FitchRatings

RATING ACTION COMMENTARY

Fitch Rates NYC Transitional Fin Auth $1.25B Fiscal 2023 Ser F Bonds 'AAA'; Outlook Stable

Fri 10 Mar, 2023 - 5:30 PM ET

Fitch Ratings - New York - 10 Mar 2023: Fitch Ratings has assigned a 'AAA' rating to the following New York City Transitional Finance Authority (TFA) future tax secured (FTS) subordinate bonds fiscal 2023 series F:

--Approximately $950,000,000 subseries F-1 (tax-exempt);

--Approximately $180,390,000 subseries F-2 (taxable);

--Approximately $119,610,000 subseries F-3 (taxable).

The subseries F-1 bonds will be sold through negotiated sale March 13 and 14, and the subseries F-2 and F-3 bonds will be offered through competitive sale on March 14. Proceeds will be used to finance general city capex.

Fitch also affirms the outstanding TFA senior lien, subordinate lien and recovery 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 Transitional Finance Authority (NY) /NYC TFA Future Tax Secured - Subordinated/1 LT	LT	AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
New York City Transitional Finance Authority (NY) /NYC TFA Future Tax Secured/1 LT	LT	AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

SECURITY

The bonds are payable from 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.

SUT revenues will be available for the payment of bonds 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 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 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 senior and 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 issuance will likely fall 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).

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: Fitch does not make a rating distinction between the senior and subordinate liens due to the high coverage levels and strong legal and practical protections against overleveraging. Fitch anticipates the security provided for both liens will remain highly resilient through the current economic environment and future downturns.

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 inflation and U.S. GDP following record levels of personal income and sales tax revenues during fiscal 2022.

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 beyond Fitch's expectation.

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

Pro-forma all-in debt service coverage based on fiscal 2022 pledged revenues and projected fiscal 2027 annual debt service following expected debt issuances of $22.6 billion through fiscal 2027, is approximately 5x. Performance of SUT and PIT revenues reached record levels for fiscal 2022 improving overall current debt service coverage. Pledged revenues rose 17% yoy in fiscal 2022, with PIT revenues up by 11% and SUT revenues by 31%. Pledged revenues improved by 2.7% in fiscal 2021 following a modest decline of 0.7% in fiscal 2020.

Fiscal 2022 PIT revenues benefitted from federal stimulus and strong performance of financial services companies. These revenues are projected by the city to decline moderately during fiscal 2023 and fiscal 2024 from the high of fiscal 2022 and then resume growth through fiscal 2027. Job growth is helping support PIT levels, but bonus income is projected to fall well short of the fiscal 2022 levels following a record year for the financial sector.

Fiscal 2023 SUT revenues are projected to increase yoy due to strong local consumption and an active holiday season with an increase in tourists to the city, despite a stubbornly slow return to office recovery. City projections show SUT revenues growing at a more moderate pace from fiscal 2024 through fiscal 2027 as spending activity slows, due to the higher interest rate environment and reduced personal savings accounts levels following record spending during fiscal 2022.

Fitch considers these projections to be reasonable as it expects tourism levels, which have bounced back close to pre-pandemic levels, to remain strong, and job growth to continue to show improvement and eventually recover to pre-pandemic levels. However, uncertainty regarding persistently high inflation, a rising interest rate environment and changes in remote work practices could moderately impact pledged revenue performance.

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. The city has recovered approximately 90% of 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 the past decade but growth is projected to subside following over-hiring during the pandemic and slowing macro-economic conditions.

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 services, also common in other 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 2021 show a 3.8% drop in population from 2020 levels to 8,467,513. 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. Total air passenger traffic at New York City airports surpassed pre-pandemic levels for the first time in November 2022. Fitch expects New York City to continue its role as the leading American city for both domestic and international tourism as recovery continues.

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 6.2% over the 10 fiscal years through 2022. 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 66% of fiscal 2022 pledged revenues and are expected to provide most of the growth and volatility in pledged revenues, at least in the near term, due to the recent growth in employment levels offset partially by 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 most recently extended in April 2020 to Dec. 31, 2023. The city's projections assume state legislative approval of the extension of the current rate and surcharge.

Fitch believes the possibility of a failure by the state to approve future continuation of both the current base rate and the 14% surcharge is unlikely. The state has consistently reauthorized both a base rate above the minimum and the 14% surcharge. Such reduction in the rate would also have a significant negative effect on the residual revenues upon which the city relies for its operations. Even in the highly unlikely scenario of failure to reauthorize the surcharge, 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

DSC on all FTS bonds from fiscal 2022 pledged revenue was 7.95x. 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 5.3% 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 13x the moderate scenario output and 4x the largest historical decline, and are based on issuance up to the 3.0x ABT. These results are consistent with a 'AAA' rating. Fiscal 2022 pledged revenues could decline 80% and still cover pro forma annual debt service of $5.1 billion in fiscal 2027, which incorporates issuance of approximately $22.6 billion of FTS bonds for general city capital purposes for fiscal 2024 through fiscal 2027, after giving effect to the issuance of the fiscal 2023 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)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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New York City Transitional Finance Authority (NY)	EU Endorsed, UK Endorsed

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