City of New York, NY – General Obligation Bonds

Issuer: City of New York, NY		
Assigned	**Rating**	**Outlook**
General Obligation Bonds, Fiscal 2024 Series D, Series E and Series F	AA+	Stable
General Obligation Bonds, Fiscal 2006 Series I, Subseries I-4	AA+	Stable
General Obligation Bonds, Fiscal 2006 Series I, Subseries I-5	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 cyclicality; 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.

Fiscal 2024 Series D proceeds will be used for capital purposes, while Fiscal 2024 Series E and Fiscal 2024 Series F proceeds will be used to redeem certain outstanding G.O Bonds. On the conversion date, on or about April 11, 2024, outstanding Fiscal 2006 Series I, Subseries I-4 Bonds and Fiscal 2006 Series I, Subseries I-5 Bonds are expected to be converted from floating rate to fixed rate mode.

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 January 2024, total employment had increased by 1.7 percent year-over-year (YoY), with more than 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 receded to 4.6% as of January 2024.

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 $11.3 billion as of as of the end of 2Q 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 $8.2 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 95% 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 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, out-year 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.

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.
- Absent significant Federal and/or State funding to assist the City in handling the continuing influx of asylum seekers, further increases in projected out-year budget gaps are likely, which must be closed. 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

▪ 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.	+
▪ 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 preimums (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 congtingent 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 and the Bankruptcy Assessment can be found in prior KBRA reports, the most recent of which was published on February 27, 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.

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