

RATING ACTION COMMENTARY

Fitch Rates New York City's \$3.25B Fiscal 2025 Subseries G-1 and Ser H GO Bonds 'AA'; Outlook Stable

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Fitch Ratings - New York - 04 Apr 2025: Fitch Ratings has assigned a 'AA' rating to the New York City, NY's \$1.5 billion general obligation (GO) bonds (tax-exempt), fiscal 2025 series G, subseries G-1 and \$1.75 billion GO bonds (taxable), fiscal 2025 series H.

The subseries G-1 bonds will be priced on April 7 and April 8 via negotiation. The series H bonds will be priced on April 14 and April 15 via negotiation. Proceeds of the subseries G-1 bonds and series H bonds will be used for capital purposes.

Fitch has also affirmed the city's Issuer Default Rating (IDR), the rating on approximately \$43 billion in outstanding GO bonds, and the rating on various bank bonds associated with certain outstanding adjustable rate bonds at 'AA'. With the issuance of the fiscal 2025 series G, subseries G-1, and series H bonds, the city will be converting its outstanding fiscal 2012 series D, subseries 3A bonds from adjustable rate to fixed rate. Fitch has affirmed these outstanding bonds at 'AA'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
New York City (NY) [General Government]	LT IDR	AA	Affirmed	AA

New York City (NY) /General Obligation - Unlimited Tax/1 LT	LT	AA	Affirmed	AA
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VIEW ADDITIONAL RATING DETAILS

New York City's 'AA' Long-Term IDR and GO bond rating reflect the city's exceptionally strong budget monitoring and controls, supporting Fitch's 'aa' financial resilience assessment. The financial resilience assessment reflects the city's 'High' revenue control, 'Midrange' expenditure control, and Fitch's expectation that it will maintain reserves at or above 7.5% of spending.

For the purposes of this available reserves calculation, Fitch includes unrestricted general fund reserves (the sum of committed, assigned and unassigned), the available balance in the retirees' health benefits trust (RHBT) and the fiscal year-end budget stabilization, and discretionary transfers of surplus for prepayment of certain of the following year's operating expenditures. The available balance as of fiscal 2024 (ended June 30) was \$11.4 billion, equal to 10.1% of expenditures and transfers out and consistent with the 'aa' financial resilience assessment.

The city's demographic and economic trend and level metrics are mixed relative to Fitch's local government rated portfolio. 'High' educational attainment levels and 'Midrange' income and unemployment levels mitigate the city's declining population trends, despite the most recent U.S. census population estimate for July 1, 2024, showing a 2.7% YoY growth.

These factors help offset the city's elevated long-term liability burden, which Fitch assesses as 'Weak' due to the very high liabilities-to-personal income metric of 25.5%, elevated carrying costs, and 'Moderate' liabilities compared to total governmental revenues relative to Fitch's local government rated portfolio. Fitch expects the city's long-term liabilities to remain elevated compared to personal income levels. This expectation is based on future debt needs, the status of the city's net pension liabilities (NPLs) over time (assuming actuarial assumptions are met), and improvement in the resource base.

The ratings additionally reflect the application of a positive one-notch Additional Analytical Factor recognizing the city's important role and significant contributions to the New York-

Newark-Jersey City, NY-NJ-PA metropolitan statistical area (MSA). In 2023, the MSA was the largest contributor (8.3%) among all MSAs to nominal U.S. GDP.

The city experienced record revenue performance and strong economic recovery coming out of the pandemic, as well as improvement in reserve levels, which will help management navigate future economic downturns. The city's near-term challenges include expected revenue deceleration, uncertainty around changes in federal policies and federally funded programs, and additional city funding requirements imposed by the state.

Fitch expects the city to maintain its strong budget and fiscal management practices, including maintaining general fund operational stability while keeping reserves at close to or better than current levels. Fitch expects revenue growth to resume following near-term economic interruptions associated with elevated interest rates and periods of high inflation. Continued careful expense management and the use of budgetary tools support these expectations. Prepayment of expenses and availability of reserves will further mitigate risks associated with unexpected cost pressures or revenue shortfalls.

## **RATING SENSITIVITIES**

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

- A sustained erosion of the city's reserve cushion to below 7.5% of spending, which would lead to a change in the financial resilience assessment to below 'aa';
- An approximate 40% sustained increase in long-term liabilities associated with debt and NPLs and carrying costs, assuming current levels of personal income and governmental resources;
- Weakened underlying economic and demographic performance, particularly around median household income (MHI) and unemployment rates;
- Fitch's view that the city's capacity to manage changes in the city's other post employee benefits (OPEB) is constrained and, as a result, unfunded OPEB liabilities will remain very high.

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

- Fitch's expectation that maintenance of available reserves will be above 10% of general fund spending;

-- An approximate 35% decrease in long-term liabilities and carrying costs, assuming current levels of personal income, governmental revenues and spending;

-- Notable improvement in the city's demographic and economic strengths metrics, evidenced most notably by higher resident income and improved population trends.

## **SECURITY**

The GO bonds carry a pledge of New York City's full faith and credit, supported by a levy by the city of ad valorem taxes (without limit as to rate or amount) on all real property within the city subject to taxation. The city is not subject to New York State's property tax cap.

