



RATING ACTION COMMENTARY

Fitch Rates NYC Transitional Fin Auth \$1.5B Fiscal 2025 Ser I, J and K Bonds 'AAA'; Outlook Stable

Fri 09 May, 2025 - 2:47 PM ET

Fitch Ratings - New York - 09 May 2025: Fitch Ratings has assigned a 'AAA' rating to the following New York City Transitional Finance Authority's (TFA) \$1.5 billion future tax secured (FTS) subordinate bonds:

--\$650,000,000 fiscal 2025 (tax-exempt) series I, subseries I-1;

--\$300,000,000 fiscal 2025 (taxable) series I, subseries I-2;

--\$481,295,000 fiscal 2025 (tax-exempt) series J, subseries J-1;

--\$40,615,000 fiscal 2025 (taxable) series J, subseries J-2;

--\$20,790,000 fiscal 2025 (tax-exempt) series K.

The bonds will be sold through negotiated sale on May 13 and May 14. Proceeds of the series I bonds will be used for general capital purposes. Proceeds of the series J and K bonds will be used to refund a portion of TFA's outstanding bonds.

Fitch has also affirmed the TFA's outstanding subordinate lien FTS bonds at 'AAA'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
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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

PREVIOUS

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VIEW ADDITIONAL RATING DETAILS

The 'AAA' rating on the subordinate FTS revenue bonds reflect solid long-term growth prospects for pledged revenue and the bonds' highly resilient structure. Fitch anticipates that the bond structure will be able to withstand changes in economic cycles and maintain solid debt service coverage.

Fitch's analysis indicates resilience would be strong even if New York City leveraged the pledged revenue up to its legally permitted amount, but Fitch expects issuance to be well below that level as excess revenue flows to the city for general operations. A very strong legal structure insulates bondholders from the operating risk of New York City (IDR; AA/Stable).

RATING SENSITIVITIES

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

A decline in pledged revenue that is more severe and prolonged than anticipated, combined with a significant increase in leverage closer to the additional bonds test (ABT).

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

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

DEDICATED TAX SECURITY

The bonds are payable from a subordinate lien on revenue derived from a personal income tax (PIT) and a sales and use tax (SUT) (collectively, the pledged revenue) 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 revenue also include the revenue 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 revenue will be available for the payment of debt service if PIT revenue is projected to be insufficient to provide at least 150% of the maximum annual debt service (MADS) on the TFA's outstanding bonds.

Additional bonds may be issued as senior bonds if net pledged revenue for the 12 consecutive calendar months preceding authorization is at least 3x the maximum amount of annual senior debt service, including debt service on the bonds to be issued. Senior lien bonds, if issued, are subject to a \$330 million limit on quarterly debt service. The TFA does not have any senior lien obligations outstanding.

The subordinate ABT requires that pledged revenue for the most recent fiscal year is at least 3x the sum of \$1.32 billion (covenanted MADS for senior lien bonds) 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 the purposes of the ABT.

DEDICATED TAX KEY RATING DRIVERS

Solid Growth Prospects

Pledged revenues benefit from the city's unique economic profile, which reflects its identity as an international center for numerous industries and institutions and a major tourist destination. Fitch believes longer-term growth levels of pledged revenue may slow from the forecast record fiscal 2025 levels, but remain solid at levels between long-term rates of inflation and U.S. GDP. This level of revenue growth is consistent with a 'aa' assessment.

Robust Resilience

The high coverage levels from growing pledged revenue provide for very strong levels of resilience to changes in the economy and through downturns. Strong legal and practical

protection against overleveraging also supports 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 revenue 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

PIT revenues are projected to increase by 16.5% in fiscal 2025 to record levels of \$18.3 billion (as per the city's May 1, 2025 financial plan for fiscal years 2025 through 2029), mostly due to stronger financial services profits and Wall Street bonus activity. PIT revenues are projected by the city to moderate slightly in fiscal 2026 before improving annually through 2029.

SUT revenues are forecast to see more moderate growth in fiscal 2025, yoy, reflecting a spend-down of excess savings, inflationary pressures and a slowing labor market. City projections show SUT revenue continuing to experience moderate growth, over the plan period through fiscal 2029.

Pro forma all-in debt service coverage remains very strong at 4.2x. This is based on audited fiscal 2024 pledged revenue, compared to projected fiscal 2029 debt service of \$6.1 billion, which assumes the issuances of an additional \$27.8 billion in new debt through fiscal 2029 for general city capital purposes.

The city projects fiscal 2025 pledged revenue will grow by a strong 11.7%, with annual growth projected at -0.4% in fiscal 2026, 3.3% in fiscal 2027, 4.6% in fiscal 2028 and 4.0% in fiscal 2029.

Fitch considers the city's pledged revenue projections to be reasonable considering robust tourism activity and continued job growth through the first half of fiscal 2025, combined with projections for strong Wall Street profits in the current fiscal year. Fitch expects economic growth to moderate through the remainder of fiscal 2025 due to the still

relatively high interest rate environment, reduced but still active spending levels and the uncertainty of the impact of the new federal administration's potential policy actions. Fitch expects job growth to decelerate; however, tourism, which has rebounded and started to surpass pre-pandemic levels, is expected to remain relatively healthy, notwithstanding a slowdown in foreign visitors.

