S&P Global Ratings

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Summary:

New York City Transitional Finance Authority; Miscellaneous Tax

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Credit Profile		
US$950.0 mil future tax secd subord bnds fiscal 2023 ser F-1 due 02/01/2051		
Long Term Rating	AAA/Stable	New
US$180.39 mil future tax secd subord bnds (taxable) ser F-2 due 02/01/2033		
Long Term Rating	AAA/Stable	New
US$119.61 mil future tax secd subord bnds (taxable) ser F-3 due 02/01/2036		
Long Term Rating	AAA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the New York City Transitional Finance Authority's (TFA) approximately $1.25 billion future tax-secured (FTS) subordinate bonds fiscal 2023 series F, consisting of tax-exempt subseries F-1 (approximately $950 million), taxable subseries F-2 (approximately $180.4 million), and taxable subseries F-3 (approximately $119.6 million).
- The long-term rating on TFA's senior and subordinate FTS bonds outstanding is 'AAA'.
- The outlook is stable.

Security

Personal income tax (PIT) revenue and, if needed, sales and use tax revenue generated within the City of New York secures the subordinate (second-lien) FTS bonds. The fiscal 2023 series F bond proceeds will fund citywide capital expenditures. The bonds will be issued as multimodal bonds, initially in fixed-rate mode.

Credit overview

Coverage and liquidity metrics as well as economic fundamentals that support the 'AAA' rating remain very strong. That said, broader macroeconomic conditions are deteriorating, as is reflected in the city's conservative assumptions for the fiscal 2023 forecast. The forecast incorporates an 8.4% decline in PIT, primarily reflecting lower financial services sector profits and bonus income following record PIT collections of $16.7 billion in fiscal 2022. While PIT is forecast to decline to $15.3 billion in fiscal 2023, it is expected to remain above historical levels. Inflation has dampened macroeconomic conditions but has contributed to positive sales tax revenue, which was revised higher to $9.2 billion for fiscal 2023 with release of the January financial plan (up 6.9% from fiscal 2022 actual collections of $8.6 billion).

New York City's economic recovery continued through the end of calendar 2022, although is beginning to show signs of weakening (particularly in job growth), consistent with national trends. That said, unemployment was down to 5.3% in December 2022 (not seasonally adjusted), private sector job recovery was nearly 97% of calendar 2019 levels, hotel

rooms sold surpassed pre-pandemic levels in January 2023, office occupancy surpassed 50% of pre-pandemic levels, and single-day subway ridership in January 2023 averaged more than 60% of the pre-pandemic daily statistics. We expect these trends will underpin robust pledged revenue collections. Furthermore, we expect that the ongoing diversification of the city's economy (underscored by reputable universities, access to first-class health care providers, investments by venture capitalists in technology startups, and attractiveness as a leisure and business travel destination) may cushion the impact of the impending national recession on New York City.

Also supporting the high investment-grade rating is the city's transfer of its rights, title, and interest in pledged revenue to the authority that enhances the statutory and legal mechanisms that separate control of the revenue from the city, supporting an obligor linkage we view as remote. However, risks remain that tether the priority-lien rating to the city's obligor's creditworthiness, which is equivalent to the general obligation (GO) rating. The City of New York GO rating is 'AA' and is constrained by the city's very weak debt and contingent liability profile, which strong and well-embedded management practices offset.

Other key credit considerations include:

- Consistent expansion and diversification of New York City's economy, which is largely recovered from the COVID-19 pandemic downturn, although broader macroeconomic conditions are set to worsen in calendar 2023;
- Fiscal 2022 pledged revenue of nearly $25.3 billion (17% above actual fiscal 2021 collections) that provided very strong 8x coverage of annual actual debt service (we expect maintenance of at least 4x maximum annual debt service, or MADS, coverage on subordinate-lien debt service over the outlook period);
- Strong bond provisions, including what we consider a conservative additional bonds test (ABT) of at least 3x MADS and maximum MADS of $1.32 billion for the senior-lien bonds, well above current MADS of $32.2 million (calculated at the maximum variable rate), and at least 3x the sum of covenanted MADS of $1.32 billion on senior-lien debt plus annual debt service on subordinate debt for the subordinate-lien bonds;
- Our view that nationwide income and sales use taxes have historically demonstrated low-to-moderate volatility, with the breadth of the city's sales and use tax base offsetting cyclical volatility associated with PIT; and
- The city's general creditworthiness, which does not constrain the rating but will remain a consideration, as we see risks that could impair pledged revenue if New York City's economy and finances were to become pressured.

