S&P Global
Ratings

RatingsDirect®

Summary:

New York City Transitional Finance Authority; Miscellaneous Tax

Primary Credit Analyst:
Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

Secondary Contact:
Cora Bruemmer, Chicago + 1 (312) 233 7099; cora.bruemmer@spglobal.com

Table Of Contents

Summary:

New York City Transitional Finance Authority; Miscellaneous Tax

Credit Profile		
US$1791.35 mil future tax secured subord bnds (Tax-Ex bnds) ser 2025A_A-1 due 11/01/2041		
Long Term Rating	AAA/Stable	New
US$125.87 mil future tax secured subord bnds (taxable) ser 2025A-A2 due 11/01/2026		
Long Term Rating	AAA/Stable	New
US$119.15 mil future tax secured subord bnds (Tax-Ex bnds) ser 2025B-B-1 due 11/01/2038		
Long Term Rating	AAA/Stable	New
US$75.525 mil future tax secured subord bnds (taxable) ser 2025B-B-2 due 11/01/2031		
Long Term Rating	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the New York City Transitional Finance Authority's (TFA) approximately $1.917 billion future tax-secured (FTS) subordinate bonds fiscal 2025 series A, consisting of tax-exempt subseries A-1 (approximately $1.8 billion), and taxable subseries A-2 (approximately $125.87 million), and approximately $194.7 million FTS subordinate bonds fiscal 2025 series B, consisting of tax-exempt subseries B-1 (approximately $119.15 million), and taxable subseries B-2 (approximately $75.525 million).
- The long-term rating on TFA's subordinate FTS bonds outstanding is 'AAA'. There are currently no senior bonds outstanding.
- The outlook is stable.

Security

Personal income tax (PIT) revenue and, if needed, sales and use tax revenue generated within the City of New York secures the subordinate (second-lien) FTS bonds. The proceeds of the series A and B bonds will be used to redeem, at or prior to maturity, certain FTS bonds. The bonds will be issued as multimodal bonds, initially in fixed-rate mode.

Credit overview

Coverage and liquidity metrics, as well as economic fundamentals that support the 'AAA' rating, remain very strong. Overall, New York City's economic trajectory remains positive, as reflected in overall positive tax revenue revisions in the June 2024 financial plan accompanying the adopted fiscal 2025 budget. The city's assumption for pledged revenues remains conservative, with combined pledged revenues in fiscal 2024 still forecast to fall by 3.9% from fiscal 2023 caused by a projected 8.7% decrease in PIT revenue (was 13% in the June 2023 adopted budget for fiscal 2024), while sales tax revenue is forecast to rise by 4.8% (was 2.8%). We consider the city's assumptions conservative, as S&P Global Economics expects the national economy will repeat last year's outperformance versus peers and grow at 2.5% in 2024 (for more, see "Economic Outlook U.S. Q3 2024: Milder Growth Ahead," published June 24, 2024, on

RatingsDirect). Even with more-conservative assumptions and a projected drop in pledged revenue, coverage remains strong, underpinned by New York City's ongoing economic expansion and diversification (underscored by reputable universities, first-class health care providers, a growing technology startup sector, and attractiveness as a leisure and business travel destination).

New York State's enacted fiscal 2025 budget amended the New York City Transitional Finance Authority Act, increasing the amount of FTS bonds authorized to be outstanding that will not be subject to the city's debt limit by a total of $14 billion, to $27.5 billion from $13.5 billion. Beginning July 1, 2024, $8 billion of such increased capacity is available, with the remaining $6 billion available beginning on July 1, 2025. We believe management would structure future debt plans to ensure that pledged revenue continues to provide very high coverage in line with historical trends. However, we will continue to monitor coverage levels and whether increased debt could materially reduce maximum annual debt service (MADS) coverage to less than 4x, which we believe could potentially pressure the ratings.

