KBRA Assigns AA+ Rating, Stable Outlook to The City of New York's General Obligation Bonds

New York (September 22, 2023)

KBRA assigns a long-term rating of AA+ with a Stable Outlook to The City of New York's General Obligation Bonds Fiscal 2024 Series B - Taxable Social Bonds, Subseries B-1 and Taxable Bonds, Subseries B-2. Concurrently, KBRA affirms the AA+ rating and Stable Outlook on the City's outstanding General Obligation Bonds

Key Credit Considerations

The rating was assigned because of the following key credit considerations:

Credit Positives

- The City's role as international business and cultural center commensurate with its status as the nation's largest city, and position as the center of a large metropolitan economy.
- Institutionalized policies and procedures support financial stability.
- Long range financial and capital planning; pension funded ratios and unfunded liabilities have trended positively, while annual debt service requirements continue to be maintained at below 15% of City tax revenues.

Credit Challenges

- The economic base remains susceptible to financial services sector cycles, although financial sector reliance has moderated with increasing diversification of the City's economic base.
- The Financial Plan identifies out-year budget gaps, now exacerbated by the asylum seeker crisis, which must be closed.
- Absent significant Federal and/or State funding to assist the City in handling the continuing influx of asylum seekers, further increases in projected outyear budget gaps are likely. The crisis may also pressure provision of services and have quality of life implications.
- Coastline location and associated exposure to climate change related to rising sea levels and intensifying storms.

Rating Sensitivities

For Upgrade

- Maintenance of the City's sound fiscal posture, revenue resiliency and employment growth trend in the face of prevailing economic and social headwinds.
- Adoption of guidelines for target size of reserves and conditions for withdrawal.
- Reduction in out-year budget gaps.

For Downgrade

- Secular economic decline and/or deterioration in a key economic segment, such as commercial real estate, of sufficient magnitude to challenge budgetary revenues.
- Relaxation of, or less adherence to, well-established policies and procedures

To access rating and relevant documents, click here.

Methodologies

[Public Finance: U.S. Local Government General Obligation Rating Methodology]

[ESG Global Rating Methodology]

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Disclosures

A description of all substantially material sources that were used to prepare the credit rating and information on the methodology(ies) (inclusive of any material models and sensitivity analyses of the relevant key rating assumptions, as applicable) used in determining the credit rating is available in the Information Disclosure Form(s) located here.

Information on the meaning of each rating category can be located here.

Only those ratings on securities issued by this Issuer that also are denoted on the Security Ratings tab for this Issuer on KBRA.com as "endorsed" by Kroll Bond Rating Agency Europe Limited into the European Union and/or by Kroll Bond Rating Agency UK Limited into the UK are covered by the disclosures set forth in this press release and the corresponding Information Disclosure Form. No other ratings on issuances by this Issuer have been endorsed into the European Union or the UK, and the disclosures set forth herein and in the corresponding Information Disclosure Form are inapplicable to those ratings and may not be used for regulatory purposes by European Union or UK investors in these securities.

Further disclosures relating to this rating action are available in the Information Disclosure Form(s) referenced above. Additional information regarding KBRA policies, methodologies, rating scales and disclosures are available at www.kbra.com.

About KBRA

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City of New York, NY – General Obligation Bonds

Issuer: City of New York, NY		
Assigned	**Rating**	**Outlook**
Taxable General Obligation Social Bonds, Fiscal 2024 Series B, Subseries B-1	AA+	Stable
Taxable General Obligation Bonds, Fiscal 2024 Series B, Subseries B-2	AA+	Stable
Affirmed	**Rating**	**Outlook**
General Obligation Bonds	AA+	Stable

Methodology:

U.S. Local Government GO Methodology

ESG Global Rating Methodology

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Rating Summary: The rating recognizes the City's preeminent role as a domestic and international center of business and culture, the historic resiliency of its broad and diverse economic base, elevated, yet manageable debt obligations, and institutionalized procedures and plans for confronting near-term financial challenges. The combination of the City's role on the world's stage and the legal protections described herein further support the assigned rating. Counterbalancing the aforementioned strengths is an economic base that, while highly diversified, remains susceptible to economic cyclicality; continuing, out-year budgetary imbalances now exacerbated by costs associated with the asylum seeker crisis; and a geographic footprint that is increasingly vulnerable to climate change driven weather events, including severe flooding.

