FitchRatings

RATING ACTION COMMENTARY

Fitch Rates New York City, NY's $1.6B Fiscal 2023 Ser F, Ser G and Ser 1 GO Bonds 'AA'; Outlook Stable

Thu 18 May, 2023 - 2:59 PM ET

Fitch Ratings - New York - 18 May 2023: Fitch Ratings has assigned a 'AA' rating to New York City, NY's approximately $1.615 billion GO bonds, fiscal 2023 series F, fiscal 2023 series G and fiscal 2023 series 1, including the following:

--Approximately $1,146,045,000 tax-exempt bonds, subseries F-1;

--Approximately $153,640,000 taxable bonds, subseries F-2;

--Approximately $50,000,000 tax-exempt bonds, series G;

--Approximately $265,495,000 tax-exempt bonds, series 1.

The bonds will be priced on May 30 and May 31 via negotiation. Proceeds of the fiscal 2023 series F and series G bonds will be used to refund outstanding bonds. A portion of the city's outstanding fiscal 2021 series D and E GO bonds originally issued as taxable fixed rate bonds are to be remarketed as tax-exempt fixed rate bonds and redesignated as fiscal 2023 series 1 bonds. Proceeds of the fiscal 2023 series 1 bonds will be used to pay the purchase price of certain fiscal 2021 series D and E bonds that will be purchased by the city pursuant to an invitation to offer bonds for purchase.

Fitch also affirmed the city's Issuer Default Rating (IDR), and the ratings on approximately $39.1 billion in outstanding GO bonds , and the rating on various bank bonds associated with the certain outstanding adjustable rate bonds listed at the end of this release, at 'AA'.

Fitch additionally affirmed the ratings on obligations which the city supports through its commitment to appropriate for debt service as listed at the end of this release.

The Rating Outlooks on the IDR, GO bonds, bank bonds and appropriation backed bonds listed at the end of this release are Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
New York City (NY) [General Government]	LT IDR	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
New York City (NY) /City Appropriation - HHC/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
New York City (NY) /City Appropriation - NYSE/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable
New York City (NY) /General Obligation - Unlimited Tax/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
Hudson Yards Infrastructure Corporation (NY) [General Government]				

Hudson Yards Infrastructure Corporation (NY) /Lease Obligations - Standard - Second Indenture - PILOT/1 LT	LT	AA- Rating Outlook Stable	Affirmed	AA- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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.

ANALYTICAL CONCLUSION

The 'AA' IDR and GO bond ratings reflect the city's exceptionally strong budget monitoring and controls, supporting Fitch's high assessment of operating performance. Federal stimulus aid has relieved fiscal pressure that would have otherwise resulted from the city's lagged economic recovery and has supported structural budgetary balance. However, the record revenue performance and strong recovery from the pandemic, as well as improvement in reserve levels, will help management navigate through future economic downturns, including near-term challenges due to an expected deceleration of revenue growth, rising labor costs and other uncertainties associated with a high inflationary environment.

Fitch expects the city's slightly elevated but still moderate long-term liability burden to remain relatively stable based on future debt needs and the status of its net pension liabilities (NPL) over time (assuming actuarial assumptions are met). Other post-employment benefit (OPEB) liabilities are high, equal to roughly half of the combined level of debt and NPLs, but will fluctuate depending on the interest rate environment and with recent plan changes being made.

Economic Resource Base

Fitch considers the city's unique economic profile 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 is continuing in 2023 but at a slower pace. The city has recovered close to 100% of the jobs lost during the pandemic.

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 2021 data. The technology sector saw considerable growth over the past decade but growth is projected to subside following over-hiring during the pandemic and slowing macro-economic conditions.

KEY RATING DRIVERS

Revenue Framework: 'aa'

New York City has a highly diverse revenue base supporting its resilience to changes in economic conditions. Fitch expects revenue growth to range between long-term inflation and U.S. GDP based on a return to at least pre-pandemic levels of personal and corporate income taxes, and continued strength in residential real estate values offset by pressure on commercial growth in the medium term. The city has solid independent legal ability to adjust property tax rates and a variety of fees and charges to offset the modest revenue declines expected in a typical economic downturn. Rates for other important revenue sources (mainly income and sales taxes and state aid) are not within management's independent control.

Expenditure Framework: 'a'

Carrying costs are moderate, typically about 20% of governmental funds spending. Other than education-related employees, most labor contracts are subject to binding arbitration; however, the city has demonstrated adequate expenditure flexibility primarily through its control over employee headcount. Fitch expects long-term spending patterns to be above revenue growth excluding policy actions.