Pledged revenue for fiscal 2024 (ended June 30) of \$25.6 billion was down by 4.2% yoy, but still covered annual debt service by a very strong 7.3x. This follows record growth in pledged revenues of 5.7% and 16.9%, for fiscal years 2023 and 2022, respectively. PIT revenue declined by 8.7% to \$15.7 billion and SUT revenue grew by 3.8% to \$9.9 billion yoy during fiscal 2024, following respective yoy growth of 2.8% and 11.3% for PIT and SUT revenue during fiscal 2023. Declines in PIT reflected larger declines in non-withholding revenue, inclusive of PTET, following strong fiscal 2023 performance. Approximately 77% of PIT revenues were collected through withholding, which exceeds the 10-year average of 71%.

As of Mar. 31, 2025, the city's and the TFA's combined remaining debt-incurring power was approximately \$33.8 billion. The state's fiscal 2025 budget increased the total authorized amount of FTS bonds to be outstanding, and not subject to the city's debt limit, by \$14 billion from \$13.5 billion to \$27.5 billion, with \$8 billion of such increased capacity available beginning on July 1, 2024 and the remaining \$6 billion available beginning on July 1, 2025. The Governor's Executive Budget for the state of New York includes a proposal which, if enacted, would further increase the total amount of FTS bonds authorized to be outstanding and not subject to the city's debt limit by an additional \$3.0 billion, with such amount increasing to \$30.5 billion as of July 1, 2025. The statutory debt limits are binding on the TFA but are not covenants with bondholders, and are subject to change by legislation adopted by the state.

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

Economic Resource Base

Fitch considers the city's status as an international center for numerous industries and institutions and as a major tourism destination, as well as its proven resilience through the recent and prior severe economic disruptions, as credit strengths. Job growth following the pandemic picked up notably during calendar years 2022 and 2023, and reached record highs through calendar year end 2024.

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 2023 data. Professional and business services accounted for 21% of earnings during the same period and this sector, along with the financial activities sector, has a higher share of wage earnings than the other service-producing and governmental sectors in the city based on 2023 data.

The city's economic profile features high wealth levels; per capita personal income was approximately 129% of the U.S. average in 2023. However, the city's above-average individual poverty rate of 17.2% exceeds the national rate of 12.5%, indicating some income disparity and the demand for social services, also common to other large urban U.S. cities.

Estimated census figures for July 2024 report the city's population at 8,478,072, a 1.0% YoY increase, but a 3.7% decrease from 2020. New York 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.

Solid Pledged Revenue Growth Prospects

Total pledged revenues grew at a CAGR of approximately 4.8% over the 10 fiscal years through 2024. Fitch believes the city continues to have solid economic growth prospects. Due to the sensitivity of both PIT and SUT revenues to economic activity, Fitch expects revenue growth over time to exceed its expectations for long-term rates of inflation but be below GDP growth, consistent with a 'aa' revenue growth assessment.

Sensitivity and Resilience of Pledged Revenues through Economic Declines

To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP stress scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. The Fitch Analytical Stress Test (FAST) model generates a 6.6% decline in pledged revenue under the -1% U.S. GDP moderate recession scenario.

The largest actual cumulative decline in historical revenues was a sizable 17.9% drop between fiscal years 2001 and 2003. A slightly smaller decline occurred in fiscal 2009 amid the financial crisis. Both were due in part to recessions; the former was also affected by the Sept. 11 terrorist attacks and the latter by adjustments for prior-year PIT overpayments.

Assuming issuance up to the 3.0x ABT, Fitch estimates that pledged revenues would have to decline by roughly 67% before MADS coverage is less than 100%, or 10.1x the revenue sensitivity results produced by FAST in a 1% U.S. GDP decline scenario and more than 3.7x the largest actual cumulative decline. These results are consistent with a 'aaa' resilience assessment. Fiscal 2024 pledged revenues of \$25.6 billion could decline by 76% and still cover pro forma annual debt service of \$6.1 billion in fiscal 2029.

Fitch believes issuance to the ABT is highly unlikely considering the city's debt issuance plans for pledged revenues and reliance on residual revenue for its operations. Fitch assumes the city would delay future borrowing plans if pledged revenues fell significantly short of management's expectations to preserve sufficient residual revenues to fund operating expenses.

Pledged PIT revenues are deposited into the collection account daily, with a monthly amount retained in the debt service fund equal to one-half of the debt service payable in the subsequent three-month period. Revenues are retained for debt service until debt service is fully funded for the following three-month period.

Sources of Information

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Fitch does not provide ESG relevance scores for New York City Transitional Finance Authority (NY).

In cases where Fitch does not provide ESG relevance scores in connection with the credit rating of a transaction, programme, instrument or issuer, Fitch will disclose any ESG factor that is a key rating driver in the key rating drivers section of the relevant rating action commentary. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products>.

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

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, v3.1.0 ([1](#))

U.S. Local Government Rating Model, v1.2.0 ([1](#))

ADDITIONAL DISCLOSURES

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New York City Transitional Finance Authority (NY)

EU Endorsed, UK Endorsed

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