## **FITCH'S LOCAL GOVERNMENT RATING MODEL**

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the IDR except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

## **RATINGS HEADROOM & POSITIONING**

New York City's Model Implied Rating: 'AA' (Numerical Value: 8.51)

-- Metric Profile: 'AA-' (Numerical Value: 7.51)

-- Net Additional Analytical Factor Notching: +1.0 Individual Additional Analytical Notching Factors:

-- Revenue Capacity: +1.0

New York City's Model Implied Rating is 'AA'. The associated numerical value of 8.51 is in the middle of the 8.0 to 9.0 range for a 'AA' rating.

## KEY RATING DRIVERS

### FINANCIAL PROFILE

#### Financial Resilience - 'aa'

New York City's financial resilience is driven by the combination of its 'High' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

-- Revenue control assessment: High

-- Expenditure control assessment: Midrange

-- Budgetary flexibility assessment: High Midrange

-- Minimum fund balance for current financial resilience assessment:  $\geq 7.5\%$

-- Current year fund balance to expenditure ratio: 10.1% (2024)

-- Lowest fund balance to expenditure ratio for the fiscal-year period 2020-2024: 8.6% (2020)

#### Revenue Volatility - 'Strongest'

New York City's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 5.5% increase for the three-year period ending fiscal 2011

-- Median issuer decline: -4.5% (2024)

Financial Profile Additional Analytical Factors and Notching: +1.0 notch (for Revenue Capacity)

## DEMOGRAPHIC AND ECONOMIC STRENGTH

### Population Trend - 'Weakest'

Based on the median of 10-year annual percentage change in population, New York City's population trend is assessed as 'Weakest'.

Population trend: -0.4% Analyst Input (3rd percentile) (vs. -0.4% 2023 median of 10-year annual percentage change in population)

### Unemployment, Educational Attainment and MHI Level - 'Midrange'

The overall strength of New York City's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2024 are assessed as 'Midrange' on a composite basis, performing at the 42nd percentile of Fitch's local government rating portfolio. This is due to high education attainment levels offsetting low median-issuer indexed adjusted MHI and high unemployment rate.

-- Unemployment rate as a percentage of national rate: 132.5% 2024 (19th percentile), relative to the national rate of 4.0%

-- Percent of population with a bachelor's degree or higher: 41.0% (2023) (76th percentile)

-- MHI as a percent of the portfolio median: 89.0% (2023) (32nd percentile)

### Economic Concentration and Population Size - 'Strongest'

New York City's population in 2024 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the fifth percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 8,478,072 (2024) Analyst Input (above the 15th percentile) (vs. 8,258,035 2023 Actual)

-- Economic concentration: 42.7% Analyst Input (above the 15th percentile) (vs. 28.1% 2024 Actual)

A one-notch positive Additional Analytical Factor has been applied to recognize the city's important role and significant contributions to the growing New York-Newark-Jersey City, NY-NJ-PA MSA, the largest MSA in the nation. The MSA accounts for close to 10.3 million jobs and ranks as the largest job market in the nation.

### **Analyst Inputs to the Model**

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

The most recent 2024 data for population and unemployment was used instead of the 2023 data.

## **LONG-TERM LIABILITY BURDEN**

### **Long-Term Liability Burden - 'Weak'**

New York City's carrying costs to governmental expenditures and liabilities to personal income remain weak while liabilities to governmental revenue remain midrange. The long-term liability composite metric in 2024 is at the 27th percentile, indicating a somewhat elevated liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 25.5% Analyst Input (1st percentile) (vs. 24.1% 2024 Actual)

-- Liabilities to governmental revenue: 163.7% Analyst Input (57th percentile) (vs. 154.7% 2024 Actual)

-- Carrying costs to governmental expenditures: 17.5% (2024) (31st percentile)

Direct debt was adjusted to reflect principal amortization through the end of fiscal 2025. It includes this issuance, along with non-refunding city GO bond and TFA revenue bond

issuances occurring after fiscal YE 2024.

## PROFILE

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 pandemic-related downturn and prior severe economic disruptions, as credit strengths. Employment recovery lagged national trends following the pandemic, but job growth picked up notably during calendar years 2022 and 2023, and employment now exceeds pre-pandemic levels.

The local economy and operating budget remain strongly linked to the financial activities sector, which 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 economic profile of the city 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%, indicative of some income disparity and the demand for social services, also common in other large urban U.S. cities.

Estimated census figures for July 2024 report New York City's population at 8,478,072, a 2.7% YoY increase, but a 3.7% decrease from 2020. New York City 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.

The city's tourism sector is an important driver of revenues, with a reported record of nearly 67 million visitors in 2019 and 64 million visitors in 2024, according to New York City Tourism + Conventions. Tourism activity has rebounded since the pandemic. This is evidenced by the still-high hotel occupancy levels during 2024, despite new room additions, compared with pre-pandemic levels. Additionally, average daily room rates have increased, and December 2024 YoY air traveler numbers were strong, as reported by the Port Authority of New York and New Jersey.

## 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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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).

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

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

## Endorsement Policy

### ENDORSEMENT STATUS

New York City (NY)

EU Endorsed, UK Endorsed

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