Long-Term Liability Burden: 'a'

Ongoing and substantial capital needs will be the primary driver of expected growth in the city's long-term liability burden to an elevated but still moderate level as the resource base expands. However, debt policies in place support monitoring of debt issuances within affordability levels. Reported NPLs will reflect market volatility but the city is required to fully fund its actuarially determined contributions. Net unfunded OPEB liabilities represent close to 13% of personal income but annual costs are a moderate portion of the budget excluding periodic contributions above pay-go.

Operating Performance: 'aaa'

The 'aaa' assessment reflects a very strong gap closing ability and the city's close budget monitoring and control, as demonstrated by its ability to maintain consistent balance and manage out-year gaps. A high level of inherent budgetary flexibility provides protection against typical economic and revenue volatility.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--Sustained long-term liabilities associated with debt and NPLs at a level below 20% of personal income and active management to control growth in OPEB liabilities;

--Improved expenditure flexibility as evidenced by, among other items, reductions in fixed cost spending as a percent of governmental spending;

--Sustained revenue growth above national GDP levels.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--An increased gap between the natural pace of revenue and expenditure growth due either to a slowing of economic activity and prospects for revenue growth, or an acceleration of spending growth, or both;

--Sustained erosion of the city's reserve cushion or reduced ability to use related budget management tools such as the annual prepayment of expenditures.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Fiscal 2023 Revenue Forecast Trending Stronger than Budget

On April 26, 2023, the mayor released the executive budget for fiscal year 2024 and the city submitted to the New York State Financial Control Board a modification to the January financial plan for the 2023 through 2027 fiscal years (as so modified, the current financial plan). The executive budget is subject to adoption by the city council, which is expected by June 30, 2023.

Forecast net revenues for fiscal YE 2023 are projected to increase by $3.9 billion (or 5.4%) over the June 2022 Financial Plan net revenue forecast of $73.3 billion with non-property tax revenues including sales, hotel and business taxes seeing better than anticipated growth. The growth projection reflects mostly strong local consumption, even with a continued slow return to office recovery, and an active holiday season with an increase in tourists to the city. Personal income tax revenues, which were budgeted downward by 8% yoy, as of the January financial plan, following a record fiscal 2022 result, are trending ahead of the January financial plan and are still above historical averages.

City spending for the fiscal YE 2023 current financial plan reflects a $1.38 million increase in net expenditures compared to budget due to projected higher labor costs, agency spending and costs associated with asylum seekers. The increases were partially offset by the departmental savings associated with management's Program to Eliminate the Gap (PEG), lower debt service costs and $1.5 billion of the general reserve and $0.250 billion capital stabilization reserve. The city estimates that the provision for prepayment in fiscal 2023 of fiscal 2024 expenses will increase by $0.87 billion since the January financial plan to $3.035 billion (3% of all funds budget).

Budget reserves for fiscal 2024, as of the January plan, are projected to decline slightly by $0.3 billion to $8.0 billion positioning the city well for unexpected declines in revenues or changes in expenses.

Fiscal 2024 Executive Budget and Current Financial Plan Reflects Conservative Assumptions; Higher Spending

The current financial plan for fiscal 2024 through fiscal 2027 reflects conservative assumptions for revenue growth and higher, but still manageable increases in expenditures in the outer years. The $106.7 billion fiscal 2024 budget (up 5.6% yoy) accounts for new and estimated labor costs of $1.7 billion based on the framework of the two recently settled large labor agreements, and $1.7 billion for costs associated with asylum seekers covered by the city, up $0.8 billion compared to costs expected to be incurred in fiscal 2023. Labor- and agency-related expenses drive projected expenditure increases through the final three years of the plan and the increases in budget gaps compared to the January 2023 financial plan. Savings initiatives including reducing vacancies helped eliminate the fiscal 2024 budget gap and controlled growth in outyear gaps.

The current financial plan reflects an improved outlook for fiscal 2024 total tax revenues but are reasonably budgeted at amounts only modestly above the improved expectations for fiscal 2023. Total tax revenue projections are expected to increase around 2.4% in fiscal years 2025, 2.2% in fiscal 2026, and 3.3% in fiscal 2027, with lower growth assumptions for property taxes in fiscal 2025 offset by improved sales and income taxes. These projected increases are lower than the more recent tax revenue increases in recent years. Property tax revenues are 45% of fiscal 2024 forecast tax revenues and 30% of total revenues.

