MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms New York City Aa2 GO ratings; revises outlook to stable

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New York, May 13, 2021 -- Moody's Investors Service has affirmed the Aa2 ratings assigned to the City of New York's $38.7 billion of outstanding general obligation (GO) bonds and revised the city's outlook to stable from negative. Moody's has also affirmed the Aa3 ratings assigned to approximately $4.5 billion of appropriation-backed debt issued through the Hudson Yards Infrastructure Corporation, NY (HYIC), the New York City Health and Hospitals Corporation (HHC), the New York City Industrial Development Agency (IDA) (New York Stock Exchange Project), New York City Educational Construction Fund, NY (ECF), and the Dormitory Authority of the State of New York (DASNY) (Municipal Health and Court Facilities Lease Revenue Bonds).

Moody's has also affirmed the Aa3 enhanced rating on the DASNY Municipal Health Facilities Improvement Program bonds.

Concurrently we have also affirmed the Aaa and Aa1 ratings assigned to the New York City Transitional Finance Authority's (TFA) senior and subordinate lien future tax secured revenue bonds, and the VMIG 1 ratings assigned to GO and TFA variable rate demand bonds with conditional liquidity support. The rating outlook for the TFA bonds have been revised to stable from negative as well.

RATINGS RATIONALE

Affirmation of the Aa2 general obligation rating reflects the city's competitive advantages which include a young and highly skilled labor pool, access to higher education and medical centers, normally strong domestic and international transportation links, and low crime rates relative to other large cities. The rating also reflects the city's strong institutional budgetary and financial management and the breadth and diversity of its revenue base. The city's financing responsibilities are broader than most local governments, since it is a city, five counties and the nation's largest school district, and its debt burden is above-average due to this operational scope. Despite those responsibilities, the city's fixed costs for debt service, pensions and retiree health care are below the median for the largest local governments and in the bottom five among the nation's largest cities.

Affirmation of the Aa3 ratings assigned to the Hudson Yards Infrastructure Corporation bonds reflects the essential nature of the transportation and other infrastructure projects financed by the bonds; the strong legal structure that obligates the mayor to include tax equivalency payments and an amount sufficient to cover interest shortfalls, if any, in the annual budget; the need for appropriation of those amounts; and potential real estate market volatility that could affect assessed values in the Hudson Yards district. The ratings also reflect the closed nature of the first indenture and the relatively small amount of debt left outstanding under it. That effectively means that the city's subject to appropriation interest support benefits second indenture bonds as much as or more than first indenture bonds.

Affirmation of the Aa3 ratings assigned to the Health and Hospital Corporation's health system bonds reflects the essential city services it provides; the strong relationship between HHC and the City of New York, including the city's statutory obligation to restore HHC's capital reserve fund if necessary; and other features of the moderate legal structure including a gross pledge of HHC's sizeable health care reimbursement revenue and a lock box mechanism that collects the revenue and uses it to pay debt service before it flows to HHC for operations.

Affirmation of the Aa3 ratings assigned to the ECF bonds is based on the city's obligation to make lease payments in amounts sufficient to pay debt service when due, subject to appropriation; the essential nature of the school projects financed with the bonds; and the moderate legal structure that, in addition to the need for appropriation, includes the ability of ECF to initiate a mechanism to intercept appropriations of education aid from the State of New York if necessary should the city not appropriate sufficient amounts to replenish the debt service reserve fund.

Affirmation of the Aa3 ratings assigned to the IDA special revenue bonds is based on the less essential nature of the economic development project and a moderate legal structure that reflects the city's absolute and unconditional obligation to make lease payments, subject to appropriation, regardless of the project's completion.

Affirmation of the enhanced Aa3 on the DASNY Municipal Health Facilities revenue bonds reflects the credit quality of the City of New York and its absolute and unconditional obligation to make rental payments to DASNY in amounts sufficient for debt service, subject only to appropriation. The rating also reflects DASNY's ability, through the comptroller of the State of New York to intercept available state appropriations of Medicaid aid to the city to ensure timely debt service payments even if they city does not appropriate.

The affirmation of the Aaa senior and Aa1 subordinate ratings on TFA's future tax secured bonds reflect strong debt service coverage provided by the pledge of City of New York personal income tax and sales tax revenues; a strong legal structure that insulates TFA from potential city fiscal stress; the open subordinate lien that permits future leverage of the pledged revenues; and New York State's ability to repeal the statutes imposing the pledged revenues.

The affirmation of the short-term ratings reflects (i) the credit quality of the various banks acting as liquidity support providers under the standby bond purchase agreements (SBPAs); and (ii) our assessment of the likelihood of an early termination of each SBPA without a mandatory tender.

