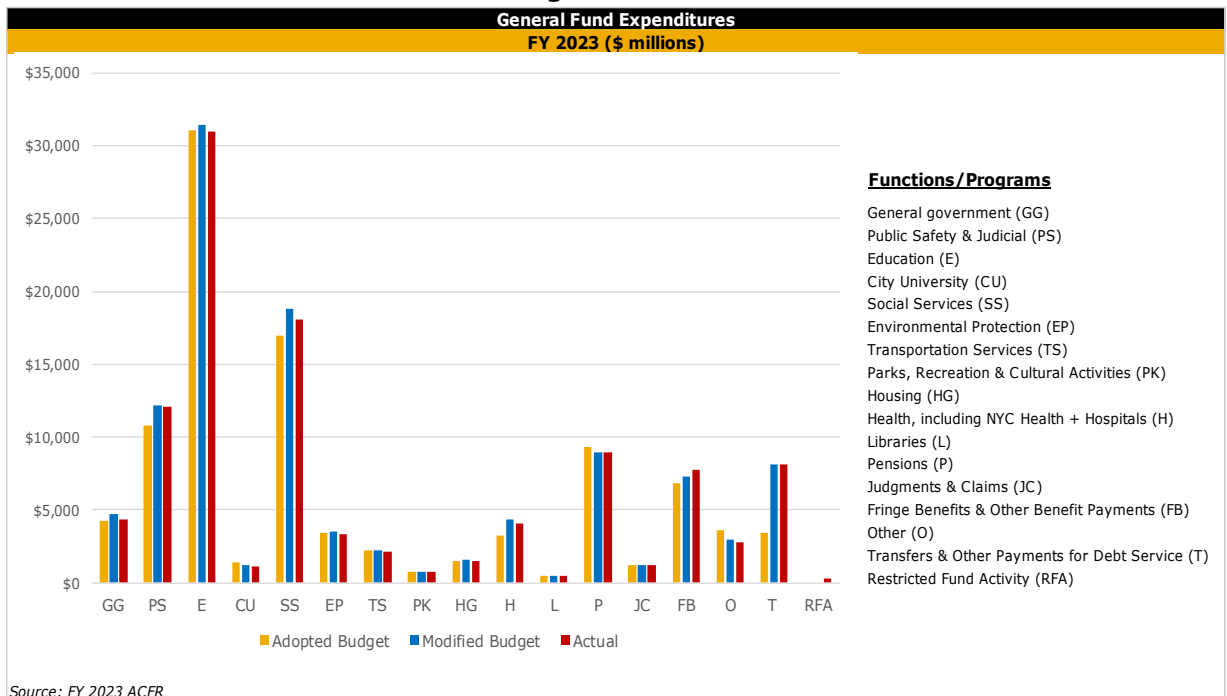


Figure 6

Statement of Revenues, Expenditures and Changes in Fund Balance (\$ in millions)							
	2017	2018	2019	2020	2021	2022	2023
Revenues and Transfers							
Real estate taxes	\$24,679	\$26,408	\$27,885	\$29,816	\$31,464	\$29,582	\$31,645
Sales and use taxes	8,296	8,651	9,083	8,478	7,603	10,008	10,585
Personal income tax	11,258	13,411	13,377	13,591	15,140	16,734	14,829
Income taxes, other	7,121	7,329	7,416	7,862	8,594	9,523	12,713
Other taxes	3,308	3,306	3,733	3,343	2,732	3,749	3,665
Federal State and other categorical aid	23,345	23,465	23,805	25,693	28,093	31,597	27,915
Unrestricted Federal and State aid	59	0	151	11	1	498	186
Charges for services	2,711	2,712	2,801	2,855	2,797	2,697	2,840
Investment income	73	125	226	137	15	16	508
Other revenues	2,179	2,073	2,868	2,833	2,743	2,391	2,893
Total Revenues & Transfers	\$83,030	\$87,480	\$91,344	\$94,618	\$99,183	\$106,796	\$107,780
Expenditures and Transfers							
General government	3,247	3,495	3,437	4,542	4,429	4,226	4,389
Public safety and judicial	9,694	10,024	10,358	10,791	10,548	11,937	12,070
Education	23,318	25,026	26,906	27,903	28,288	31,306	30,976
City University	1,067	1,087	1,114	1,117	1,060	1,109	1,126
Social services	14,485	15,208	15,833	15,631	15,475	16,574	18,105
Environmental protection	2,923	3,016	3,088	3,380	3,697	3,373	3,370
Transportation services	1,754	1,757	2,068	1,932	1,971	2,059	2,154
Parks, recreation and cultural activities	599	622	647	658	619	720	744
Housing	1,220	1,217	1,230	1,291	1,298	1,362	1,491
Health (including payments to NYC Health + Hospitals)	2,233	2,401	2,656	2,520	4,554	4,699	4,084
Libraries	370	378	398	427	423	424	466
Pensions	9,281	9,513	9,829	9,672	9,334	9,599	8,988
Judgments and claims	750	730	706	709	618	1,242	1,209
Fringe benefits and other benefit payments	5,910	5,717	5,743	5,477	6,846	8,557	7,774
Administration and other	147	380	651	1,701	1,847	1,608	3,144
Lease payments	30	130	97	101	97	140	82
Total Expenditures & Transfers	\$77,028	\$80,701	\$84,758	\$87,850	\$91,104	\$98,933	\$100,171
Excess (deficiency) of revenues over expenditures	6,002	6,779	6,586	6,769	8,079	7,862	7,608
Total other financing sources (uses)	(5,997)	(6,774)	(6,581)	(6,811)	(8,492)	(6,559)	(7,548)
Net change in fund balance	\$5	\$5	\$5	(\$42)	(\$413)	\$1,304	\$61
(Less) Restricted Fund activity				46	419	151	(55)
Fiscal Year Operating Surplus	\$5	\$5	\$5	\$5	\$5	\$1,455	\$5

Source: City of New York, Annual Comprehensive Financial Reports of the Comptroller