The tentative fiscal 2024 billable assessed values (released Jan. 2023) reflect an increase of $12 billion over the fiscal 2023 final assessment roll of $275 billion, or 4.4% growth. Market values improved, particularly in class 1 (residential) and class 4 properties (office, retail and hotels). The final roll is estimated to show a $3.4 billion decrease in the tentative roll value following certain adjustments, including tax commission actions and exemption processing, which equates to an approximate 3.1% yoy increase.

Non-property tax revenues, including sales tax (typically comprising slightly under 10% of total revenues), are conservatively projected to see moderate aggregate growth as spending activity slows, due to the higher interest rate environment and reduced personal savings account levels following record spending during fiscal 2022. Job growth is helping support personal income tax levels, but bonus income declined, as was projected, following a record 2022 year for the financial sector. Personal and corporation income tax revenues (20% of total revenues) are projected to decline in fiscal 2024, by 4.4% and 3.0%, respectively, due to less robust financial services activity.

The fiscal 2024 budget includes savings projected to be derived from management's PEG, including the elimination of approximately 4,300 vacant positions to provide for annual savings across all fiscal years of the current financial plan. Notably, about 23,000 vacancies still remain citywide, providing for expenditure flexibility if revenues underperform expectations. With inclusion of the estimated savings from the PEG, the city eliminated the originally-projected fiscal 2024 budget gap of $4.2 billion (as of June 2022). Pension contribution costs have risen from lower fiscal 2021 levels due to weaker pension asset performance, for which losses are smoothed over five years.

Projected out-year gaps are slightly higher than recent years' forecast but remain manageable at an estimated 4% to 6% of spending through fiscal 2027. Fitch expects management will absorb the additional costs given conservative revenue assumptions and will make appropriate budget adjustments in future budget years as it has done historically.

The city's capital plan is extensive and debt service costs are projected to ramp up gradually from current levels based on planned issuances, but remain manageable. Additional GO bond and TFA revenue bond debt issuance of $46 billion (about 50% of outstanding debt) is projected for the period of fiscal 2024 through fiscal 2027. Debt issuances will be managed to ensure compliance with a policy to maintain debt service costs below 15% of tax revenues and project spending can be deferred if economic situations warrant such action.

In 2021, the city and the Municipal Labor Committee (MLC) agreed to implement a Medicare Advantage (MA) plan for city retirees to generate an estimated $600 million in annual savings in retiree health benefit costs. The plan was challenged in litigation and motion for appeal remains pending. In December 2022, an arbitrator, whose mandate is to enforce health savings agreed to between the city and the MLC, determined that the city must finalize a contract and take steps to implement the MA plan. The city and the MLC have finalized a contract with an insurer and agreed to implement the MA plan and revoke the Senior Care plan by Sept. 1, 2023, in an effort to achieve projected savings.

Other cost pressures exist, which have not been fully considered in the current financial plan. These include, amongst other items, state mandated increases in the city's share of MTA paratransit operating deficits from 50% to 80% in fiscal years 2024 and 2025, capped at $165 million per year. Additionally, the payroll mobility tax payable by the city was increased and is expected to cost $70 million per fiscal year beginning in fiscal 2024.

The New York State legislature passed the fiscal 2024 state budget and it is now awaiting the Governor's signature. The city's current financial plan does not include certain additional costs included in the new state budget. These include an increase in the number of charter schools in the city by 14, projected to cost $179 million over the fiscal 2025 through 2027 period of the current financial plan; a reduction in the share of federal funding for Medicaid that could cost the city approximately $1 billion in aggregate over the fiscal 2024 through 2027 period of the current financial plan; and, increased funding to the Metropolitan Transit Authority described above. However, the current financial plan also does not fully reflect the estimated $337 million in increased state educational aid to the city authorized in the state budget for fiscal 2024.

The state budget includes $1 billion to be provided during the fiscal period of 2023 through 2024 to help support estimated costs associated with asylum seekers compared to the current financial plan projection of $1.29 billion over the three fiscal year period of 2023 through 2025. The current financial plan assumes $600 million in Federal aid for this effort but, although the final amount may be less than assumed. Fitch believes these costs will continue to be managed, but could put pressure on future budgets or use of reserves depending on actual activity and level of external support actually received.