Environmental, social, and governance

We view the environmental, social, and governance factors that could affect the TFA's economic base on which pledged revenue is collected as somewhat similar to those of the city, particularly should exposure to extreme weather events and other chronic physical climate risks disrupt economic activity or pledged revenue collections. Although a potential resurgence of the pandemic (a health and safety event) remains a risk, we believe that it is waning and that resilient PIT collection mitigates the risk. We also view the governance structure of the TFA's FTS statutory and legal mechanisms positively, as it protects the rights of bondholders and limits the city's ability to divert revenue prior to debt service payment.

Outlook

The stable outlook reflects our view of growth in the TFA's pledged revenue, which has shown resilience through multiple economic cycles, including the most recent shock from the pandemic. As a result, the authority's annual debt service coverage and MADS coverage remain extraordinarily strong, and we expect this will continue.

Downside scenario

We could lower the rating or revise the outlook to negative in the unlikely event that pledged revenue falls substantially short of the forecast or that the TFA accelerates borrowing that leads to materially lower MADS coverage of less than 4x.

Credit Opinion

Economic fundamentals: Very strong

The sheer size of New York City's economy supports our very strong view of economic fundamentals. For example, the city's population across Bronx, Kings, Queens, Richmond, and New York counties is larger than that of 39 U.S. states and increased to 8.8 million with the 2020 census data. In addition, in 2021 the New York City metropolitan area's GDP remained the highest across the 10 largest metropolitan areas at nearly $2 trillion and remains more than 50% larger than that of the next-largest metro area (Los Angeles-Long Beach-Anaheim). That said, S&P Global Economics now expects the U.S. will fall into a shallow recession in the first half of 2023 (see "Economic Outlook U.S. Q1 2023: Tipping Toward Recession" published Nov. 28, 2022, on RatingsDirect), which in turn will have repercussions for New York City as an economic and financial hub.

The January 2023 financial plan updated the forecast for fiscal years 2023 through 2027 to reflect PIT collections of $15.3 billion, $14.9 billion, $15.5 billion, $15.9 billion, and $16.3 billion, sequentially. We believe the city's forecast is realistic, but the national macroeconomic backdrop is weakening, particularly related to employment trends. While the city's January financial plan is conservative, we anticipate that future financial plan updates and pledged revenue forecasts will reflect evolving macroeconomic conditions.

The city levies a 4.5% sales tax on a broad range of economic activity, including retail sales (also from online sales), utilities, communication sales, services, and manufacturing. In addition, it levies a 6% tax on receipts from parking, garaging, or storing motor vehicles. Taxable sales in the city doubled from 2004 to 2020 and, after declining in 2021, rebounded to $182 billion in 2022 (data from March 1, 2021, to Feb. 28, 2022), or near the pre-pandemic level.

Coverage and liquidity: Very strong

Our view of TFA's coverage and liquidity is very strong. In light of more difficult macroeconomic conditions, the fiscal 2023 pledged revenue is forecast to fall by approximately 3.2% to about $24.5 billion. The decline is largely underscored by an expected 8.4% decrease in PIT to $15.3 billion, while sales tax is forecast to increase over actual fiscal 2022 collections to nearly $9.2 billion (6.9% higher). The updated sales tax forecast released with the January financial plan reflects robust economic and tourist activity, job growth, and hybrid work trends that have outpaced previous projections as well as the inflationary impact on goods and services. Fiscal 2022 pledged revenue provided

extraordinarily strong annual debt service coverage of 8x and, after the inclusion of expected debt service payments for the fiscal 2023 series F bonds, provided MADS coverage of 6.6x based on the maximum rate on the variable-rate bonds and 6.8x based on the 4.25% budgeted adjustable rate. Even with expectations for lower pledged revenue in fiscal 2023, annual debt service coverage remains extraordinarily strong at 6.7x, as does MADS coverage at 6.4x based on the maximum rate on the variable-rate bonds and 6.6x based on the 4.25% budgeted adjustable rate (inclusive of the expected debt service payments for the fiscal 2023 series F bonds). These coverage trends are consistent with our view of the 'AAA' rating.

Discussions in early 2022 to increase the TFA's borrowing capacity have not resulted in legislation. Should this ultimately occur, we believe management would structure debt plans to ensure that pledged revenue continues to provide very high coverage in line with historical trends.