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

Other key credit considerations include:

- Ongoing expansion and diversification of New York City's economy, which is largely recovered from the pandemic downturn, supported by the strength of the broader national economy in 2024;
- Fiscal 2023 pledged revenue of $26.7 billion (6% above fiscal 2022 collections) provides very strong 7.4x coverage of annual debt service (we expect maintenance of at least 4x MADS coverage of subordinate-lien debt service over the outlook period);
- Strong bond provisions, including what we consider a conservative additional bonds test (ABT) of at least 3x MADS and maximum MADS of $1.32 billion for senior-lien bonds (none currently outstanding), and at least 3x the sum of covenanted MADS of $1.32 billion on senior-lien debt plus annual debt service on subordinate debt for the subordinate-lien bonds;
- Nationwide income and sales use taxes have historically demonstrated low-to-moderate volatility, with the breadth of the city's sales and use tax base offsetting cyclical volatility associated with PIT; and
- The city's general creditworthiness, which does not constrain the rating but will remain a consideration, as pledged revenue could become pressured if New York City's economy and finances deteriorate.

Environmental, social, and governance

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

Ratings above the sovereign

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

Outlook

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

Downside scenario

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

Credit Opinion

Economic fundamentals: Very strong

The sheer size of New York City's economy supports our very strong view of economic fundamentals. For example, the city's population across Bronx, Kings, Queens, Richmond, and New York counties is larger than that of 38 U.S. states and stood at 8.3 million as of July 2023 according to census data. In addition, in 2022 the New York City metropolitan area's GDP remained the highest across the 10 largest metropolitan areas at nearly $2.2 trillion and remains more than 76% larger than that of the next-largest metro area (Los Angeles-Long Beach-Anaheim).

Actual PIT collections in fiscal 2023 were $17.2 billion and in the financial plan accompanying the June 2024 adopted budget, future PIT collections are forecast at $15.7 billion, $17.3 billion, $17.5 billion, $18.5 billion, and $19.2 billion, in fiscal years 2024 through 2028, respectively. We believe the city's forecast is conservative, especially the anticipated drop in PIT revenue in fiscal 2024, given the current resilience of the city's and the national economy.

New York City levies a 4.5% sales tax on a broad range of economic activity, including retail sales (also from online sales), utilities, communication sales, services, and manufacturing. In addition, it levies a 6% tax on receipts from parking, garaging, or storing motor vehicles. Taxable sales in the city doubled from 2004 to 2020 and, after a slump in 2021, jumped to a record $222.6 billion in 2024.

Coverage and liquidity: Very strong

Our view of TFA's coverage and liquidity is very strong. Notwithstanding ongoing economic resilience, the fiscal 2024 pledged revenue is forecast to fall by approximately 3.9% to about $25.7 billion. An estimated 8.7% decrease in PIT to $15.7 billion is driving the forecast decrease, while sales tax is forecast to increase to $10.0 billion (4.8% higher than in fiscal 2023). Actual fiscal 2023 pledged revenue provided extraordinarily strong annual debt service coverage of 7.4x and, after taking into account the issuance of the fiscal 2025 series A and B bonds, provided MADS coverage of 6.5x based on the maximum rate on the variable-rate bonds and 6.7x based on the 4.25% budgeted adjustable rate. Even with expectations for lower pledged revenue in fiscal 2024, annual debt service coverage remains extraordinarily strong at 7.3x, as does MADS coverage at 6.2x based on the maximum rate on the variable-rate bonds and 6.4x based on the 4.25% budgeted adjustable rate (after taking into effect the issuance of the fiscal 2025 series A and B bonds). These coverage trends are consistent with our view of the 'AAA' rating.

We do not view the TFA's variable-rate portfolio as a negative credit factor, given the authority's management of associated liquidity risk, which we incorporate into our analysis. In addition, given the TFA's historical and projected MADS coverage, we do not view the lack of a fully funded debt service reserve as a negative credit factor.