Longer Term, Focus on Economic Recovery

Tourism levels have been particularly strong based on the projected 85% yoy increase in hotel tax revenue collections for fiscal 2023 (0.9% of total tax revenues). Hotel occupancy levels have been much closer to pre-pandemic levels averaging 70% for the latest quarter, equivalent to about 90% of pre-pandemic levels. Average daily room rates have exceeded pre-pandemic levels. However, uncertainty regarding the impact of high inflation, rising interest rates, reductions in spending and a volatile stock market, is projected to lead to deceleration of the city's economic growth for at least the remainder of 2023.

The current hybrid work-from-home arrangements are very likely to adversely affect commercial property values and tax revenues, and could constrain future growth of tax revenues generated by retail and entertainment activity if the return to office recovery continues to be stalled. Kastle Systems estimates of the rate of occupancy of office workers in the New York metro area has averaged just under 50% for the past several months. The full impact on commercial real estate tax revenues will take longer to become clear as commercial lease terms are typically up to 10 years. Additionally, depending on the magnitude of decline, a change in a property's market value is typically phased-in over five years. The taxable billable assessed value is the basis for the tax levy and it is based on the lower of the actual value (45% of the current year market value) or transitional assessed value (which is the cumulative value of the phase-ins from the five-year market value changes). This phase-in of changes in value helps mitigate the potential volatility of tax rate changes and impacts to the annual operating budgets.

Management's assumptions for class 4 office market values is for a 10% decline in fiscal 2025, less than 1% decline in fiscal 2026 and about 2% for fiscal 2027. These levels may not prove conservative enough if office vacancy rates remain high. Office buildings account for approximately 18.5% of the total net billed property tax levy in fiscal 2023 of $32.3 billion, and about 5.5% of total projected all city funds revenues. Office buildings accounts for close to half of the total class 4 property tax levy.

Fitch considers class 4 office and retail properties to be currently vulnerable to changes in value downward, as reflected in the budget assumptions, but also recognizes that these associated revenues are a smaller part of the city's overall diverse revenue base and changes in value are potentially mitigated by the phase-in process. Stability of other property class values and growth in non-property tax revenues will be key to offsetting potentially larger declines than anticipated.

Fitch expects management will continue to achieve general fund operational stability while maintaining reserves at close to or better than current levels. Fitch's expectations for resumption of revenue growth, following near-term interruptions due to rising interest rates and high inflation, coupled with continued close expense management and use of budgetary tools support these expectations. The combination of prepayments and availability of reserves will additionally mitigate risks of unexpected cost pressures or actual revenue lower than budget.

CREDIT PROFILE

Economic Resource Base Details

The economic profile of the city features high wealth levels; per capita personal income is approximately 130% of the U.S. However, the above-average individual poverty rate of 17.0% exceeds the national rate of 12.6% -- indicative of some income disparity and the demand for social service common to large urban U.S. cities. The census population for the city for 2020 was 8.8 million, up 7.7% since 2010 (compared to 7.4% nationally).

Estimated census figures as of July 2022 show a 5.3% drop from 2020 levels to 8,335,897. The 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, with a reported record of nearly 67 million visitors in 2019. The city had experienced reduced activity due to the pandemic; however, activity has rebounded, as evidenced by improved levels of hotel occupancy and improved number of air travelers as reported by the Port Authority of NY & NJ.

Revenue Framework

The city has a diverse revenue profile, in part because it serves the functions of a city, county and school district. Property tax revenues are the largest source at roughly 30% of general fund revenues. The tax levy for operations is limited to 2.5% of the average full value of taxable real estate of the current and last four fiscal years. This phase-in process both stabilizes the maximum tax levy and typically provides good visibility on future-year revenue growth and limitations. The 5% decline in billable assessed values for fiscal 2022 was due to pandemic-induced pressure on property values and followed several years of brisk growth. Fiscal 2023 billable assessed values increased by 7% due to better performance of residential and office properties.

Sales and income taxes are also substantial components of revenues at roughly 10% and 20% of the total, respectively; their rates are controlled by the state. Intergovernmental revenues typically make up another quarter of the general fund total.

Fitch expects the city's prospects for revenue growth to exceed the expectations for long-term rates of inflation over time. A lengthy high interest rate environment and macroeconomic factors might slow economic growth during the near term and the uncertainty around return to office trends could impact future revenue growth, notwithstanding recent robust growth in non-ad valorem revenues.

The city's operating levy is generally below the 2.5% cap even with the inclusion of a portion of GO debt service, affording sound flexibility to offset what Fitch anticipates would be a modest revenue decline in a moderate recession. Components of the sales and income tax rates are subject to periodic state legislative renewal. Fitch considers such approval pro forma, although modest changes to certain components (such as increases in or expansions of exclusions) are expected.