RATING OUTLOOK

The revision of New York City's outlook to stable from negative reflects improvement in the city's overall financial position, including the substantial budget flexibility provided by federal pandemic aid flowing to the city over the next several fiscal years, and elimination of the risk that the State of New York will cut aid to the city. The city's federal aid, more than $15 billion, equals 24% of estimated fiscal 2022 tax revenue. The outlook revision also reflects the positive impact on employment and tax revenue that the city's accelerating reopening will have, although we still expect the jobs recovery in New York to continue to lag the nation. Some major employers have announced their intent to return to the office, although with more remote work and less office space. The percentage of New York City residents who are fully vaccinated is slightly better than the US rate and will also help drive confidence in the local economy. Future year budget gaps persist and will be manageable but will need to be balanced amid slowly growing property tax revenue, reduced reserves and the need to keep pace with large pension and retires healthcare liabilities.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- GO: Recovery of city economy to near pre-pandemic levels, combined with structurally-balanced budgets

- GO: Stronger reserves, at levels similar to higher-rated peers

- GO: Reduction of debt burden or further reduction in fixed costs

- HYIC: Additional development well in excess of current forecasts

- HYIC: Significant growth in revenues that do not require appropriation

- DASNY municipal health facilities: Upgrade of the state's rating

- TFA subordinate lien bonds: A higher additional bonds test or other indenture provision increasing bondholder protections against possible dilution of coverage

- Short-term conditional liquidity ratings: N/A

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- GO: Divergence from well-established fiscal practices and strong budgetary management

- GO: Emergence of significant liquidity strain, especially that results in the need for large cash-flow borrowing

- GO: Economic events such as sustained declines in equity prices, or trends that significantly worsen structural budget imbalances

- DASNY, HYIC, HHC, ECF, IDA: Downgrade of the city's general obligation rating

- HYIC: Failure to appropriate interest payments, if necessary

- HYIC: A prolonged real estate recession that leads to material declines in assessed values in the district

- ECF: Failure by the city to appropriate funds for debt service or to restore the debt service reserve

- IDA: Failure by the city to appropriate funds for debt service

- DASNY municipal health facilities: Downgrade of the state's rating

- DASNY municipal health facilities: Failure of the intercept program's mechanics to make sufficient state aid available to pay debt service

- TFA subordinate lien bonds: Significant weakening of the pledged revenue that reduces currently high levels of coverage

- TFA subordinate lien bonds: Large additional bond issuances that materially dilute coverage

- Short-term conditional liquidity ratings: a downgrade of the short-term counterparty risk assessments of the liquidity banks, or a downgrade of the city or TFA.

LEGAL SECURITY

The general obligation bonds are full faith and credit obligations of the city, secured by a real property tax levied without limitation as to rate or amount. All of the city's property tax is deposited into the general debt service fund, which is administered and maintained by the state comptroller.

The Hudson Yards bonds are payable primarily by payments in lieu of taxes (PILOTs) collected by HYIC from commercial properties in the Hudson Yards area and tax equivalency payments (TEPs) from residential properties and hotels collected by the city and appropriated to HYIC. In addition, the city has pledged to cover interest, subject to annual appropriation, for the life of the bonds if the pledged revenues are insufficient. The ratings, therefore, are derived from the city's credit quality.

HHC's bonds are paid by a gross pledge of its sizeable health care reimbursement revenues and a lock box mechanism that collects the revenues and uses them to pay debt service before they flow to HHC for operations. The rating is derived from New York City's legal obligation to fund any shortfall in HHC's Capital Reserve Fund, subject to annual appropriation.

The Educational Construction Fund bonds are payable from city rental payments for the school portion of combined facilities projects in amounts equal to principal and interest on the bonds, subject to annual appropriation.

The IDA bonds are payable from monthly city rental payments equal to the sum of principal and interest coming due in the next succeeding month and any amounts owed under any credit facility. The city's obligation to make rental payments is absolute and unconditional, regardless of the project's commencement, completion, or availability for use and occupancy, subject to annual appropriation.

The DASNY Municipal Health Facilities bonds are payable through a master lease between DASNY and New York City. Rental payments in an amount equal to debt service on all outstanding bonds are an absolute and unconditional obligation of the city, subject only to annual appropriation. The city has covenanted in the lease to include an amount sufficient for debt service in each annual budget. If rental payments are not sufficient, the bonds are also payable by New York State withholding of Medicaid payments otherwise due to New York City.

The Transitional Finance Authority's bonds are payable from pledged personal income and sales taxes collected by the New York State Department of Taxation and Finance and held by the state comptroller, who makes daily transfers to the trustee (net of refunds and the costs of collection). The trustee makes quarterly set-asides of amounts required for debt service due in the following quarter on the outstanding bonds. Additionally, future tax secured bonds issued before November 2006 have a first lien on appropriations of state building aid payable to TFA with respect to city school capital projects if necessary to meet debt service requirements.

USE OF PROCEEDS

Not applicable.

PROFILE

New York City, the largest city in the United States, is large and diverse, with a population of 8.3 million people and above average wealth levels: personal income per capita is 142% of the US level. The size and scope of the city's operations are broader than most local governments: in addition to the city government, New York City is five counties and the nation's largest public school system, with 1.1 million students. New York City's GDP is larger than all but four states.

METHODOLOGY

The principal methodology used in the general obligation ratings was US Local Government General Obligation Debt published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260094 . The principal methodology used in the long-term underlying lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260202 . The principal methodology used in the DASNY Municipal Health Facilities rating was State Aid Intercept Programs and Financings published in December 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1067422 . The principal methodology used in the long-term underlying special tax ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260087 . The principal methodology used in the short-term enhanced ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1057134 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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