



RATING ACTION COMMENTARY

Fitch Rates NYC Transitional Finance Auth \$1.25B Fiscal 2024 Series F Bonds 'AAA'; Outlook Stable

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Fitch Ratings - New York - 02 Feb 2024: Fitch Ratings has assigned a 'AAA' rating to the following New York City Transitional Finance Authority (TFA) \$1.25 billion future tax secured (FTS) subordinate bonds, fiscal 2024 series F:

--\$1,000,000,000 fiscal 2024 subseries F-1, tax-exempt bonds;

--\$250,000,000 fiscal 2024 subseries F-2, taxable bonds.

The subseries F-1 bonds will be sold through negotiated sale on Feb. 6 and 7, and the subseries F-2 bonds will be sold competitively on Feb. 7. Proceeds of the bonds will be used to finance general city capital expenditures.

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 ⚡
New York City Transitional Finance Authority (NY)		

New York City	LT	AAA Rating Outlook Stable	AAA Rating
Transitional Finance			Outlook
Authority (NY) /NYC	Affirmed		Stable
TFA Future Tax			
Secured -			
Subordinated/2 LT			

[VIEW ADDITIONAL RATING DETAILS](#)

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.

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

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 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.

ANALYTICAL CONCLUSION

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).

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.

KEY RATING DRIVERS

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.

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.

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.

RATING SENSITIVITIES

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.

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.

CURRENT DEVELOPMENTS

Pledged revenues for fiscal 2023 (ended June 30) of \$26.7 billion outpaced the city's January 2023 Financial Plan expectations and 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 4.9x based on fiscal 2023 pledged revenues compared to projected fiscal 2028 debt service which assumes the issuances of \$24.2 billion in new debt through fiscal 2028 for general city capital purposes after giving effect to the issuance of the series F 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 preliminary fiscal 2025 budget released January 2024). This projection is an improvement from the 5.5% decline projected as of the city's November 2023 financial plan, which reflects 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 6.6% yoy due to larger declines in non-withholding revenue, inclusive of PTET, following strong fiscal 2023 performance. Fitch expects growth to resume in fiscal 2025 and continue through fiscal 2028 to levels more in line with pre-pandemic revenues.

The NYC PTET was created in 2022 and took effect in fiscal 2023. The pass-through is structured as a workaround to the \$10,000 cap on state and local tax deductions that was included in the 2017 Tax Cuts and Jobs Act. It is intended to be revenue-neutral for the city

and TFA, but the complicated mix of payments, credits and refunds can take multiple years, resulting in unpredictable revenue volatility in any single year. Since the NYC PTET will reduce the amount of PIT, its revenues are pledged toward TFA's future tax-secured bonds.

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 4.4% 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.

The governor's Executive Budget for the state of New York fiscal year 2024-2025 was released on Jan. 16, 2024. It contains a proposal to extend through March 31, 2028 the withholding of sales tax revenues for financially distressed hospitals and nursing home facilities, which is currently set to expire March 31, 2025. The extension, if passed, would result in a reduction of \$37.5 million in fiscal year 2025, \$150 million in each of fiscal years 2026 and 2027, and \$112.5 million in fiscal year 2028. These reductions are not reflected in the city's projected SUT indicated above. It is not certain at this time whether the proposed legislation will ultimately be enacted into law. While this proposal would reduce projected pledged revenues, Fitch does not believe the effect would be material to total pledged revenues if this proposal were adopted.

Fitch considers the city's pledged revenue projections reasonable. Moderation of economic growth throughout calendar 2024 is likely due to the still high interest rate environment, reduced spending levels with a transition to a more typical mix of purchased goods and services following record highs that occurred following the pandemic, and a deceleration of job growth. Tourism levels, which have bounced back close to pre-pandemic levels, should remain relatively healthy.

As of Dec. 31, 2023, the city's and the TFA's combined remaining debt-incurring power was approximately \$32.4 billion. The state's executive budget includes a proposal to increase the total amount of FTS bonds authorized to be outstanding and not subject to the city's debt limit by a total of \$12 billion, from the current \$13.5 billion to \$25.5 billion. \$6 billion of the increased capacity would be available beginning on July 1, 2024 with the remaining \$6 billion available beginning on July 1, 2025.

