Research Update:

New York City Transitional Finance Authority's $1.49 Billion Fiscal 2025 Series I, J, and K Future Tax Secured Subordinate Bonds Rated 'AAA'; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the New York City Transitional Finance Authority's (TFA) $950 million future tax secured (FTS) subordinate bonds fiscal 2025 series I, consisting of $650 million fiscal 2025 subseries I-1 (tax-exempt) and $300 million fiscal 2025 subseries I-2 (federally taxable).
- In addition, we assigned our 'AAA' long-term rating to the TFA's FTS subordinate refunding bonds fiscal 2025 series J, consisting of $481.3 million fiscal 2025 subseries J-1 (tax-exempt) and $40.6 million fiscal 2025 subseries J-2 (federally taxable), and the TFA's $20.8 million FTS subordinate refunding bonds fiscal 2025 series K (tax-exempt).
- The outlook is stable.

Rationale

Security

Personal income tax (PIT) revenue and, if needed, sales and use tax revenue generated within New York City secure the fiscal 2025, series I, J, and K subordinate FTS bonds. The fiscal 2025 subseries I-1 and I-2 and refunding bonds will be issued as multimodal bonds, initially in fixed-rate mode.

Proceeds from the fiscal 2025 subseries I-1 and I-2 bonds will be used to finance general city capital expenditures. Proceeds from the fiscal 2025 subseries J-1 and J-2 and series K refunding bonds will be used to redeem, at or prior to maturity, certain bonds previously issued by the authority.

TFA has approximately $54.6 billion of FTS subordinate bonds outstanding. There are no senior bonds outstanding.

Credit highlights

The 'AAA' long-term rating incorporates our view of very strong coverage and liquidity as well as very strong economic fundamentals. New York City's economic trajectory remains positive overall, as reflected in favorable tax revenue performance and upward revisions to the May 2025 financial plan. Within the financial plan, combined pledged revenue is expected to increase to $28.58 billion (or 11.7%) in fiscal 2025 from the actual revenue of $25.58 billion in fiscal 2024. This is primarily due to projected increases of 16.5% in PIT revenue (compared with an 8.7% decrease last year) and 4.1% in sales tax revenue (compared with 3.8% last year).

The city's pledged revenue growth assumptions typically reflect conservative economic growth expectations, and we view current and out-year expectations to be reasonable compared with S&P Global Ratings Economics' forecasts. In its most recent report, "U.S. Economic Outlook Update: Higher Tariffs And Policy Uncertainty To Weaken Growth," published May 1, 2025, on RatingsDirect, S&P Global Ratings Economics reports that sharply higher U.S. average effective tariffs on imported goods and the persistent unpredictability of policy have led to an update of U.S. macroeconomic forecasts. Even after accounting for temporary suspensions and reversals, the tariffs in place exceed expectations in both size and scope, lifting effective tariffs to levels not seen in nearly a century. According to the new baseline forecast, the U.S. economy will expand 1.5% and 1.7% on an annual average basis in 2025 and 2026, respectively, decelerating from the 3.2% and 2.5% expansion seen in 2023 and 2024. The tariff-induced price shock would raise core consumer price inflation to 4% by the end of 2025. At the same time, S&P Global Ratings Economics projects that the U.S. unemployment rate will drift higher as weaker growth takes hold, potentially peaking at 4.7% in the first half of next year, despite slowing labor force growth resulting from curbs on immigration and a rise in deportations. Our economists have elevated the probability of a recession starting within the next 12 months at 35% from 25%. We acknowledge that risk of a downturn will rise if conditions weighing on growth and sentiment intensify.

We are monitoring the potential effects that a sharper U.S. and global economic growth slowdown could have on NYC's economic activity, retrenchment of business investment and consumer spending, and employment, which could in turn weaken the New York City's income and sales tax revenue projections. The city's May 2025 financial plan incorporates expectations for slower growth and possible tax policy changes. As a result, combined pledged revenue is projected to decline by 0.4% in fiscal 2026 and then grow by 3.3% in fiscal 2027. The state's budget proposal includes personal income tax credits for New York City residents with dependents who meet certain income thresholds, credits which, if enacted, would modestly reduce income tax revenue by $63 million in fiscal 2026 and $65 million in fiscal 2027. In addition, the city conservatively projects modest changes in sales tax collections as a result of a withholding extension of sales tax revenue (enacted in a previous New York State budget) for payment to the New York State Agency Trust Fund to provide relief for financially distressed hospitals and nursing home facilities through March 31, 2028. Nevertheless, we expect economic fundamentals, underpinned by the city's dynamism and diverse industry base--including reputable universities, first-class health care providers, growing technology startup sector, and attractiveness as a leisure and business travel destination--will continue to generate pledged revenue that supports our view of very strong debt service coverage.

Also supporting the high investment-grade rating is the city's transfer of its rights, title, and interest in pledged revenue to the authority, which enhances the statutory and legal mechanisms that separate control of the revenue from the city, supporting an obligor linkage that 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 our general obligation (GO) rating on the city (AA). The city's elevated debt and contingent liability profile relative to that of higher-rated peers constrains the GO rating, but proactive and well-embedded management practices offset this.

