S&P Global Ratings

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Summary:

New York City Transitional Finance Authority; Miscellaneous Tax

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Credit Profile		
US$1500.0 mil future tax secured tax-exempt subord bnds (Fiscal 2025 Subseries H-1) dtd 05/01/2025 due 11/01/2054		
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) $1.5 billion future tax-secured (FTS) tax-exempt subordinate bonds fiscal 2025 series H, subseries H-1.
- The outlook is stable.

Security

Personal income tax (PIT) revenue and, if needed, sales and use tax revenue generated within New York City (NYC) secure the subordinate FTS bonds.

Proceeds from the fiscal 2025 subseries H-1 bonds will be used to finance general city capital expenditures. The bonds will be issued as multimodal bonds, initially in fixed-rate mode.

Currently, TFA has approximately $53.1 billion of FTS subordinate bonds outstanding. There are currently no senior bonds outstanding.

Credit overview

The 'AAA' long-term rating incorporates our view of very strong coverage and liquidity metrics, as well as very strong economic fundamentals. Overall, NYC's economic trajectory remains positive, as reflected in overall favorable tax revenue performance and upward revisions to the city's January 2025 financial plan. Within the financial plan, combined fiscal 2025 pledged revenue is expected to increase to $27.77 billion (or 8.5%) from the actual fiscal 2024 revenue of $25.58 billion. This is primarily due to a projected 11.3% increase in PIT revenue, while fiscal 2025 sales tax revenue is forecast to rise by 4.1%, a faster growth rate compared with fiscal 2024's 3.8% sales tax growth rate.

The city's pledged revenue growth assumptions typically reflect conservative economic growth expectations, and we view current and outyear expectations to be reasonable compared to S&P Global Ratings Economics forecasts. Based on the most recent report "Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty" (published Nov. 26, 2024, on RatingsDirect), S&P Global Ratings Economics forecasts U.S. real GDP growth will continue at a solid pace, with an above-trend growth rate for 2024 (2.7%) and expansion of 2.0% in both 2025 and 2026. The forecast also assumes a partial implementation of fiscal, trade, deregulatory, and immigration policies by federal leadership, which poses some uncertainty for U.S. economic growth over the forecast period, while we expect the Federal Reserve to take a more cautious approach to reduce the federal funds rate to manage uncertain inflation expectations. This comes with considerable caveats that our chief economist has cited in subsequent publications, namely that tariff proposals and curbs on immigration could result in a significant downward revision to the forecast. (See "Slowing Immigration Could Derail U.S. Economic Growth Momentum", published Jan. 16, 2025, and "How Might Trump's Tariffs--If Fully Implemented--Affect U.S. Growth, Inflation, And Rates?", published Feb. 6, 2025.) The U.S. announced tariffs on Canada, Mexico, and China on March 4, 2025. In the ensuing days, the U.S. then paused tariffs on Canadian and Mexican goods compliant with the United States-Mexico-Canada Agreement until April 2, 2025, but maintained tariffs on China. If fully implemented, S&P Global Ratings Economics estimates that the overall drag from these tariffs (versus the previous baseline) on U.S. real GDP will likely be about 0.6% lower. These tariffs could also lead to a rise in U.S. consumer price index (CPI) inflation of 50 basis points (bps) to 70 bps over the next 12 months, diminishing purchasing power to households and elevating uncertainty for business investment and exporters (see "Growth Prospects Strained After The U.S. Takes The Tariff Plunge," published March 5, 2025). In addition, S&P Global Ratings Economics estimates that immigration policy changes and constraints on labor supply growth could lead to a decline in the U.S. economy's growth capacity by as much as 50 bps (compared with the past two years) in the absence of a rise in labor productivity growth and the employment rate of the working-age population. We continue to monitor potential effects that this could have on NYC's economic activity and employment, particularly any dampening effect it might have on income and sales tax revenue.

In our view, the city conservatively expects some deceleration in sales tax collections due to outyear economic growth that will temper consumer spending. This slowdown is coupled with a withholding extension of sales tax revenue for payment to the New York State Agency Trust Fund to provide relief for financially distressed hospitals and nursing home facilities through March 31, 2028 (enacted in the New York State budget), which we believe will have a modest effect on sales tax revenue. Nevertheless, we expect coverage will remain very strong, underpinned by New York City's ongoing economic expansion and diversification--underscored by the city's reputable universities, first-class health care providers, growing technology startup sector, and attractiveness as a leisure and business travel destination--all of which generate the pledged revenue.