Expenditure Framework

New York's responsibilities are very broad. The largest expenditure category is education, typically representing one-third of general fund spending, followed by health and social services at 20%-25%. Public safety's share is normally 10%-15% of spending, a relatively low share for a local government, reflecting the breadth of the city's service demands.

Given these responsibilities, the natural pace of spending, absent policy actions, is expected to remain above revenue growth expectations. Carrying costs are moderately high, typically about 20% of spending, and are expected to remain in this range with changes in debt service and retiree benefit costs. Robust capital planning and debt management should keep debt service beneath the city's policy cap of 15% of tax revenues (about 10% of total spending).

The city consistently pays the pension ADC as required by charter and has made contributions above pay-go to the retiree health benefits trust (RHBT) to support future costs of health and welfare benefits of eligible participants.

The city provides ongoing financial support for New York City Health and Hospitals Corp., including the non-federal share of supplemental Medicaid. While the current financial plan projects declining annual appropriations, unexpected increases could widen the pace of expected spending growth and/or reduce the city's flexibility to reduce spending in an economic downturn.

Other notable spending areas include funding for operations, maintenance, and upgrades for the MTA, whose ridership and farebox revenues still remain well below pre-pandemic levels, and for New York City Housing Authority (NYCHA) facilities. Some of the required funding will be for capital projects and will be debt financed. Fitch expects continued pressure on the city to increase contributions to both authorities as they provide vital city services and have widely-reported repair needs. Federal stimulus support has been robust and eased pressure on the city to a degree.

The state's fiscal 2024 budget includes additional funding for the MTA and state legislation provides for congestion tolling for vehicles entering a designated congestion zone below 60th street in Manhattan, the revenues from which will be directed to the MTA. Details of the plan have not yet been determined, but current expected start date is in 2024.

The city has gone further than most coastal communities in its climate change resiliency efforts and in evaluating risks and articulating a resiliency strategy, including estimated costs. While the resiliency efforts represent a substantial investment by the city, and rely on state and federal support, Fitch considers it manageable in the context of the approximately $107 billion annual operating budget and $71 billion four-year capital commitment plan and unlikely to materially shift the assessment of city's expenditure framework or long-term liability burden.

Fitch believes the city retains a reasonable amount of flexibility to contain growth in employee compensation or reduce headcount if needed.

Long-Term Liability Burden

Combined debt and Fitch-adjusted NPLs (to reflect a 6% investment return rate) are equal to about 25% of the city's overall personal income, with combined city GO and TFA debt experiencing gradual growth during fiscal 2022 and 2023.

Fitch looks through year-to-year market volatility impacting pension asset performance and focuses its assessment on expectations for the long-term trend of the liability burden, which Fitch anticipates will remain slightly elevated. Debt issuance plans are robust and Fitch expects the long-term liability burden will remain close to or above 25% of personal income levels over time. City policy caps debt service at 15% of tax revenues and state restrictions on debt amortization rates help control growth in debt levels.

The city maintains five pension systems, of which two (for police and fire) are single-employer plans. Although the other three are cost-sharing plans, the city bears the responsibility for the majority of the liabilities and virtually all for the two education-related plans. On a combined basis, the ratio of assets to liabilities is 81% on a reported basis as of fiscal 2022, or approximately 73% using Fitch's 6% investment return assumption.

Fitch recognizes that the age and size of the city's infrastructure make capital investment a constant need. New York City conducts an extensive city charter-mandated annual study of its major infrastructure assets (Asset Information Management System, or AIMS), which serves as a guide in developing its operating expenditures for maintenance and its five-year capital commitment plan and 10-year capital strategy.

Key agencies, including MTA and NYCHA, are not included in the AIMS report. The recent capital funding increases for those agencies reflect the broad scope of the city's asset maintenance and investment needs. The long-term liability burden assessment anticipates the city will continue to keep a close eye on affordability and would alter its capital spending plans if conditions made debt more of a burden on resources.

The unfunded OPEB liability is approximately 13% of personal income and management established an irrevocable trust in 2006, the RHBT, to help manage these costs. Actual annual benefit costs have trended at reasonable levels when compared to the city's operating budget and represent a manageable percentage of fixed cost spending when excluding RHBT contributions above pay-go. Efforts to control growth in these costs are ongoing.

Operating Performance

The combination of strong revenue control, adequate spending flexibility and available financial cushion and other tools leaves the city well positioned to address the effect of a moderate economic downturn. Fitch does not believe unrestricted general fund reserves as reported in the audited financial statements provide a complete picture of financial resilience, primarily because they do not incorporate the city's budget stabilization reserve, or annual surplus roll.

