FitchRatings

RATING ACTION COMMENTARY

Fitch Rates NYC Transitional Finance Auth $1.4B Fiscal 2024 Series D & E Bonds 'AAA'; Outlook Stable

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Fitch Ratings - New York - 01 Dec 2023: Fitch Ratings has assigned a 'AAA' rating to the following New York City Transitional Finance Authority (TFA) $1.4 billion future tax secured (FTS) subordinate bonds, fiscal 2024 series D and series E:

--$1,201,820,000 fiscal 2024 subseries D-1, tax-exempt bonds;

--$113,425,000 fiscal 2024 subseries D-2, taxable bonds;

--$67,065,000 fiscal 2024 subseries E-1, tax exempt bonds;

--$21,600,000 fiscal 2024 subseries E-2, taxable bonds.

The subseries D-1 and subseries E-1 bonds will be sold through negotiated sale on December 5 and 6. The subseries D-2 and subseries E-2 bonds will be sold competitively on December 6. Proceeds of the series D and series E bonds will be used to refund certain outstanding bonds for debt service savings.

The ratings on the outstanding TFA senior lien and subordinate lien FTS bonds are '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

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. 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 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 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).

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: Fitch does not make a rating distinction between the existing 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 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 5.3x based on fiscal 2023 pledged revenues compared to projected fiscal 2027 debt service which assumes the issuances of $20 billion in new debt through fiscal 2027 for general city capital purposes. The city projects pledged revenues to decline by 5.5% during fiscal 2024 before resuming growth through fiscal 2027.

During fiscal 2023, 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.

The NYC PTET was created in 2022. The pass-through is structured as a workaround to the $10,000 cap on state and local tax deductions that were 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 revenue growth of 11% 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. City projections show SUT revenues growing, but 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 levels during fiscal 2022 and fiscal 2023.

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 show slow improvement. However, uncertainty still exists regarding the impact of still elevated inflation, a high interest rate environment and changes in remote work practices, which together could moderately affect pledged revenue performance.

ECONOMIC RESOURCE BASE

The economic profile of the city features high wealth levels; per capita personal income was approximately 122% of the U.S in 2022. However, the city's 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.

Estimated census figures for July 2022 report population at 8,335,897, a 2% increase in population from 2010. 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 and a projected 63 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 fiscal 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. 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

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 September 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' rating. Fiscal 2023 pledged revenues could decline 81% and still cover pro forma annual debt service of $5.1 billion in fiscal 2027, which incorporates issuance of approximately $20 billion of FTS bonds for general city capital purposes for fiscal 2024 through fiscal 2027. 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.

DATE OF RELEVANT COMMITTEE

12 October 2023

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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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

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

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