We believe the city's long-time target of maintaining debt service at less than 15% of tax revenue, along with its reliance on residual PIT and sales tax revenue to fund normal operations, provides bondholders assurance that leveraging pledged revenue up to the ABT for the subordinate bonds is unlikely to occur. Furthermore, the TFA has not issued parity senior-lien debt in recent years, and we expect no change to this. Although we do not include unpledged revenue in our calculation of coverage, New York City has prepaid a portion of TFA's debt service from its general fund, represented as a grant to the TFA, which stood at $2.17 billion to benefit fiscal 2024 results, up from $1.96 billion in the previous year, and is budgeted at $2.44 billion to benefit fiscal 2025 results. By providing the grant from the general fund for payment of debt service, PIT revenue that the TFA retains is reduced, allowing the city a larger amount for operations.

Revenue volatility: Very-low-to-low

Pledged PIT and sales tax revenue are critical sources that fund city operations, collectively accounting for more than one-third of budgeted city tax revenue in fiscal 2024. Nationwide PIT volatility is historically very low, while sales taxes volatility has been low, and this informs our view of the pledged revenue's combined volatility. However, we believe New York's PIT revenue is cyclical, more sensitive to general economic and tourism trends, and susceptible to certain market conditions. At the same time, we believe the breadth and diversity of the city's economy provide a broader base for sales and use tax collection, reducing its volatility compared with nationwide trends.

Although each revenue source has seen cyclical growth and decline, the overall growth trend for both is positive. Either tax source easily covered annual debt service in fiscal 2023, with PIT receipts providing 4.7x coverage and sales tax collections 2.6x.

The PIT is the TFA bonds' primary source of security, generating about 64% of statutory revenue in fiscal 2023. Since the TFA was established, PIT revenue has fully covered debt service without any use of sales taxes. In 1966 New York City imposed a PIT, and in 2006 it returned to a lower schedule of base rates and a 14% surcharge, which resulted in a maximum rate of 3.648%. In 2010, the base rate increased, resulting in a maximum rate of 3.876%. The base rate and the 14% surcharge have been extended to Dec. 31, 2026.

Obligor linkage: Remote

The state legislature created the TFA under the New York City Transitional Finance Authority Act. The act authorizes TFA to issue debt secured by revenue that the state grants to the authority. The state collects pledged revenue, and PIT revenue is held in trust and transferred to the trustee by the state comptroller. Pledged revenue is not subject to appropriation by the city or state. The TFA indenture creates a lien for the benefit of bondholders that the city and state have covenanted not to limit or alter until the bonds are paid or discharged.

A board of directors manages TFA with the power to approve bond issuances. Five voting directors govern the authority: the director of the office of management and budget, the finance commissioner, the commissioner of design and construction, the comptroller, and the city council speaker. Two of the members are elected officials, the other three are appointed by the mayor, and all are in some way obligated to the residents of the City of New York.

We have also received a legal opinion that the pledged revenue is no longer property of the city under Section 902(1) of the bankruptcy code and would not be treated as such. In the event of a city bankruptcy, a plan of adjustment that contradicts this right and determination by the state would violate state law and thus should not be confirmable.

These factors inform our belief that the legal structure is an intended true sale of the pledged revenue that renders the revenue unavailable to fund operations, and contains other securitization features that segregate pledged revenue prior to the payment of debt service from the city's other revenue and cash balances. Therefore, we view pledged revenue as more insulated from potential operating shortfalls or budgetary pressure wherein it is neither legally nor practically available for operations. However, we believe risks remain that could result in the impairment of the revenue if the city were to become stressed, meaning bondholders cannot be completely isolated from the city's financial and economic condition.

Rating linkage to New York City

The GO rating on the city serves as an assessment of the city's overall creditworthiness and is a key determinant of the authority's ability to pay bonds secured by revenue. Although the high investment-grade rating denotes little risk of the city falling into distress, we believe that the potential for lowering the GO rating cannot be disregarded.

For more information on New York City, see our report published March 21, 2024.

Related Research

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