Figure 7

General Fund Balance Sheet (\$ in millions)							
	2017	2018	2019	2020	2021	2022	2023
Assets							
Cash and cash equivalents	\$6,030	\$6,735	\$6,178	\$7,324	\$4,593	\$10,716	\$13,776
Investments	6,127	4,420	3,525	2,924	6,753	873	3,497
Accounts receivable:	-	-	-	-	-	-	-
Real estate taxes	-	-	-	-	-	-	-
(less allowance for uncollectible amounts) ¹	350	361	375	358	412	343	433
Federal, State and other aid	7,872	9,701	10,875	12,975	18,071	20,325	18,330
Taxes other than real estate	5,706	5,972	6,188	7,397	7,165	6,359	6,949
Other receivables, net	1,400	2,087	2,299	1,788	2,857	2,897	2,991
Due from other funds	3,610	2,432	3,716	2,844	3,198	3,985	5,145
Due from component units, net	1,790	2,388	3,697	4,815	4,111	4,467	4,441
Restricted cash and investments	-	-	2,798	2,752	2,333	2,181	2,237
Other assets	-	-	-	99	468	267	133
Total Assets	\$32,884	\$34,095	\$39,651	\$43,276	\$49,961	\$52,414	\$57,933
Liabilities							
Accounts payable and accrued liabilities	\$12,919	\$13,072	\$14,390	\$17,531	\$20,998	\$22,893	\$25,852
Accrued tax refunds	-	-	-	-	-	-	-
Real estate taxes	62	77	90	33	92	164	69
Personal income tax	60	60	55	236	76	89	101
Other	52	121	65	123	118	84	62
Accrued judgments and claims	534	496	505	489	521	540	745
Due to other funds	-	-	-	-	-	-	-
Due to component units, net	58	42	27	115	51	128	191
Estimated disallowance of Federal, State & other aid	553	413	297	299	298	318	331
Other liabilities	4,464	5,218	6,946	7,668	9,673	8,856	10,637
Total Liabilities	\$18,702	\$19,500	\$22,374	\$26,494	\$31,828	\$33,072	\$37,987
Deferred Inflows of Resources							
Prepaid real estate taxes	\$8,749	\$8,813	\$8,649	\$8,808	\$8,684	\$9,308	\$9,652
Grant advances	18	-	3	37	96	106	-
Uncollected real estate taxes	270	283	254	240	269	212	294
Taxes and other real estate	4,429	4,768	4,822	4,163	5,845	5,046	5,242
Other deferred inflows of resources	239	249	263	288	407	535	563
Total deferred inflows of resources	\$13,704	\$14,112	\$13,991	\$13,536	\$15,302	\$15,207	\$15,750
Fund Balance (Deficit)							
Nonspendable	\$478	\$483	\$488	\$-	\$-	\$-	\$-
Spendable:	-	-	-	-	-	-	-
Restricted	-	-	2,798	2,752	2,333	2,181	2,237
Committed	-	-	-	493	499	1,954	1,959
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total fund balance (deficit)	\$478	\$483	\$3,286	\$3,245	\$2,832	\$4,135	\$4,196
Total liabilities, deferred inflows of resources and fund balances	\$32,884	\$34,095	\$39,651	\$43,276	\$49,961	\$52,414	\$57,933

