10 MAY 2024

Fitch Rates NYC Transitional Finance Auth $1.8B Fiscal 2024 Series G Bonds 'AAA'; Outlook Stable

Fitch Ratings - New York - 10 May 2024: Fitch Ratings has assigned a 'AAA' rating to the following New York City Transitional Finance Authority's (TFA) $1.8 billion future tax secured (FTS) subordinate bonds, fiscal 2024 series G:

--$1,500,000,000 fiscal 2024 subseries G-1, tax-exempt bonds;

--$158,590,000 fiscal 2024 subseries G-2, taxable bonds;

--$141,410,000 fiscal 2024 subseries G-3, taxable bonds.

The subseries G-1 bonds will be sold through negotiated sale on May 14 and May 15; taxable G-2 and G-3 bonds will be sold via competitive sale on May 15. Proceeds of the bonds will be used to finance general city capital expenditures.

In addition, Fitch has assigned a 'AAA' rating to the TFA's future tax secured tax-exempt subordinate bonds (adjustable rate), fiscal 2018, series C, subseries C-7. The fiscal 2018 subseries C-7 bonds will be converted from index rate bonds to adjustable rate bonds with an initial rate setting scheduled for May 22, 2024.

The outstanding TFA subordinate lien FTS bonds are rated 'AAA'.

The Rating Outlook is Stable.

The 'AAA' ratings on the subordinate FTS revenue bonds reflect solid long-term growth prospects for pledged revenues and the bonds' highly resilient structure. Fitch anticipates the bond structure can withstand changes in economic cycles and maintain solid debt service coverage (DSC). Fitch's analysis indicates resilience would be strong even if New York City fully leveraged the pledged revenues up to their legally permitted amount, but Fitch expects issuance to be well below that level as excess revenues flow to the city for general operations. A very strong legal structure insulates bondholders from the operating risk of New York City (Issuer Default Rating [IDR] AA/Stable).

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

--A decline in pledged revenues that is more severe and prolonged than anticipated, combined with a significant increase in leverage closer to the ABT.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Not applicable as the bonds are rated at Fitch's highest rating category.

Dedicated Tax Security

The bonds are payable from a subordinate lien on revenues derived from a personal income tax (PIT) and a sales and use tax (SUT) (collectively, the pledged revenues) imposed by New York City, as authorized by the state of New York. Payment of the PIT and SUT revenue to the TFA is not subject to city or state appropriation. All references to PIT revenues also include the revenues from the NYC pass-through entity tax (PTET) on certain partnerships and S corporations that elect to pay such tax and whose partners or shareholders receive a corresponding credit against their PIT liabilities.

SUT revenues will be available for the payment of debt service if PIT revenues are projected to be insufficient to provide at least 150% of the maximum annual debt service (MADS) on the TFA's outstanding bonds.

The subordinate additional bonds test (ABT) requires that pledged revenues for the most recent fiscal year are at least 3x the sum of $1.32 billion (maximum allowable annual senior lien bonds' debt service), plus projected maximum annual subordinate debt service, including debt service on the bonds to be issued. Debt service on variable-rate bonds is assumed at the maximum rate for purposes of the ABT. The TFA does not have any senior lien obligations outstanding.

Dedicated Tax Key Rating Drivers

Solid Growth Prospects: Statutory revenues benefit from the city's unique economic profile, which centers on its identity as an international center for numerous industries and a major tourist destination. Fitch believes longer-term growth of pledged revenues may slow from historical levels but remain solid at levels between long-term rates of inflation and U.S. GDP following record levels of personal income and sales tax revenues during fiscal 2023.

Robust Resilience: The high coverage levels from growing pledged revenues provide for very strong levels of resilience to changes in the economy and through downturns. Strong legal and practical protection against overleveraging additionally support the 'aaa' level of resilience.

Strong Legal Framework: The bankruptcy-remote, statutorily defined nature of the issuer pursuant to state legislation and a bond structure involving a first-perfected security interest in the PIT and SUT revenues are key credit strengths. Payment of the PIT and SUT revenue to the TFA is not subject to city or state appropriation. Statutory covenants prohibit action that would impair bondholders.