As an alternative to the governor's proposal, the city's mayor is seeking legislation that would increase the total amount of FTS bonds authorized to be outstanding and not subject

to the city's debt limit by a total of \$18.5 billion, from \$13.5 billion to \$32 billion, with additional annual percentage increases equal to annual percentage increases, if any, in PIT revenues. The resulting impact of increasing the TFA's debt incurring capacity not subject to the city's debt limit would be to increase the combined TFA and city debt-incurring capacity by such corresponding amount. 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 levels will remain well above the ABT permitted levels as management relies on surplus revenues to support operations.

ECONOMIC RESOURCE BASE

The economic profile of the city features high wealth levels; per capita personal income is 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 2022 report population at 8,335,897, a 2% increase in population from 2010. New York City is the most populous city in the U.S. with a larger population than the combined populations of Los Angeles and Chicago, the next two most populous cities in the nation.

The city's tourism sector is an important driver, with a reported record of nearly 67 million visitors in 2019 and a projected 62 million visitors for 2023, according to New York City Tourism + Conventions. The city had experienced reduced activity due to the pandemic; however, activity has rebounded, as evidenced by improved levels of hotel occupancy during 2023 when compared with pre-pandemic levels and higher average daily room rates and improved number of air travelers as reported by the Port Authority of NY & NJ.

DEDICATED TAX CREDIT PROFILE

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

Strong Legal Framework Protects Bond Repayment

The rating reflects the bankruptcy-remote, statutorily defined nature of the issuer pursuant to state legislation, a bond structure involving a first-perfected security interest in revenues that are not subject to appropriation, statutory covenants prohibiting action that would impair bondholders, New York State as collection agent and the existence of two separately levied cash flow streams (the statutory revenues).

Pledged Revenue Overview

PIT and SUT revenues are imposed by the city and collected by the state. Revenues from the PIT and the SUT, if required, flow directly from the state comptroller to the TFA trustee, and are not subject to state or city appropriation. The city receives residual revenues only after advance quarterly funding of debt service. The state is able to unilaterally modify or repeal tax law as it relates to the PIT or SUT, but Fitch believes the risk of this is negligible given the city's dependence on residual revenues for its operations.

Solid Pledged Revenue Growth Prospects

Total pledged revenues grew at a CAGR of approximately 5.7% over the 10 fiscal years through 2023. Fitch believes the city continues to have sound economic growth prospects. Given the sensitivity of both PIT and SUT revenues to economic activity, Fitch expects revenue growth over time to exceed Fitch's expectations for long-term rates of inflation but be below GDP growth, consistent with a 'aa' revenue growth assessment.

PIT revenues totaled approximately 64% of fiscal 2023 pledged revenues; however, growth is expected to moderate, at least in the near term, due to the city's expectations of slower growth in employment levels due to the Federal Reserve's tight monetary policy slowing the economy, the potential changes in residency and commuting patterns due to the prevalence of remote work, and variability of employee compensation related to financial services activities.

The PIT consists of a base rate and a 14% surcharge. The PIT rate has changed over time, most recently with a base rate increase in 2010. The base rate and 14% surcharge were extended to Dec. 31, 2026 following the prior extension in April 2020 to Dec. 31, 2023. The city's projections assume state legislative approval of the extension of the current rate and surcharge beyond their current expiration.

The state has consistently reauthorized both a base rate above the minimum and the 14% surcharge. A failure to reauthorize the base rate and 14% surcharge would have a significant negative effect on the residual revenues upon which the city relies for its

operations. Even in the unlikely scenario of such a failure, the coverage cushion remains sound, assuming continued issuance and moderate growth in base PIT and SUT revenues.

Sensitivity and Resilience of Pledged Revenues through Economic Declines

Annual DSC on all FTS bonds from fiscal 2023 pledged revenue was a very strong 7.4x. 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 model generates a 6.8% 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 Sept. 11 and the latter by adjustments for prior-year PIT overpayments.

Scenario results are approximately 10x the moderate scenario output and almost 4x the largest historical decline, and are based on issuance up to the 3.0x ABT. These results are consistent with a 'aaa' resilience assessment. Fiscal 2023 pledged revenues of \$26.7 billion could decline 80% and still cover pro forma annual debt service of \$5.5 billion in fiscal 2028, which incorporates issuance of approximately \$24.2 billion of FTS bonds for general city capital purposes for fiscal 2024 through fiscal 2028 after giving effect to the issuance of the series F bonds. Fitch believes issuance to the ABT is highly unlikely given the city's debt issuance plans for pledged revenues and its 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 three-month period. Revenues are retained for debt service until debt service is fully funded for the following three-month period.

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

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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APPLICABLE CRITERIA

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

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](#))

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EU Endorsed, UK Endorsed

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