¹ Allowance for uncollectable amounts: \$221 million in FY 2017, \$228 million in FY 2018, \$237 million in FY 2019, \$226 million in FY 2020, \$260 million in FY 2021, \$217 million in FY 2022, \$273.3 million in FY 2023

Source: City of New York, Annual Comprehensive Financial Reports.

Financial Reserves and Liquidity

The City maintains various financial reserves to maintain fiscal balance, narrow out-year budget gaps, and meet the potential challenges of recession, inflationary pressures, geopolitical events, emergencies, and cash flow needs. The Retiree Health Benefits Trust (RHBT), which is used to make annual pay as you go ("PAYGO") payments for current year health costs, and in past years has been used to close budget gaps, the Rainy-Day Fund (Revenue Stabilization Fund), General Reserve, and Capital Stabilization Fund represent the City's budget reserves.

The January Plan maintains a General Reserve of \$1.2 billion, the Capital Stabilization Fund of \$250 million, through FY 2028. The preliminary FY 2025 budget includes a near record \$8.2 billion in reserves, a near record level in the City's history, and represents more than 10.0 percent of projected City Fund revenues. KBRA will monitor the sufficiency of reserves given economic risks and highly intractable asylum seeker costs.

Despite economic and financial pressures due to rising asylum seeker costs, the City has maintained ample cash balances. There has been no need for cash flow borrowing. The City began FY 2024 with \$12.387 billion in cash-on-hand, versus \$8.159 billion at the same time last year. At the end of FY 2024 Q1 (September 30), the unrestricted cash



balance measured \$10.6 billion, compared to \$8.0 billion at FY 2023 Q1. The FY 2024 Q1 daily cash balance averaged \$12.4 billion, compared to \$9.7 billion during the prior year period. Cash receipts in FY 2024 Q1 totaled \$31.9 billion, a 6.8 percent increase versus a year ago. Tax revenue increased by \$148 million, or 4.5 percent, benefitting from increasing residential property assessed values, growing business tax payments, consumer spending, and the recovery in the leisure and hospitality sector, despite reduced property sales. Federal and State aid declined by \$47 million, or 0.9 percent, largely due to the reduction in federal recovery funds (\$285 million versus \$810 million). Expenditures in the first quarter measured \$33.7 billion, up 12.2 percent compared to last year. Overall, in the first quarter of FY 2024, expenditures exceeded receipts by \$3.7 billion.

Federal Stimulus Funding

Federal funding under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), Coronavirus Response and Relief Supplemental Appropriations Act of 2021 ("CRRSAA") and the American Rescue Plan Act ("ARPA") has been critical to City operations and recovery. The January Plan includes \$3.6 billion budgeted in FY 2024 and the remaining \$551 million budgeted in FY 2025. The total allocation for FY 2020 through FY 2023 was \$22 billion.

While the stimulus funds addressed relief and recovery needs, they have also been used to fund recurring programs and new initiatives. In KBRA's view, this use introduces potential risks as there are no identified city resources for these programs. Therefore, once the federal funds are depleted, sizable out-year budget gaps may need to be closed.

