MOODY'S

Rating Action: Moody's affirms New York City, NY's Aa2 issuer rating; outlook stable

20 Feb 2024

New York, February 20, 2024 -- Moody's Investors Service has affirmed the City of New York, NY's Aa2 issuer rating and the outlook remains stable. Additionally, Moody's has assigned a Aa2 rating to the city's $1.3 billion General Obligation Bonds, Fiscal 2024 Series C, expected to price the week of February 26. The affirmation also applies to the Aa2 ratings assigned to approximately $41 billion of outstanding general obligation bonds; the Aa2 ratings on $2.5 billion of Hudson Yards Infrastructure Corporation (HYIC) revenue bonds; and the Aa3 ratings assigned to approximately $530 million of outstanding appropriation debt issued through the New York City Health and Hospitals Corporation (HHC), and the New York City Industrial Development Agency (IDA) (New York Stock Exchange Project).

Moody's has also affirmed the Aa1 ratings assigned to $41 billion of outstanding New York City Transitional Finance Authority (TFA) subordinate lien future tax secured revenue bonds, and the VMIG 1 ratings assigned to variable rate demand general obligation and TFA bonds with conditional liquidity support. The stable outlook also applies to the general obligation, HYIC, appropriation, and TFA bonds.

The rating affirmation is driven by New York City's post-pandemic economic recovery, including record-high private employment and ongoing moderate tax revenue growth. It also reflects successful implementation of budget measures to help close budget gaps in the current and succeeding fiscal year primarily caused by the migrant crisis.

The stable outlook reflects continuing economic expansion and tax revenue growth, coupled with robust financial management, which is anticipated to help mitigate budget pressures from the migrant crisis and the end of pandemic-era federal aid.

RATINGS RATIONALE

The Aa2 issuer rating reflects New York City's post-pandemic economic recovery, including record-high private employment, positive trends in assessed property values despite commercial real estate challenges, steady tax revenue growth, and strong tourism metrics. The expanding economy is driven by the city's competitive advantages: a young, highly-skilled labor pool that over time has helped make New York City households wealthier; strong higher education and medical centers that also contribute higher paying jobs; and strong domestic and international transportation links that support New York City's position as a global economic, financial and cultural hub. Very strong institutional strength and financial governance have allowed successful implementation of budget control measures to close budget gaps in the current and succeeding fiscal year primarily caused by the migrant crisis. Projected gaps remain in fiscal years 2026 through 2028 but are manageable in size and based on a restrained revenue forecast. New York City's financing responsibilities are broader than most local governments, since it is a city, five counties and the nation's largest school district and its debt burden is above-average because of this operational scope. Despite those responsibilities, the city's fixed costs for debt service, pensions and retiree healthcare are among the strongest of the nation's largest local governments.

The city's strengths are balanced by several challenges. Commercial real estate, especially office space still adjusting to hybrid/remote work patterns, will see elevated vacancy rates through the fiscal 2028 horizon of the city's current financial plan. The city's high cost of living and especially its high housing costs are also a challenge. With a residential rental vacancy rate of only 1.4%, housing demand far exceeds supply and particularly pressures residents with moderate incomes who play an important role in the city's service economy. This requires significant city fiscal effort through various affordable housing programs, one of which could be implementation of an expensive rental voucher program. While budget basis reserves are healthy at more than 10% of city funds revenue, Moody's calculation of available fund balance is thin at less than 1% of governmental fund revenue. This reflects capital spending from the General Fund outpacing debt financings, causing a large deficit in the Capital Projects Fund. The city faces significant ongoing capital financing needs, including to mitigate above-average risks from storm surge, extreme rainfall and sea level rise, while staying within state-mandated debt limits.

The Aa2 general obligation rating is the same as New York City's issuer rating given the city's full faith and credit pledge to pay the bonds.

The affirmation of the Aa2 HYIC rating reflects steady growth in the recurring property tax-like revenue used to pay debt service on the bonds, and the expectation that the city will not have to appropriate any interest support payments for the remaining life of the bonds, although its obligation to do so if needed remains in place. Based on fiscal 2023 tax equivalency payments (TEPs) (which require annual city appropriation) and PILOT revenue (which does not require appropriation) recurring revenue provides 2.1x debt service coverage in 2023, expected to increase to 2.3x in fiscal 2024.

Affirmation of the Aa3 ratings assigned to the Health and Hospital Corporation's health system bonds reflects the essential city services it provides; the strong relationship between HHC and the City of New York, including the city's statutory obligation to restore HHC's capital reserve fund if necessary; and other features of the moderate legal structure including a gross pledge of HHC's sizeable health care reimbursement revenue and a lock box mechanism that collects the revenue and uses it to pay debt service before it flows to HHC for operations.

Affirmation of the Aa3 ratings assigned to the IDA special revenue bonds is based on the less essential nature of the economic development project and a moderate legal structure that reflects the city's absolute and unconditional obligation to make lease payments, subject to appropriation.