As a true sale structure, TFA's rating is limited to six notches above New York City's IDR of 'AA'/Outlook Stable

PROFILE

Pledged revenues for fiscal 2023 (ended June 30) of $26.7 billion grew by close to 6% yoy. PIT revenues were up by 3% and SUT revenues were up by 11%, yoy. This follows record levels for SUT and PIT revenues achieved during fiscal year 2022 when pledged revenues rose by 17% yoy.

Pro-forma all-in debt service coverage is a very strong 4.7x based on fiscal 2023 pledged revenues compared to projected fiscal 2028 debt service, which assumes the issuances of $26.3 billion in new debt through fiscal 2028 for general city capital purposes after giving effect to the issuance of the series G bonds. The city projects pledged revenues to decline by 2.6% during fiscal 2024 before resuming growth through fiscal 2028 (as per the city's April 24, 2024 financial plan for fiscal years 2024 through 2028). This projection is an improvement from the 5.5% decline projected as of the city's November 2023 financial plan reflective of better than anticipated growth in employment and wages and solid economic activity including strong tourism and retail spending during the holiday season.

During fiscal 2023, PIT revenues grew 2.8% yoy to $17.2 billion and approximately two-thirds of PIT revenues were collected through withholding, which remains close to the 10-year average of 70%. The results were affected by greater than expected April and June estimated payments, and NYC PTET payments of $2.4 billion. City projections show PIT revenues for fiscal 2024 declining by 6.7% yoy reflective of larger declines in non-withholding revenue, inclusive of PTET, following strong fiscal 2023 performance. Growth is projected to resume beginning in fiscal 2025 through fiscal 2028 more in line with pre-pandemic growth levels.

Fiscal 2023 SUT revenues of $9.5 billion growth of 11.3% yoy reflects strong local consumption combined with an inflationary impact on the costs of goods and services and a continued increase in tourist activity in the city, despite a slow return to office recovery. SUT revenues for fiscal 2024 are expected to rise by a more moderate 4.8% yoy reflective of a spend-down of excess savings, inflationary pressures and slowing labor market. City projections show SUT revenues continuing to experience moderate growth from fiscal 2025 through fiscal 2028.

Fitch expects the city will manage future debt issuances to comply with city debt policies and expects future TFA debt service coverage levels to remain well above the ABT permitted levels as management relies on surplus revenues to support operations.

Economic Resource Base

Fitch considers the city's status as an international center for numerous industries and a major tourism destination, as well as its proven resilience through the recent and prior severe economic disruptions, as credit strengths. Employment recovery had lagged national trends following the pandemic but job growth picked up notably during calendar 2022 and through 2023 and employment in the city has now recovered to pre-pandemic levels.

The local economy and operating budget remain strongly linked to the financial activities sector, which was relatively unaffected by the pandemic and accounts for 25% of earnings compared with 10% for the U.S., according to 2022 data. Professional and business services accounted for 21% of earnings, for the same period, and this sector along with the financial activities sector have a higher share of wage earnings than the other service-producing and governmental sectors in the city based on 2022 data.

The economic profile of the city features high wealth levels; per capita personal income was approximately 122% of the U.S. in 2022. However, the city's above-average individual poverty rate of 17.2% exceeds the national rate of 12.5%. This is indicative of some income disparity and the demand for social services, which is also common in other large urban U.S. cities.

Estimated census figures for July 2023 report population at 8,258,035, a 6.2% decrease in population from 2020. The city is the most populous city in the U.S., and its population is larger than the combined populations of Los Angeles and Chicago, the next two most populous cities in the nation.

Date of Relevant Committee

02 February 2024

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.

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Rating Actions

ENTITY/DEBT		RATING		RECOVERY	PRIOR
New York City Transitional Finance Authority (NY)					
• New York City Transitional Finance Authority (NY) /NYC TFA Future Tax Secured - Subordinated/ 2 LT	LT	AAA	Affirmed		AAA

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria - Effective from May 4, 2021 to April 2, 2024 (pub.04 May 2021) (including rating assumption sensitivity)

Applicable Models

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

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

New York City Transitional Finance Authority (NY)	EU Endorsed, UK Endorsed

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