

RATING ACTION COMMENTARY

Fitch Rates NYC Transitional Finance Auth \$1.5B Fiscal 2025 Ser H Bonds 'AAA'; Outlook Stable

Fri 07 Mar, 2025 - 2:29 PM ET

Fitch Ratings - New York - 07 Mar 2025: Fitch Ratings has assigned a 'AAA' rating to the New York City Transitional Finance Authority's (TFA) \$1.5 billion future tax secured (FTS) tax-exempt subordinate bonds, fiscal 2025 series H, subseries H-1.

The series H, subseries H-1 bonds will be sold through negotiated sale on March 11 and March 12. Proceeds of the bonds will be used to finance general city capital expenditures.

The TFA's outstanding subordinate lien FTS bonds are rated '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/2 LT	LT	AAA	Affirmed	AAA

PREVIOUS

Page1of 1

10 rows

NEXT

VIEW ADDITIONAL RATING DETAILS

The 'AAA' rating on the subordinate FTS revenue bonds reflects solid long-term growth prospects for pledged revenue and the bonds' highly resilient structure. Fitch anticipates that the bond structure will be able to withstand changes in economic cycles and maintain solid debt service coverage.

Fitch's analysis indicates resilience would be strong even if New York City leveraged the pledged revenue up to its legally permitted amount, but Fitch expects issuance to be well below that level as excess revenue flows to the city for general operations. A very strong legal structure insulates bondholders from the operating risk of New York City (IDR: AA/Stable).

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

A decline in pledged revenue that is more severe and prolonged than anticipated, combined with a significant increase in leverage closer to the additional bonds test (ABT).

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

Not applicable as the bonds are already rated at Fitch's highest rating category.

## **DEDICATED TAX SECURITY**

The bonds are payable from a subordinate lien on revenue derived from a personal income tax (PIT) and a sales and use tax (SUT, collectively, the pledged revenue) 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 revenue also include the revenue 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 revenue will be available for the payment of debt service if PIT revenue is projected to be insufficient to provide at least 150% of the maximum annual debt service (MADS) on the TFA's outstanding bonds.

Additional bonds may be issued as senior bonds if net pledged revenue for the 12 consecutive calendar months preceding authorization is at least 3x the maximum amount of annual senior debt service, including debt service on the bonds to be issued. Senior lien bonds, if issued, are subject to a \$330 million limit on quarterly debt service. The TFA does not have any senior lien obligations outstanding.

The subordinate ABT requires that pledged revenue for the most recent fiscal year is at least 3x the sum of \$1.32 billion (covenanted MADS for senior lien bonds) 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 the purposes of the ABT.

## **DEDICATED TAX KEY RATING DRIVERS**

### **Robust Resilience**

The high coverage levels from growing pledged revenue provide for very strong levels of resilience to changes in the economy and through downturns. Strong legal and practical protection against overleveraging also supports the 'aaa' level of resilience.

### **Solid Growth Prospects**

Pledged revenues benefit from the city's unique economic profile, which reflects its identity as an international center for numerous industries and institutions and a major tourist destination. Fitch believes longer-term growth of pledged revenue may slow from the record fiscal 2023 levels, but remain solid at levels between long-term rates of inflation and U.S. GDP. This level of revenue growth is consistent with a 'aa' assessment.

### **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 revenue 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.

As a true sale structure, TFA's rating is limited to six notches above New York City's IDR of 'AA/Stable'.

### **PROFILE**

Pledged revenue for fiscal 2024 (ended June 30) of \$25.6 billion was down by 4.2% yoy, but still covered annual debt service by a very strong 7.3x. This follows record growth in pledged revenues of 5.7% and 16.9%, for fiscal years 2023 and 2022, respectively. PIT revenue declined by 8.7% to \$15.7 billion and SUT revenue grew by 3.8% to \$9.9 billion yoy, following respective yoy growth of 2.8% and 11.3% for PIT and SUT revenue during fiscal 2023.

Declines in PIT reflected larger declines in non-withholding revenue, inclusive of PTET, following strong fiscal 2023 performance. Approximately 77% of PIT revenues were collected through withholding, which exceeds the 10-year average of 71%. Growth in PIT revenues is projected to improve by 11.3% in fiscal 2025 to levels moderately above the high fiscal 2023 levels (as per the city's Jan. 16, 2025 financial plan for fiscal years 2025 through 2029), mostly due to stronger financial services activity. PIT revenues are projected by the city to moderate and improve by 1.6%, 4.0%, 4.0% and 4.5% for fiscal years 2026, 2027, 2028 and 2029, respectively.

SUT revenues saw more moderate growth, yoy, reflecting a spend-down of excess savings, inflationary pressures and a slowing labor market. City projections show SUT revenue continuing to experience moderate growth, of 4.6%, 4.1%, 4.3% and 3.3% for fiscal years 2026, 2027, 2028 and 2029, respectively.

