

Research Update:

New York City Transitional Finance Authority Fiscal 2026 Series B Future Tax Secured Subordinate Bonds Rated 'AAA'

October 17, 2025

Overview

- 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 2026 series B.
- At the same time, we affirmed our 'AAA' long-term rating on TFA's subordinate (second-lien) FTS bonds outstanding. There are no senior FTS bonds outstanding.
- We also affirmed our 'AAA/A-1' and 'AAA/A-1+' dual ratings on various outstanding FTS subordinate bonds, where the 'AAA' long-term rating is based on the credit characteristics of TFA, and the short-term ratings reflect the liquidity support through standby purchase agreements or standby letters of credit from various financial institutions.
- The outlook on the long-term ratings is stable.

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Rationale

Security

Personal income tax (PIT) revenue and, if needed, sales and use tax revenue generated within New York City secures the fiscal 2026 series B subordinate (second-lien) FTS bonds and subordinate FTS bonds outstanding. The bonds will be issued as multimodal bonds, initially in fixed-rate mode.

Proceeds from the fiscal 2026 series B bonds will fund citywide capital expenditures.

The TFA has approximately \$57.1 billion of FTS subordinate bonds outstanding and no FTS senior bonds outstanding.

Credit highlights

The 'AAA' long-term rating incorporates our view of the authority's very strong coverage and liquidity as well as very strong economic fundamentals. New York City's economic trajectory remains positive overall, as reflected in favorable tax revenue performance during fiscal 2025 and financial plan projections for pledged revenue to remain steady in fiscal 2026 despite evolving macroeconomic conditions.

In our view, New York City's economic data from the first half of the year has remained resilient. We generally expect that its economy will soften, but that the gross metropolitan product growth rate will mirror that of the U.S. over the outlook period. Based on S&P Global Ratings Economics' report "[Economic Outlook U.S. Q4 2025: Below-Trend Growth Persists Amid A Swirl Of Policy Shifts](#)," Sept. 23, 2025, the forecast reflects further deceleration in real GDP growth to 1.9% in 2025 and 1.8% in 2026, from 3.2% in 2023 and 2.5% in 2024. S&P Global Ratings economists note that growth in real disposable income is slowing, consumers are more pessimistic amid employment security and an uptick in inflation, and U.S. business investments and hiring remain in flux as interest rates remain elevated and U.S. trade and tariff policy continues to evolve. Concurrently, further risks cloud the forecast as sharply slowing immigration, resurgent student loan burdens, a frozen housing market, and the potential for a prolonged federal government shutdown and reduced government spending will test the resilience of U.S. economic activity. (For more information, see "[Credit Conditions North America Q4 2025: Resilience Amid Risks](#)," Sept. 24, 2025, and "[The U.S. Government Shutdown Adds Uncertainty To The Economic Outlook](#)," Oct. 1, 2025.) While S&P Global Ratings Economics' base case continues to see the U.S. avoiding a recession in the near term, the probability of a recession beginning in the next 12 months remains near 30%. For New York City, we will monitor the effects of these evolving conditions on consumer spending and Wall Street profits, and the growth trajectory of the city's income and sales tax revenue conditions in future years.

The city's pledged revenue growth assumptions over the 2025-2029 financial plan also reflect conservative economic growth expectations, and we view current and out-year expectations to be reasonable compared with S&P Global Ratings Economics' forecasts. Actual income and sales tax receipts for fiscal 2025 totaled \$28.83 billion, or 12.7% above fiscal 2024 collections, slightly outperforming year-end estimates in the city's June 2025 financial plan forecast. Looking forward, combined pledged revenue for fiscal 2026 is projected to decline slightly to \$28.77 billion, or 0.2% below fiscal 2025 pledged revenues. This is primarily due to a projected 2.3% decrease in PIT revenue (compared with the substantial 17.8% growth rate in fiscal 2025), which will be partly offset by a 3.6% increase in sales tax revenue (compared with the 4.5% growth rate in fiscal 2025).

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 to the priority-lien rating remain in the form of its linkage to the city'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.

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 to \$27.5 billion from \$13.5 billion. Eight billion dollars of such increased capacity became available as of July 1, 2024, and the remaining \$6 billion as of July 1, 2025. New York State's enacted fiscal 2026 budget further increased the total amount of FTS bonds authorized to be outstanding and

not subject to the city's debt limit by \$3.0 billion, to \$30.5 billion as of July 1, 2025. Following the issuance of the \$1.5 billion fiscal 2026 series B bonds, the TFA projects that it will issue approximately \$2.8 billion, \$7.0 billion, \$7.3 billion, and \$7.5 billion in fiscal years 2026 through 2029, sequentially, 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 monitor coverage 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 pressure the ratings.

Other key credit considerations include the following:

- The expanding and diversified New York City economy continues to exhibit growth trends like the broader national economic conditions in 2025, coupled with a population of approximately 8.48 million as of July 2024 on which pledged revenues are generated.
- Fiscal 2025 actual pledged revenue of \$28.8 billion provides very strong 7.6x annual debt service coverage (DSC). Following the issuance of the fiscal 2026 series B bonds, fiscal 2025 pledged revenue provides MADS coverage of 5.9x based on the maximum rate on the variable-rate bonds and 6.1x 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.
- Bond provisions are strong. These include what we consider a conservative additional bonds test (ABT) of at least 3x MADS and 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 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 does not constrain the rating but will remain a consideration, as pledged revenue could become pressured if New York City's economy and finances deteriorate.