General Obligation Bonds ("G.O. Bonds") of the City of New York ("NYC" or the "City") are secured by the City's faith and credit pledge. All City taxable real property is subject to the levy of ad valorem taxes, without limitation as to rate or amount, for payment of debt service. Pursuant to the Financial Emergency Act for the City of New York (the "FEA" or the "Act"), a general debt service fund ("the Fund") is established for G.O. Bonds and certain notes. Payments of the City real estate tax must be deposited upon receipt into the Fund and retained under a statutory formula. Since its inception in 1978, the Fund, which is held by the State Comptroller as Custodian, has been fully funded at the beginning of each payment period. Subseries B-1 proceeds will be used to reimburse prior City spending on affordable housing that contributes to the social goals of the City, while the proceeds of the Subseries B-2 Bonds will be used for capital purposes. Subseries proceeds will also finance certain costs of issuance.

With support from significant federal stimulus funding, most sectors of the City's expansive and diverse economy have fully rebounded from the severe economic dislocation of the COVID-19 pandemic, as reflected in the near complete recovery in business, cultural, tourism and retail activity. Wall Street profitability has also normalized following a peak in 2021, although activity has slowed, and conditions remain volatile.

As of August 2023, total employment had increased by 2.9% year-over-year (YoY), with approximately 97 percent of the jobs lost in the City at the height of the pandemic recaptured. This rate of employment growth outpaced that of both the State and the nation and exceeds earlier City forecasts of full job recovery by mid-2024. Reflecting the severity of New York City's pandemic-related job loss, the unemployment rate, which reached 21% in May 2020, remains 1.5 percentage points above the national average as of August 2023, although high-paying service sector employment now exceeds pre-pandemic levels.

The City's diversified revenue portfolio of local taxes, user charges, and federal and State unrestricted and categorical grants tempers the impact of economic volatility on the budget. Total projected FY 2023 tax revenue of $73.0 billion is up 4.9% YoY, as rebounding real estate valuations, which now exceed pre-pandemic levels, contributed to a projected 7% increase in property tax revenues. This robust growth in property taxes, which comprise 43% of projected FY 2023 tax revenues, was more pronounced than the 2.2% increase in projected FY 2023 non-property taxes (PIT, business, transaction, sales, and all other taxes) that followed record receipts in FY 2022, attributable in part to lagging business and real estate transaction taxes. FY 2024 budget estimates call for overall tax revenue to decline 2.5%, with slowing property tax gains (3.5%) offset by non-property tax revenue declining 5.8%, reflecting potential near-term economic headwinds. Fiscal years 2025-2027 reflect projected tax revenue growth of between 2.2% and 3.3%, with non-property taxes increasing more rapidly than the limited growth forecast for property taxes.

Personal income tax ("PIT") collections, the City's second largest source of tax revenue, are projected to increase by 3.0% in FY 2023 following record FY 2022 performance, reflecting a fall-off in non-wage income associated with stock market declines, and a significant reduction in bonus payments offset by moderate growth in wage income. Slower employment growth is projected to result in a 13.1% decline in PIT revenue during FY 2024, with recovery to FY 2023 levels expected by FY 2027. Sales taxes, the City's third-largest revenue source, are projected to experience a second year of double-digit growth in FY 2023, rising well above pre-pandemic levels. Further annual sales tax growth is forecast, albeit at a moderating level, due to the ongoing recovery of the City's important tourism and hospitality sectors, as well as increased consumer spending and wage growth.

The FY 2024 property tax assessment roll, which reflects real estate activity from January 2022 through January 2023, shows improvement in residential market subsectors driven by strong demand and strength in median sale prices and unit sales since late 2020. However, the City, like other large U.S. urban areas, is experiencing a lag in the recovery of key commercial sectors. Most of the more than 1.5 million employees who commuted to New York City offices prior to the pandemic have adopted hybrid work schedules which entail their presence in the office fewer than five days per week. The impact of this hybrid work paradigm, which is likely to be permanent in KBRA's view, has lessened demand for office space, contributing to the City's 22.4% office vacancy rate in Q2 2023, according to data from Cushman and Wakefield. This represents the highest vacancy rate since 2000, with more than 90 million square feet of office space presently available for lease. The decline in office leasing rates and occupancy has a negative multiplier effect on retail stores, restaurants and services that cater to weekday office workers. Commercial office market challenges may be exacerbated by prevailing higher interest rates, which may increase monthly mortgage costs for property owners and raise borrowing costs for investors, thus reducing demand and further depressing commercial real estate values. The combination of declining commercial property values and higher borrowing costs also has the potential to pressure small- and medium-sized banks (which hold a meaningful amount of commercial real estate loans), should landlords default on loan repayments. Given the significant contribution of Class 4 office space to the City's property assessment roll, and the spillover impact of lower office occupancy on the supporting ecosystem, KBRA sees further weakening in the market for commercial office space as a possible risk to the Financial Plan. The Financial Plan assumes that office vacancy rates will peak in 2023, and recover modestly thereafter, to approximately 19% through 2027.