Pro forma all-in debt service coverage remains very strong at 4.2x based on fiscal 2024 pledged revenue, compared to projected fiscal 2029 debt service of \$6.1 billion, which assumes the issuances of \$28.5 billion in new debt through fiscal 2029 for general city capital purposes.

The city projects pledged revenue will grow by 8.5% during fiscal 2025, with annual growth projected at more moderate levels of 2.7% in fiscal 2026, 4.1% in fiscal 2027, 4.1% in fiscal 2028 and 4% in fiscal 2029.

Fitch considers the city's pledged revenue projections to be reasonable due to robust tourism activity and continued job growth through the first half of fiscal 2025, combined with projections for strong Wall Street profits in the current fiscal year. Fitch expects economic growth to moderate through the remainder of fiscal 2025 due to the still relatively high interest rate environment, reduced but still active spending levels and the uncertainty of the impact of the new federal administration's potential policy actions. Fitch expects job growth to decelerate; however, tourism, which has bounced back and started to surpass pre-pandemic levels, is expected to remain relatively healthy.

As of Jan. 31, 2025, the city's and the TFA's combined remaining debt-incurring power was approximately \$34.2 billion. The state's fiscal 2025 budget increased the total authorized amount of FTS bonds to be outstanding, and not subject to the city's debt limit, by \$14 billion from \$13.5 billion to \$27.5 billion, with \$8 billion of such increased capacity available beginning on July 1, 2024 and the remaining \$6 billion available beginning on July 1, 2025.

The Governor's Executive Budget for the state of New York includes a proposal which, if enacted, would further increase the total amount of FTS bonds authorized to be outstanding and not subject to the city's debt limit by an additional \$3.0 billion, with such amount increasing to \$30.5 billion as of July 1, 2025. The statutory debt limits are binding on the TFA but are not covenants with bondholders, and are subject to change by legislation adopted by the state.

Fitch expects the city will manage future debt issuances to comply with city debt policies and that future TFA debt service coverage will remain well above ABT permitted levels, as management relies on surplus revenue to support operations.

### **Economic Resource Base**

Fitch considers the city's status as an international center for numerous industries and institutions and as a major tourism destination, as well as its proven resilience through the recent and prior severe economic disruptions, as credit strengths. Job growth following the pandemic picked up notably during calendar years 2022 and 2023, and reached record highs through calendar YE 2024.

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 2023 data. Professional and business services accounted for 21% of earnings during the same period and this sector, along with the financial activities sector, has a higher share of wage earnings than the other service-producing and governmental sectors in the city based on 2023 data.

The city's economic profile features high wealth levels; per capita personal income was approximately 129% of the U.S. average in 2023. However, the city's above-average individual poverty rate of 17.2% exceeds the national rate of 12.5%, indicating some income disparity and the demand for social services, also common to other large urban U.S. cities.

Estimated census figures for July 2023 report the city's population at 8,258,035, a 6.2% decrease from 2020. New York 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.

### **Solid Pledged Revenue Growth Prospects**

Total pledged revenues grew at a CAGR of approximately 4.8% over the 10 fiscal years through 2024. Fitch believes the city continues to have solid economic growth prospects. Considering the sensitivity of both PIT and SUT revenues to economic activity, Fitch expects revenue growth over time to exceed its expectations for long-term rates of inflation but be below GDP growth, consistent with an 'aa' revenue growth assessment.

### **Sensitivity and Resilience of Pledged Revenues through Economic Declines**

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 (FAST) model generates a 6.6% 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 the September 11 terrorist attacks and the latter by adjustments for prior-year PIT overpayments.

Assuming issuance up to the 3.0x ABT, Fitch estimates that pledged revenues would have to decline by roughly 67% before MADS coverage is less than 100%, or 10.1x the revenue sensitivity results produced by FAST in a 1% U.S. GDP decline scenario and more than 3.7x the largest actual cumulative decline. These results are consistent with a 'aaa' resilience assessment.

Fiscal 2024 pledged revenues of \$25.6 billion could decline by 76% and still cover pro forma annual debt service of \$6.1 billion in fiscal 2029. Fitch believes issuance to the ABT is highly unlikely given the city's debt issuance plans for pledged revenues and 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 subsequent 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**

05-Sep-2024

## 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

Fitch does not provide ESG relevance scores for New York City Transitional Finance Authority (NY).

In cases where Fitch does not provide ESG relevance scores in connection with the credit rating of a transaction, programme, instrument or issuer, Fitch will disclose any ESG factor that is a key rating driver in the key rating drivers section of the relevant rating action commentary. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products>.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## 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 Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

## 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, v3.1.0 [\(1\)](#)

## ADDITIONAL DISCLOSURES

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

New York City Transitional Finance Authority (NY)

EU Endorsed, UK Endorsed

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following

<https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating

S

[READ MORE](#)

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.