We do not view the TFA's variable-rate portfolio as a negative credit factor, given the authority's management of associated liquidity risk, which we incorporate into our analysis. In addition, given the TFA's historical and projected MADS coverage, we do not view the lack of a fully funded debt service reserve as a negative credit factor.

We believe the city's long-time target of maintaining debt service at less than 15% of tax revenue, along with its reliance on residual PIT and sales tax revenue to fund normal operations, provides bondholders assurance that leveraging pledged revenue up to the ABT for the subordinate bonds is unlikely to occur. Furthermore, the TFA has not issued parity senior-lien debt in recent years, and we expect no change to this. Although we do not include unpledged revenue in our calculation of coverage, New York City has prepaid a portion of TFA's debt service from its general fund, represented as a grant to the TFA, which stood at $1.96 billion to benefit fiscal 2023 results, down from nearly $2.7 billion in the year prior. By providing the grant from the general fund for payment of debt service, PIT revenue that the TFA retains is reduced, allowing the city a larger amount for operations.

Revenue volatility: Very-low-to-low

Pledged PIT and sales tax revenue are critical sources that fund city operations, collectively accounting for more than one-third of budgeted city tax revenue in fiscal 2022. Nationwide PIT volatility is historically very low, while sales taxes volatility has been low, and this informs our view of the pledged revenue's combined volatility. However, we believe New York's PIT revenue is cyclical, more sensitive to general economic and tourism trends, and susceptible to certain market conditions. At the same time, we believe the breadth and diversity of the city's economy provide a broader base for sales and use tax collection, reducing its volatility compared with nationwide trends, even in current economic conditions.

Although each revenue source has seen cyclical growth and decline, the overall growth trend for both is positive. Either tax source easily covered annual debt service in fiscal 2022, with PIT receipts providing 5.3x coverage and sales tax collections 2.7x.

The PIT is the TFA bonds' primary source of security, generating about 66% of statutory revenue in fiscal 2022. Since the TFA was established, PIT revenue has fully covered debt service without any use of sales taxes. In 1966 New York City imposed a PIT, and in 2006 it returned to a lower schedule of base rates and a 14% surcharge, which resulted in a maximum rate of 3.648%. In 2010, the base rate increased, resulting in a maximum rate of 3.876%. The base rate and the 14% surcharge are scheduled to expire on Dec. 31, 2023. Unless legislation passes extending the base rate and the

14% surcharge, a lower rate schedule with a maximum rate of 1.48% will take effect. The base rate was previously scheduled to drop on several occasions since 1989 but has always been extended, most recently in April 2020.

Obligor linkage: Remote

The state legislature created the TFA under the New York City Transitional Finance Authority Act. The act authorizes TFA to issue debt secured by revenue that the state grants to the authority. The state collects pledged revenue, and PIT revenue is held in trust and transferred to the trustee by the state comptroller. Pledged revenue is not subject to appropriation by the city or state. The TFA indenture creates a lien for the benefit of bondholders that the city and state have covenanted not to limit or alter until the bonds are paid or discharged.

A board of directors manages TFA with the power to approve bond issuances. Five voting directors govern the authority: the director of the office of management and budget, the finance commissioner, the commissioner of design and construction, the comptroller, and the city council speaker. Two of the members are elected officials, the other three are appointed by the mayor, and all are in some way obligated to the residents of the City of New York.

We have also received a legal opinion that the pledged revenue is no longer property of the city under Section 902(1) of the bankruptcy code and would not be treated as such. In the event of a city bankruptcy, a plan of adjustment that contradicts this right and determination by the state would violate state law and thus should not be confirmable.

These factors inform our belief that the legal structure is an intended true sale of the pledged revenue that renders the revenue unavailable to fund operations, and contains other securitization features that segregate pledged revenue prior to the payment of debt service from the city's other revenue and cash balances. Therefore, we view pledged revenue as more insulated from potential operating shortfalls or budgetary pressure wherein it is neither legally nor practically available for operations. However, we believe risks remain that could result in the impairment of the revenue if the city were to become stressed, meaning bondholders cannot be completely isolated from the city's financial and economic condition.

Rating linkage to New York City

The GO rating on the city serves as an assessment of the city's overall creditworthiness and is a key determinant of the authority's ability to pay bonds secured by revenue. Although the high investment-grade rating denotes little risk of the city falling into distress, we believe that the potential for lowering the GO rating cannot be disregarded.

For more information on New York City, see our report published Feb. 17, 2023.

Ratings above the sovereign

We rate the TFA bonds above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, based on the locally derived pledged revenue for bondholders and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating above the sovereign is based on our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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