Environmental, social, and governance

We view the environmental, social, and governance (ESG) factors that could affect the 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 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.

Rating 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 criteria "[Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#)," Nov. 19, 2013.

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 pandemic shock. As a result, we expect the authority's annual DSC 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 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 38 U.S. states and stood at approximately 8.48 million as of July 2024, according to U.S. census data. At the same time, the New York City metropolitan area's economic productivity (measured by its gross metro product) remained the highest across the 10 largest metropolitan areas at nearly \$2.3 trillion (\$117,532 per capita) in 2023 and remains more than 77% larger than that of the next-largest metro area (Los Angeles-Long Beach-Anaheim).

While overall economic activity is expected to soften relative to prior years, resilience of the metropolitan area and national economies will likely support New York City's conservative out-year growth expectations for PIT and sales tax.

Coverage and liquidity: very strong

Our view of TFA's coverage and liquidity is very strong, and we believe annual DSC and MADS coverage trends will remain consistent with our view of the 'AAA' rating. We calculate that actual fiscal 2025 pledged revenue provided extraordinarily strong annual DSC of 7.6x. Incorporating TFA debt outstanding and the issuance of the fiscal 2026 series B bonds, fiscal 2025 pledged revenue provides MADS coverage of 5.9x based on the maximum rate on the variable-rate bonds and 6.1x based on the 4.25% budgeted adjustable rate. Individually, each tax source provided ample annual debt service coverage in fiscal 2025, with actual PIT receipts providing 4.9x coverage and actual sales tax collections 2.7x.

We view the TFA's variable-rate portfolio as a neutral credit factor, as we incorporate the authority's management of associated liquidity risk into our analysis. Although the city projects a slight moderation in combined pledged revenue for fiscal 2026, our pro forma annual DSC remains extraordinarily strong at 6.5x, as does MADS coverage at 5.9x based on the maximum rate on the variable-rate bonds and 6.1x based on the 4.25% budgeted adjustable rate. In addition, due to 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. 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 2025. 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. We believe New York's PIT revenue is cyclical, more sensitive to general economic and tourism trends, and susceptible to certain market conditions. However, we also 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.

Both PIT and sales tax have experienced extended periods of growth during economic expansions and modest cyclical declines during downturns, but the long-term growth trend for both has been positive. Annual pledged revenue growth averaged 5.5% between fiscal years 2019 and 2025. In New York City's June 2025 financial plan--which accompanied the city's adopted budget--forecast PIT collections are projected at \$18.1 billion, \$18.3 billion, \$19.2 billion, and \$20.0 billion in fiscal years 2026 through 2029, respectively. This reflects a cumulative growth rate of 8.4% and an average annual growth rate of 2.1% over the 2025-2029 financial plan. In addition, the city forecasts sales tax collections to be \$10.7 billion, \$11.1 billion, \$11.5 billion, and \$11.9 billion in fiscal years 2026 through 2029, respectively. This reflects a cumulative growth rate of 15.4% and an average annual growth rate of 3.6% over the 2025-2029 financial plan.

The PIT is the TFA bonds' primary source of security, generating about 64% of statutory revenue in fiscal 2025. 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 have been extended to Dec. 31, 2026.

The city levies a 4.5% sales tax on a broad economic activity base, 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 a pandemic-related slump in 2021, have risen by 70.8% to a historic high of \$239.4 billion in 2025.

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 therefore 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 becomes 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.

New York City Transitional Finance Authority--key credit metrics

Economic data

Economy	Very strong
EBI level per capita as % of U.S.	112
Population (obligor)	8,478,072
Broad and diverse MSA	Yes
Population (MSA)	19,940,274

Financial data

Revenue volatility	Low-very low
Coverage and liquidity	Very strong
Baseline coverage assessment	Other
MADS coverage (x)	6.1
MADS year	2029
Annual debt service coverage (x)	7.6
Two-year pledged revenue change (%)	8.0

Bond provisions

ABT (x)	3
ABT type	MADS
ABT period	Historical
DSRF type	None

Obligor relationship

Obligor linkage	Remote
PL rating limit (number of notches above OC)	4

Note: Data points and ratios might reflect analytical adjustments. ABT--Additional bonds test. DSRF--Debt service reserve fund. EBI--Effective buying income. MADS--Maximum annual debt service. MSA--Metropolitan statistical area. OC--Obligor creditworthiness. PL--Priority lien. Economic data reflects 2024 information reported on a calendar-year basis sourced

New York City Transitional Finance Authority--key credit metrics

from S&P Market Intelligence. Population data reflects July 1, 2024 U.S. Census bureau estimates. Annual debt service coverage and MADS coverage are based on actual fiscal 2025 revenue and pro forma debt service (assuming an interest rate of 4.25% on variable-rate bonds outstanding), inclusive of the fiscal 2026, series B bonds.

Ratings List	
New Issue Ratings	
US\$1500.0 mil future tax secured tax-exempt subord bnds fiscal ser 2026B due 05/01/2055	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Local Government	
New York City Transitional Finance Authority, NY Sales Tax and Income Tax 2nd Lien	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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