Due to prior state law and city charter constraints on using a traditional reserve fund, the city utilized alternative budget tools. Following a city charter amendment in 2021, a state law was passed to allow for a revenue stabilization fund (RSF) using annual operating surpluses. The balance in the fund at the end of fiscal 2022 was $1.95 billion, or 1.9% of spending. Including $5.4 billion in the RHBT, available reserves equaled 7% of spending at fiscal end 2022.

In addition to the RHBT and now the RSF, the city uses generated general fund surpluses in one year to prepay certain expenses for upcoming fiscal years (the surplus roll) including debt service, retiree health care costs, and subsidies to entities like NYCHH. In recent years, prepayments have been in the range of 5% of spending but increased in fiscal years 2021 and 2022 with unexpectedly strong personal income tax revenue performance. The surplus roll for fiscal 2022 to prepay fiscal 2023 expenses was $6.1 billion (6% of the fiscal 2023 budget).

Fitch expects the city to maintain the practice of prepayments, with the amounts varying somewhat depending on the city's budgetary results. Higher roll-outs into the next fiscal year versus roll-ins from the prior fiscal year represent operating surpluses, and vice versa. A consistent trend of lower net rolls once the city's economy regains strength would be cause for concern.

Fitch considers budget monitoring and control a key strength of the city's operating performance assessment. Fitch expects that officials would address any potential erosion in revenues in a reasonably timely and thorough manner.

Fiscal discipline instilled following the city's financial crisis in the 1970s is long institutionalized. The city is required to present a balanced budget on a GAAP basis, publish a four-year financial plan, which is updated three times per year, and present a biennial 10-year capital strategy, based partly on the AIMS report noted above. Plans are thorough and highly detailed and tend to be based on realistic assumptions, in Fitch's view.

Outside monitors who regularly report on the city's budget and financial plan include the Financial Control Board, the state comptroller, the city's charter-required Independent Budget Office and the privately funded Citizen's Budget Commission.

Rating Affirmations of Other Outstanding City Obligations

Fitch has also affirmed its rating on the following obligations which the city supports through its commitment to appropriate for debt service:

--Outstanding New York City Health and Hospitals Corp (NYCHHC) health system bonds at 'AA-';

--Outstanding Hudson Yards Infrastructure Corp (HYIC) revenue bonds, fiscal 2017 series A and series B, and fiscal 2022 series A, at 'AA-'; and

--Approximately $30 million special revenue bonds (New York City-New York Stock Exchange Project) series 2019A and bank bonds associated with $30 million in special revenue bonds (New York City-New York Stock Exchange Project) series 2004B, issued by the New York City Industrial Development Agency (IDA) at 'AA-'.

Security Description for these Other Obligations

NYCHHC Bonds: The HHC Act requires maintenance of a capital reserve fund equal to MADS for all outstanding NYCHHC debt. If there is a deficiency in the fund that cannot be restored from operating revenues, the corporation shall request an amount sufficient to cure the capital reserve fund deficiency, and the city shall make the payment, subject to appropriation.

HYIC bonds: the bonds are special obligations of HYIC payable from a combination of recurring and non-recurring revenues expected to be generated from development in the Hudson Yards area of Manhattan after payment of HYIC's operating expenses. A portion of pledged recurring revenues, the Tax Equivalency Payments, are subject to appropriation by the City of New York. Bond interest is supported by interest support payments (ISPs) from the City of New York, subject to annual appropriation, if HYIC revenues are insufficient. The city is not obligated to pay principal on the bonds

New York City IDA bonds: On or before March 31 of each year, the IDA certifies to the city the amounts payable (including debt service on the IDA bonds) under the facility financing agreement. The city covenants that the mayor will include in the executive expense budget submitted to the city council each fiscal year an appropriation equal to the amounts projected to be payable under the agreement. The agreement also provides that the mayor will seek to increase appropriations during the fiscal year if necessary to pay the amounts due under the agreement.

The IDA pledges and assigns to the trustee its rights under the agreement, including the amounts received from the city. The administration of all city appropriation and lease-backed debt is centralized and treated as a single unit of appropriation in the city's debt service budget.

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.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer’s available public disclosure.

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)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Hudson Yards Infrastructure Corporation (NY)	EU Endorsed, UK Endorsed
New York Liberty Development Corporation (NY)	EU Endorsed, UK Endorsed

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