KBRA views the City's financial management and capital planning practices as very strong. The FEA and the City Charter require balanced budgets, with year-end results required to be balanced under generally accepted accounting principles ("GAAP"), and a four-year Financial Plan, updated quarterly, that must show current year balance and, starting in January, balance in the following fiscal year. City-wide cash flow reports are generated monthly, and the Financial Management System provides current information on the operating and capital budgets. Cash balances of nearly $12.4 billion as of FYE 2023 far exceed pre-pandemic levels. The City's Program to Eliminate the Gap (PEG) - through efficiencies, expense and grant revenue re-estimates, revenue increases and debt refundings - saves more than $4.8 billion in fiscal years 2023 and 2024, and over $9 billion in fiscal years 2025 through 2027. The implementation of a Medicare Advantage plan for City retirees pursuant to a 2021 agreement between the City and the Municipal Labor Committee was expected to generate $600 million in annual retiree health benefit cost savings, to be earmarked for deposit to the Health Insurance Stabilization Fund to offset outstanding financial obligations. However, retiree litigants have thus far prevailed in lawsuits challenging the plan's implementation, and the City has appealed to the Court of Appeals.

The receipt of federal pandemic aid totaling more than $26 billion has been highly beneficial to financial operations since FY 2020 and provides essential out-year support through FY 2025. The funds have assisted with COVID response and recovery and allowed for restoration of spending reductions, payment of expenses previously funded with City-generated revenues, and program expansions and improvements. Federal grant monies, along with significantly stronger than anticipated revenue performance, particularly PIT, facilitated the City's decision to significantly increase reserves in FY 2023. The June 2023 Financial Plan provides for reserve levels of $8.0 billion, 10.4% of the City funds budget, with no appropriation of reserves expected. Notwithstanding the augmentation of reserves, KBRA believes finances would benefit from policies that set targets for reserves and conditions for draws.

Labor contract settlements have been reached with District Council 37 (DC37), the City's largest municipal employee union, and the Police Benevolent Association (PBA) for the 2021-2026 round of collective bargaining. An accord has also been reached with the United Federation of Teachers, as well as tentative agreements with Teamsters Local 237 and the Uniformed Officers Coalition (which covers all 11 uniformed unions besides the PBA and the Uniformed Sanitation Association). Such agreements follow the respective pattern established by the DC 37 and PBA agreements. Tentative or ratified agreements represent approximately 81% of the City's unionized workforce, and the Financial Plan recognizes the full $16 billion settlement cost (including $2.3 billion of FY 2023 funding), which addresses a major source of fiscal uncertainty.

However, the June 2023 Financial Plan also reflected asylum seeker costs of $2.9 billion in FY 2024 and $1.0 billion in FY 2025 ($3.9 billion total). In August 2023, the forecast was sharply raised to $4.7 billion in FY 2024 ($1.8 billion increase) and to $6.1 billion ($5.1 billion increase) in FY 2025. No costs were assumed for FY 2026 and FY 2027. KBRA believes that since the influx of asylum seekers pursuing shelter shows no signs of abating, related expenditures may have to be adjusted upward. To date, federal and State support has been limited.

Prior to accounting for the adjusted asylum seeker costs, the adopted $107.1 billion FY 2024 budget was balanced, and the Financial Plan indicated budget gaps of $5.1 billion, $6.8 billion, and $7.9 billion for fiscal years 2025 through 2027. In general, outyear gaps reflect additional costs relating to asylum seekers, workforce labor settlements, and agency expenses. At present, without additional State and federal support, the City will need to add an additional $7 billion to the Financial Plan over FY 2024 and FY 2025, due to the revised asylum seeker related costs. KBRA continues to believe that officials will achieve budgetary balance as each out-year approaches, as is legally required and has been consistently demonstrated over time, yet out-year gaps have now widened, and costs associated with the asylum seeker humanitarian crisis pose highly significant unquantifiable risks going forward.