FY 2024 Financial Operations

The City's economy continued its recovery during the first half of FY 2024. While private sector employment growth has slowed, the number of jobs has surpassed pre-pandemic levels, although office vacancy rates remain high at 22.8 percent and are not expected to improve significantly through the forecast period. Tourism and leisure visits are approaching pre-pandemic levels, while hotel demand has almost fully recovered, and hotel rates exceed pre-pandemic levels. Expectations are for a soft landing with no recession. City officials forecast FY 2024 total tax revenue to be \$73.0 billion, around \$1.3 billion above what had been expected in the November 2023 Financial Plan, modestly below FY 2023 revenues. Personal income taxes are projected to fall back 6.9 percent in 2024 from FY 2022, while withholding collections are forecast to grow 4.1 percent. Many of the same factors seen in FY 2023 are expected to shape FY 2024 as bonuses are projected to decline by another 7.2 percent.

Business income tax revenue is forecast to increase by 4.0 percent in FY 2024. Compared to the November 2023 Plan, business income tax estimates have been revised upward by \$953 million. Year-to-date collections through December are 9.2 percent above 2023. Consumption-based tax growth is projected to moderate somewhat. Sales tax revenue is forecast to increase by 4.0 percent over the prior year, compared to double-digit gains recorded in the two prior years, as wage earnings growth eases, inflation lessens, and tourist activity slows. Hotel tax revenue is projected to grow by 8.1 percent over FY 2023. The forecast growth is due to the increase in the price of rooms. Room nights sold have increased by 2.0 percent, and occupancy is only 90 percent recovered from pre-pandemic levels. Transaction tax revenues remain depressed, as real property sales decreased 20.6 percent through December, after declining 32.9 percent in 2023. Commercial activity has been weak in the first half of FY 2024, with declines of 19.9 percent, following a decline of 40.9 percent in FY 2023.

In September 2023, the City announced a new PEG which set a target to reduce agency spending by up to 5 percent in each of the November, January, and April Financial Plans to avert a fiscal crisis. Among the initiatives were a general hiring freeze, limitations on contractual spending, a freeze on city-funded new agency spending, and a 20 percent reduction of asylum seeker expenses in fiscal years 2024 and 2025. However, in January 2024, certain of the cuts were reversed as the financial outlook improved. City officials have now determined implementation of the third of the three rounds of PEG initiatives is no longer necessary. Furthermore, the City is now reducing City-funded asylum seeker costs by an additional 10 percent on top of the 20 percent asylum seeker PEG in the Preliminary Budget.

Since the June Financial Plan, the City has recognized \$2.44 billion of increases in projected net revenues, including real property tax revenues of \$114 million, \$1.06 billion in PIT and pass-through entity revenues, business tax revenues of \$1.14 billion, sales tax revenues of \$154 million, hotel tax revenue of \$31 million, and decreases in real estate transfer tax revenues of \$628 million. Expenditure revisions reflect a net decrease in projected net expenditures of \$1.34 billion in FY 2024, increases in agency expenses of \$3.08 billion, decreases in certain expenses included in the PEG of \$2.22 billion, certain restorations included in the PEG - \$66 million, and decreases in certain costs of service provisions to asylum seekers included in the PEG of \$515 million, reflecting limitations to the duration of shelter stays, and reduced per diem costs. Nevertheless, FY 2024 asylum seeker costs have risen by \$604 million since the June 2024 Financial Plan. Total FY 2024 spending on asylum seekers is forecast at \$4.22 billion, including \$2.3 billion of City funds, \$1.77 billion of State funds, and \$156 million from the federal government.

FY 2025 Budget

The FY 2025 Preliminary Budget totals \$109.44 billion, \$4.7 billion less than the modified FY 2024 budget, and is balanced after eliminating a \$7.1 billion budget gap, with no tax increases, significant service reductions or layoffs. The 2025 budget is balanced using a \$3.78 billion FY 2024 prepayment utilized to prepay \$1.34 billion of general obligation (G.O.) debt service and \$2.44 billion of Transitional Finance Authority (TFA) Future Tax Secured (FTS) debt service.

Total tax revenue is forecast to increase by 2.6 percent in 2025 to \$74.9 billion, with property tax revenues growing by 1.6 percent and non-property tax revenues increasing by 3.5 percent. Personal income grows by 6.4 percent, and business taxes decline by 5.1 percent year-over-year. In FY 2025, bonuses are projected to recover from 2023 and 2024 slumps, growing by 4.5 percent, while modest growth in the withholding base is expected. Sales taxes growth is projected at 4.9 percent reflecting more robust wage earnings, a normalization of tourism growth to a level experienced prior to the pandemic, and a potential federal rate cut that boosts consumption. Hotel tax revenue is forecast to increase to \$727 million in FY 2025 spurred by higher occupancy and increased inventory from new hotels as the number of visitors is projected to reach 2019 levels.