Also supporting the high investment-grade rating is NYC's transfer of the city's rights, title, and interest in pledged revenue to the authority, which enhances the statutory and legal mechanisms that separate control of the revenue from the city, supporting an obligor linkage that we view as remote. However, risks to the priority-lien rating remain in the form of its linkage to the city's creditworthiness, which is equivalent to our general obligation (GO) rating on NYC (AA). The GO rating is constrained by the city's elevated debt and contingent liability profile relative to that of higher-rated peers, which proactive and well-embedded management practices offset.

New York State's fiscal 2025 budget amended the New York City Transitional Finance Authority Act, increasing the authorization of FTS bonds that will not be subject to the city's debt limit by $14.0 billion, to $27.5 billion from $13.5 billion. Beginning July 1, 2024, $8 billion of such increased capacity is available, with the remaining $6 billion available beginning on July 1, 2025. Following the issuance of the fiscal 2025 subseries H-1 bonds and $300 million adjustable-rate subseries H-2 and H-3 bonds, which will be issued concurrently with the subseries H-1 bonds, TFA projects that it will issue approximately $6.3 billion, $7.0 billion, $7.4 billion, and $7.8 billion from fiscal years 2026 through 2029, respectively, of FTS bonds for general capital purposes. We believe management will structure future debt plans to ensure that pledged revenue continues to provide very high coverage in line with historical trends.

However, we continue to monitor coverage levels and whether increased debt could materially reduce maximum annual debt service (MADS) coverage to less than 4x, or substantially diminish the flow of excess tax revenue to the city after payment of debt service, which we believe could potentially pressure the ratings.

Other key credit considerations include:

- Ongoing expansion and diversification of NYCs economy, which has largely recovered from the pandemic downturn, supported by the strength of the broader national economy over the near term.
- Fiscal 2024 actual pledged revenue of $25.6 billion (4.2% below fiscal 2023 collections) provide very strong 7.3x coverage of annual debt service. Following the issuance of the fiscal 2025 subseries H-1 bonds, fiscal 2024 pledged revenue provides MADS coverage of 5.6x based on the maximum rate on the variable-rate bonds and 5.8x based on the 4.25% budgeted adjustable rate. Considering TFA's additional debt issuance plans over the near term, we expect maintenance of at least 4x MADS coverage of subordinate-lien debt service will continue over the outlook period.
- Strong bond provisions, including what we consider a conservative additional bonds test of at least 3x MADS and maximum MADS of $1.32 billion for senior-lien bonds (none currently outstanding), 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.
- Nationwide income and sales and use taxes that 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.
- The city's general creditworthiness, which does not constrain the rating but will remain a consideration, as pledged revenue could become pressured if NYC's economy and finances deteriorate.

Environmental, social, and governance

We view the environmental, social, and governance factors that could affect TFA's economic base on which pledged revenue is collected as 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. We view the governance structure of the authority's FTS statutory and legal mechanisms positively, as it protects the rights of bondholders and limits the city's ability to divert revenue before debt service payment.

Ratings above the sovereign

We rate the TFA bonds above the sovereign because we believe the authority 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 "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" criteria, published Nov. 19, 2013.

Outlook

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

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 TFA accelerates borrowing that leads to materially lower MADS coverage of less than 4x.

For more information, see our full analysis on the Transitional Finance Authority, published Sept. 5, 2024, on RatingsDirect.

New York City Transitional Finance Authority, New York--Key credit metrics

	Metric	
Economic data		
Economy	Very strong	
EBI level per capita % of U.S.		112
Population (obligor)		8,523,772
Broad and diverse MSA	Yes	
Population (MSA)		20,321,355
Financial data		
Revenue volatility	Low - Very low	
Coverage and liquidity	Very strong	
Baseline coverage assessment	Other	
MADS coverage (x)		5.8
MADS year		2029
Annual debt service coverage (x)		7.3
3-year pledged revenue change (%)		18.4
Bond provisions		
ABT (x)		1
ABT type	MADS	
ABT period	Projected	
DSRF type	None	
Obligor relationship		
Obligor linkage	Remote	
PL rating limit (number of notches above OC)		4

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. MSA--Metropolitan statistical area. MADS-Maximum annual debt service. ABT--Additional bonds test. DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness. N/A--Not available. Three-pronged test--MADS, 10% of principal, or 125% of average annual debt service. Economic data reflects 2023 information reported on a calendar year basis, sourced from S&P Market Intelligence. Annual debt service coverage and MADS coverage are based on actual fiscal 2024 revenues and pro forma debt service (assuming an interest rate of 4.25% on outstanding variable rate bonds outstanding), incorporating the fiscal 2025 series H bonds, subseries H-1.