New York State's fiscal 2025 budget amended the New York City Transitional Finance Authority Act, increasing the authorization of FTS bonds that will not be subject to the city's debt limit to $27.5 billion from $13.5 billion. Eight billion dollars of such increased capacity became available as of July 1, 2024, and the remaining $6 billion as of July 1, 2025. A proposal within New York State's fiscal 2026 executive budget, 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 $3.0 billion, to $30.5 billion as of July 1, 2025. TFA projects that it will issue approximately $6.0 billion, $7.0 billion, $7.3 billion, and $7.5 billion in fiscal years 2026 through 2029, sequentially, of FTS bonds for general capital purposes. We believe management will structure future debt plans to ensure that pledged revenue continues to provide very high coverage in line with historical trends. However, we monitor coverage and whether increased debt could materially reduce maximum annual debt service (MADS) coverage to less than 4x or substantially diminish the flow of excess tax revenue to the city after payment of debt service, which we believe could pressure the ratings.

The rating further reflects our view of:

- Ongoing expansion and diversification of NYC's economy, which has largely recovered from the pandemic downturn, supported by the strength of the broader national economy in the near term.
- Fiscal 2024 actual pledged revenue of $25.6 billion providing very strong 7.3x coverage of annual debt service. Following the current new money and refunding issuances, fiscal 2024 pledged revenue provides MADS coverage of 5.5x based on the maximum rate on the variable-rate bonds and 5.7x based on the 4.25% budgeted adjustable rate. In light of TFA's additional debt issuance plans over the near term, we expect that maintenance of at least 4x MADS coverage of subordinate-lien debt service will continue over the outlook period.
- Strong bond provisions, including what we consider a conservative additional bonds test of at least 3x MADS and maximum MADS of $1.32 billion for senior-lien bonds (none 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 and use taxes that 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.
- The city's general creditworthiness, which does not constrain the rating but will remain a consideration, as pledged revenue could become pressured if NYC's economy and finances deteriorate.

Environmental, social, and governance

We view the environmental, social, and governance factors that could affect 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 authority's FTS statutory and legal mechanisms positively, as they protect the rights of bondholders and limit the city's ability to divert revenue before debt service payment.

Rating above the sovereign

We rate the TFA bonds above the sovereign because we believe the authority could 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 "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" criteria, published Nov. 19, 2013.

Outlook

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

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 TFA accelerates borrowing that leads to materially lower MADS coverage of less than 4x.

For more information, see our full analysis on the TFA, published Sept. 5, 2024.

New York City Transitional Finance Authority--Key credit metrics

Economic data		
Economy	Very strong	
EBI level per capita as % of U.S.		112
Population (obligor)		8,478,072
Broad and diverse MSA	Yes	
Population (MSA)		20,321,355
Financial data		
Revenue volatility	Low-Very low	
Coverage and liquidity	Very strong	
Baseline coverage assessment	Other	
MADS coverage (x)		5.7
MADS year		2029
Annual debt service coverage (x)		7.3
Two-year pledged revenue change (%)		1.5
Bond provisions		
ABT (x)		1
ABT type	MADS	
ABT period	Projected	
DSRF type	None	
Obligor relationship		
Obligor linkage	Remote	
PL rating limit (number of notches above OC)		4

Data points and ratios may reflect analytical adjustments. ABT--Additional bonds test. DSRF--Debt service reserve fund. EBI--Effective buying income. MADS-Maximum annual debt service. MSA--Metropolitan statistical area. OC--Obligor creditworthiness.

New York City Transitional Finance Authority--Key credit metrics

Economic data
PL--Priority lien. Three-pronged test--MADS, 10% of principal, or 125% of average annual debt service. Economic data reflects 2023 information reported on a calendar-year basis, sourced from S&P Market Intelligence. Annual debt service coverage and MADS coverage are based on actual fiscal 2024 revenue and pro forma debt service (assuming an interest rate of 4.25% on variable-rate bonds outstanding), inclusive of the fiscal 2025 series I, J, and K bonds.

Related Research

First 100 Days Recap: What We're Watching For U.S. Public Finance Sectors, April 30, 2025

Ratings List	
New Issue Ratings	
US$481,295,000 New York City Transitional Finance Authority, Future Tax Secured Subordinate Bonds, Fiscal 2025 Series J, Subseries J-1, Tax-Exempt Bonds, dated: Date of delivery, due: November 01, 2036	
Long Term Rating	AAA/Stable
US$40,615,000 New York City Transitional Finance Authority, Future Tax Secured Subordinate Bonds, Fiscal 2025 Series J, Subseries J-2, Taxable Bonds, dated: Date of delivery, due: November 01, 2026	
Long Term Rating	AAA/Stable
US$650,000,000 New York City Transitional Finance Authority, Future Tax Secured Subordinate Bonds, Fiscal 2025 Series I, Subseries I-1, Tax-Exempt Bonds, dated: Date of Delivery, due: May 1, 2055	
Long Term Rating	AAA/Stable
US$300,000,000 New York City Transitional Finance Authority, Future Tax Secured Subordinate Bonds, Fiscal 2025 Series I, Subseries I-2, Taxable Bonds, dated: Date of Delivery, due: May 1, 2040	
Long Term Rating	AAA/Stable
US$20,790,000 New York City Transitional Finance Authority, Future Tax Secured Subordinate Bonds, Fiscal 2025 Series K, Tax-Exempt Bonds, dated: Date of delivery, due: November 01, 2036	
Long Term Rating	AAA/Stable