Figure 8

Five-Year Financial Plan Revenues and Expenditures (\$ in millions)					
Fiscal Year	2024	2025	2026	2027	2028
Revenues					
Taxes					
General Property Tax	\$32,691	\$33,202	\$33,854	\$34,818	\$35,452
Other Taxes	39,590	40,970	42,241	44,030	45,478
Tax Audit Revenue	747	773	773	773	773
Subtotal: Taxes	\$73,028	\$74,945	\$76,868	\$79,621	\$81,703
Miscellaneous Revenues	8,621	8,100	\$7,707	\$7,646	\$7,637
Unrestricted Intergovernmental Aid	17	-	-	-	-
Less: Intra-City Revenue	(2,270)	(1,997)	(2,001)	(1,998)	(1,997)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	\$79,381	\$81,033	\$82,559	\$85,254	\$87,328
Other Categorical Grants	1,271	1,086	1,081	1,080	1,080
Inter-Fund Revenues	728	729	737	738	738
Federal Categorical Grants	12,485	7,741	7,215	7,165	7,249
State Categorical Grants	20,239	18,852	17,596	17,658	17,809
Total Revenues	\$114,104	\$109,441	\$109,188	\$111,895	\$114,204
Expenditures					
Personal Service					
Salaries and Wages	\$32,966	\$32,738	\$33,948	\$35,069	\$36,039
Pensions	9,355	10,379	10,801	10,926	11,867
Fringe Benefits ²	13,302	13,956	14,707	15,279	15,885
Subtotal: Personal Service	\$55,623	\$57,073	\$59,456	\$61,274	\$63,791
Other Than Personal Service					
Medical Assistance	6,615	6,454	6,583	6,733	6,883
Public Assistance	2,467	1,650	1,650	2,000	2,463
All Other	45,666	40,413	38,339	38,065	37,392
Subtotal: Other Than Personal Service	\$54,748	\$48,517	\$46,572	\$46,798	\$46,738
Debt Service ^{1,2}	7,653	8,177	8,861	9,488	10,265
FY 2023 Budget Stabilization & Discretionary Transfer ¹	(5,479)	-	-	-	-
FY 2024 Budget Stabilization ²	3,779	(3,779)	-	-	-
Capital Stabilization Reserve	-	250	250	250	250
General Reserve	50	1,200	1,200	1,200	1,200
Deposit to the Rainy Day Fund	-	-	-	-	-
Less: Intra-City Expenses	(2,270)	(1,997)	(2,001)	(1,998)	(1,997)
Total Expenditures	\$114,104	\$109,441	\$114,338	\$117,012	\$120,247
Gap To Be Closed	\$0	\$0	(\$5,150)	(\$5,117)	(\$6,043)

¹ Fiscal Year 2023 Budget Stabilization and Discretionary Transfers total \$5.479 billion, including GO of \$2.812 billion, TFA-FTS of \$2.167 billion and Retiree Health Benefits of \$500 million.

² Fiscal Year 2024 Budget Stabilization totals \$3.779 billion, including GO of \$1.336 billion and TFA-FTS of \$2.443 billion.

Source: City of New York Financial Plan, January 2024



ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found [here](#). Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

A discussion of certain credit relevant ESG factors is provided in KBRA's [report](#) dated May 17, 2023.

Bankruptcy Analysis

KBRA has consulted outside counsel regarding municipal bankruptcy in the State of New York. To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), a local governmental entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code, and must also be specifically authorized to file a bankruptcy petition by the State of formation. The City is a municipal corporation and city of the State of New York organized and existing under state law, and thus is a "municipality" as defined under the Bankruptcy Code. As to authorization, New York's Local Finance Law contains specific authorization for any "municipality" in the State (defined in the Finance Law as a county, city, town, or village), or its emergency financial control board, to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness. The City, or its Control Board on behalf of the City, is thus authorized to file a petition under Chapter 9.

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