Affirmation of the Aa1 subordinate ratings on TFA's future tax secured bonds reflect strong debt service coverage provided by the pledge of City of New York personal income tax and sales tax revenues; a strong legal structure that insulates TFA from potential city fiscal stress; the open nature of the senior and subordinate liens that permits future leverage of the pledged revenues; and New York State's ability to repeal the statutes imposing the pledged revenues.

The affirmation of the short-term ratings reflects (i) the credit quality of the various banks acting as liquidity support providers under the standby bond purchase agreements (SBPAs); and (ii) our assessment of the likelihood of an early termination of each SBPA without a mandatory tender.

RATING OUTLOOK

The stable outlook reflects the city's continued economic expansion and tax revenue growth, and the expectation that strong financial management will help the City navigate ongoing budget pressures in fiscal years 2026 through 2028 driven by continued but waning costs of the migrant crisis and the end of pandemic-era federal aid. A strong institutional framework, including generally conservative revenue forecasts, frequent multiyear forecasting and multiyear phase-ins of changes in commercial property assessed values, provide the city ample time to make budget adjustments when necessary.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Continued economic recovery that brings tax revenue growth closer to the 5.4% pre-pandemic trend, and ongoing structurally-balanced budgets

- Stronger reserves, including deposits to the Revenue Stabilization Fund

- Reduction of fixed costs ratio closer to Aa median of about 11%

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Additional spending pressure that pushes forecast budget gaps closer to 10% of city funds revenue

- Further declines in GAAP-basis available fund balance, or use of OPEB assets to balance the budget

- Economic events such as sustained declines in equity prices, or trends that create significant structural budget imbalances beyond those caused by the current migrant crisis

- Divergence from well-established fiscal practices and strong budgetary management

LEGAL SECURITY

New York City's general obligation bonds are full faith and credit obligations of the city, secured by a real property tax levied without limitation as to rate or amount. All of the city's property tax is deposited into the general debt service fund which is administered and maintained by the state comptroller. State law requires that the real property tax-which is used to pay general obligation debt service-be segregated into a general debt service fund held by the state comptroller. The state also statutorily covenants not to impair the rights of city bondholders to be paid when due. Thos features do not create a statutory lien on the property tax in favor of general obligation bondholders, but are strengths in the payment mechanism that are not found in most local government general obligation bonds.

The Hudson Yards Infrastructure Corporation revenue bonds are payable primarily by payments in lieu of taxes (PILOTs) collected by HYIC from commercial properties in the Hudson Yards area and, subject to appropriation, tax equivalency payments (TEPs) from residential properties and hotels collected by the city and appropriated to HYIC. In addition, the city has pledged to cover interest, subject to annual appropriation, for the life of the bonds if the pledged revenues are insufficient. The ratings, therefore, are derived from the city's credit quality.

HHC's bonds are paid by a gross pledge of its health care reimbursement revenues and a lock box mechanism that collects the revenues and uses them to pay debt service before they flow to HHC for operations. The rating is derived from New York City's legal obligation to fund any shortfall in HHC's Capital Reserve Fund, subject to annual appropriation.

The IDA bonds are payable from monthly city rental payments equal to the sum of principal and interest coming due in the next succeeding month and any amounts owed under any credit facility. The city's obligation to make rental payments is absolute and unconditional, subject to annual appropriation.

The Transitional Finance Authority's bonds are payable from pledged personal income and sales taxes collected by the New York State Department of Taxation and Finance and held by the state comptroller, who makes daily transfers to the trustee (net of refunds and the costs of collection). The trustee makes quarterly set-asides of amounts required for debt service due in the following quarter on the outstanding bonds.

USE OF PROCEEDS

Proceeds of the Fiscal 2024 Series C bonds will be used to finance various capital projects. In addition, the city will reoffer four series of outstanding auction rate bonds (Fiscal 2006 Series J, Subseries J-2; Fiscal 2006 Series J, Subseries J-3; Fiscal 2008 Series A, Subseries A-4; and Fiscal 2008 Series C, Subseries C-4) and one series of outstanding variable rate demand bonds (Fiscal 2009 Series B, Subseries B-3) as fixed rate bonds.

PROFILE

New York City is the largest city in the US by population (estimated at 8.34 million as of July 2022) and by the size of it economy (real GDP of $1.1 trillion). New York City's GDP is larger than all but four states. The size and scope of the city's operations are broader than most local governments: in addition to the city government, New York City is five counties and the nation's largest public school system, with approximately 1 million students.

METHODOLOGY

The principal methodology used in the issuer, general obligation, and underlying appropriation-backed ratings was US Cities and Counties Methodology published in November 2022 and available at https://ratings.moodys.com/rmc-documents/386953. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://ratings.moodys.com/rmc-documents/70024. The principal methodology used in the short-term ratings was US Municipal Short-term Debt Methodology published in May 2023 and available at https://ratings.moodys.com/rmc-documents/398329. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Nicholas Samuels
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Timothy Blake
Additional Contact
State Ratings
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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