In early September 2023, the Mayor announced measures to stabilize City finances, including a 5% reduction in City-funded agency budgets in each of the next three financial plans starting with the November Plan, and a hiring freeze starting October 1, with exemptions for positions supporting public health, public safety and revenue generation. Cost reductions for agencies involved in caring for asylum seekers are also to be enacted. KBRA believes these actions are likely to have an adverse effect on service delivery and quality of life, as the City already has approximately 21,000 vacant positions budgeted in FY 2024. The impact of these actions is expected to be reflected in the November Financial Plan which will be reviewed by KBRA.

Underlying these challenges is the difficulty in quantifying the effects of a potential economic headwinds or a mounting decline in commercial real estate valuations on revenues, the impact of reduced market returns on the City's pension contributions, and the influence of inflation-related cost pressures on spending, including contractual services, procurements, labor-related expenses and expenditures related to accommodating the aforementioned spike in asylum seekers. KBRA also notes that while federal aid supports critical fiscal needs, new recurring spending supported by stimulus payments has also been added. KBRA believes the absence of identified City funding sources may exacerbate out-year gaps as federal resources are depleted.

The Stable Outlook reflects the resilient performance of the City's diverse tax revenues and the increase in financial reserves, underscored by the well-established fiscal oversight and tracking mechanisms embedded in the FEA and City Charter. Recent trends in operating performance and accumulation of reserves serve as a buffer against expected further declines in commercial real estate valuation, budget uncertainties related to asylum seekers, and the possible effects of an economic downturn.

Key Credit Considerations

The rating was assigned because of the following key credit considerations:

Credit Positives

- City's role as international business and cultural center commensurate with its status as the nation's largest city, and position as the center of a large metropolitan economy.
- Institutionalized policies and procedures and tenor of actions enacted during the pandemic support financial stability.
- Long range financial and capital planning; pension funded ratios and unfunded liabilities have trended positively, while annual debt service requirements continue to be maintained at below 15% of City tax revenues.

Credit Challenges

- Economic base remains susceptible to financial services sector cycles, although reliance has moderated with increasing diversification.
- The Financial Plan identifies out-year budget gaps, now exacerbated by the asylum seeker crisis, which must be closed.
- Absent significant Federal and/or State funding to assist the City in handling the continuing influx of asylum seekers, further increases in projected outyear budget gaps are likely. The crisis may also pressure provision of services and have quality of life implications.
- Coastline location and associated exposure to climate change related rising sea levels and intensifying storms.

Rating Sensitivities

▪ Maintenance of the City's sound fiscal posture, revenue resiliency and employment growth trend in the face of prevailing economic and social headwinds. ▪ Adoption of guidelines for target size of reserves and conditions for withdrawal. ▪ Reduction in out-year budget gaps.	+
▪ Secular economic decline and/or deterioration in a key economic segment, such as commercial real estate, of sufficient magnitude to challenge budgetary revenues. ▪ Relaxation of, or less adherence to, well-established policies and procedures	-

The City of New York	
Key Facts	
Overall Debt Per Capita	$ 12,467
Overall Debt as a % of Full Market Value	8.1%
Debt Amortization Within 10 Years	52.5%
General Fund Balance as a % of General Fund Expenditures	3.9%
Fixed Costs as a % of Governmental Expenditures	14.9%
Population Growth 2010-2020 [1]	
City of New York	7.7%
State of New York	4.2%
United States	7.4%
Per Capita Income (2021) [2]	
New York City as a % of State	108.7%
New York City as a % of U.S.	130.2%

[1] *Source: U.S. Census Bureau Decennial Census.*
[2] *Source: Bureau of Economic Analysis, U.S. Census Bureau, July 1, 2021, census data.*

Rating Determinants (RD)	
1. Management Structure and Policies	AA+
2. Debt and Additional Continuing Obligations	AA
3. Financial Performance and Liquidity Position	AA+
4. Municipal Resource Base	AA+

Bankruptcy Assessment

KBRA has consulted outside counsel regarding municipal bankruptcy in the State of New York. To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code ("Chapter 9"), a local governmental entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code, and must also be specifically authorized to file a bankruptcy petition by the State of formation. The City is a municipal corporation and city of the State of New York organized and existing under state law, and thus is a "municipality" as defined under the Bankruptcy Code. As to authorization, New York's Local Finance Law contains specific authorization for any "municipality" in the State (defined in the Local Finance Law as a county, city, town, or village), or its emergency financial control board, to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness. The City, or the Control Board on behalf of the City, is thus authorized to file a petition under Chapter 9.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

A discussion of certain credit relevant ESG factors is provided in KBRA's report dated May 17, 2023.