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Summary:

New York City; General Obligation

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Credit Profile		
US$950.0 mil GO bnds tax-exempt ser 2023E-1 due 04/01/2050		
Long Term Rating	AA/Stable	New
US$240.0 mil GO bnds taxable ser 2023E-2 due 04/01/2034		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to New York City's approximately $1.19 billion fiscal 2023 series E general obligation (GO) bonds, consisting of tax-exempt subseries E-1 ($950 million) and taxable subseries E-2 ($240 million).
- The outlook is stable.

Security

As of Dec. 31, 2022, the city had about $39.3 billion of GO debt outstanding. New York City's faith and credit, including its obligation to levy and collect ad valorem taxes without limitation as to rate or amount, secures the fiscal 2023 series E bonds. The city will use transaction proceeds for citywide capital purposes.

Credit overview

The 'AA' rating reflects our view of New York City's substantial economic size, including a population of 8.8 million (2020 census) across Bronx, Kings, Queens, Richmond, and New York counties, which is larger than that of 39 separate U.S. states. Furthermore, the metropolitan area's GDP remained the highest across all U.S. metro areas at nearly $2 trillion in 2021 and was more than 50% larger than that of the next-largest metro area (Los Angeles-Long Beach-Anaheim). Finally, New York City's excellent universities, access to first-class health care providers, investments by venture capitalists in technology startups, and attractiveness as a leisure and business travel destination support the city's status as a global employment, financial, and tourism hub. In addition, its core credit fundamentals are underscored by financial reserves that reached almost $13.5 billion at fiscal year-end 2022 (including the $6.1 billion surplus roll)--a record nominally and as a percentage of expenditures. However, we think S&P Global Economics' expectation that 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) will have repercussions for New York City as an economic and financial hub and require the city to continue actively managing expenditures to offset revenue softness.

The January 2023 financial plan updated revenue and expenditures for fiscal 2023 with the total budget increasing to nearly $106.4 billion (about 5.2% higher than the adopted budget of about $101.1 billion). The acceleration of the city's economic and job growth bolstered city tax revenue through calendar 2022 with the plan recognizing $1.7 billion in additional collections over the adopted budget as a result of increased sales, hotel, and business taxes as tourism and consumption activity surpassed management's conservative forecast. Furthermore, a headcount reduction of more than 4,300 positions brought total savings under the Program to Eliminate the Gap to $3.1 billion across fiscal years 2023 and 2024. Together these changes allowed the city to increase its surplus roll in fiscal 2023 (to prepay fiscal 2024 expenditures) to $2.2 billion. The surplus roll is accumulated over the course of the fiscal year and the adopted budget does not include this amount.

While fiscal 2023 results are trending above the adopted budget's forecast, the $102.7 billion fiscal 2024 preliminary budget and updated financial plan, released in January, incorporates various headwinds, including expectations for weaker Wall Street profits and securities bonuses, increased office vacancy rates of more than 20% as new properties are added to the inventory, and lower real estate transaction taxes. While transaction taxes are a small piece of the city's total revenue, fiscal 2023 collections were lowered to $2.2 billion in the January plan from $2.4 billion and held flat for fiscal 2024. Transaction taxes are estimated to decline $1 billion, or more than 32%, from fiscal 2022, reflecting modest price declines likely stemming from higher interest rates. Positively, management cautiously kept property and personal income taxes unchanged from the November plan at $31.3 billion and $15.3 billion, respectively, in recognition of the ongoing challenges in the commercial real estate market and a weaker employment trajectory.

Other elements of the fiscal 2024 preliminary budget include:

- Funding priorities for affordable housing, decarbonization efforts, and ongoing initiatives to ensure the city's safety and cleanliness;
- Asylum seeker costs of $1 billion, which management believes the state will help cover through the appropriation included in its executive budget;
- Maintenance of reserves (not including the surplus roll) at a record level, consisting of the retiree health benefits trust fund (RHBTF; about $5.4 billion when including the $792 million fiscal 2022 prepayment), the "rainy day" fund ($1.95 billion), and the general and capital stabilization reserves ($1.45 billion);
- Funding set aside sufficient for 1.25% annual wage increases that provides an additional financial buffer in the face of wage pressure from inflation and labor shortages;
- Increased savings from the Program to Eliminate the Gap, which generates $3.1 billion over fiscal years 2023 and 2024 through efficiencies ($829 million), expense re-estimates ($1.6 billion), revenue re-estimates ($392 million), and debt service savings ($254 million), and incorporates total savings of $5.8 billion in fiscal years 2025 through 2027;
- Reasonable out-year budget gaps of $3.2 billion (3.1% of total revenue), $5.0 billion (4.8%), and about $6.5 billion (6.2%) in fiscal years 2025 to 2027, sequentially.

However, we see more downside risk that the forecast may not fully incorporate, including the likelihood that the Federal Reserve will keep its benchmark interest rate higher for longer that could affect discretionary spending that underscores some of the city's primary tax collections. Furthermore, we believe substantial service reductions by the Metropolitan Transportation Authority to shore up its financial position as federal stimulus funds wind down could limit job recovery that is expected to reach the pre-pandemic level only by mid-2024. We also think that the potential for longer-term shifts in population migration and working dynamics could remain an unresolved question during the outlook period, which typically spans two years.

The ratings further reflect our view of New York City's:

- Very strong management, with strong financial policies and practices under our financial management assessment methodology, including comprehensive risk management strategies for cybersecurity, effective monitoring of the budget, and transparency for stakeholders;
- Manageable debt service costs that remain below the 15% of operating expenditures threshold over the financial plan (although when pension and other postemployment benefits, or OPEB, contributions are included, the fixed-cost ratio increases to 23.6%; we believe a net liability for OPEB equal to nearly $89.5 billion in fiscal 2022 and the inability to substantially modify the liability offset positive pension governance with a collective funded ratio of 81.4% across the city's five plans; and
- Very strong institutional framework score.

Environmental, social, and governance

New York City benefits from a governance structure opportunity under the Financial Emergency Act that requires maintenance of a balanced budget and strong planning practices that mitigate risk and ensure that the financial plan addresses out-year budget gaps. In addition, the city established a formal rainy day reserve in fiscal 2021, bolstering our view of governance, but has not yet created a regular mechanism for annual reserve contributions.

We view social capital risks as a potential weakness in terms of recovery and long-term economic growth. The city continues focusing on crime to ensure residents and tourists feel safe despite some recent high-profile events that raised community concerns. For example, the mayor's Blueprint to End Gun Violence and allocation of financial resources in the fiscal 2023 adopted budget to execute on enhanced policing programming could help restore actual and perceived personal safety. We also believe New York City's high cost of living underscores the disparity in housing affordability, which could lead to a longer-term shift in demographic trends. To help mitigate this risk, the city continues planning for the development of affordable housing units in all of its neighborhoods.

We believe exposure to the coastline presents chronic and acute physical climate risks that could more materially affect credit quality in the longer term should mitigation and adaptation plans fail to keep pace with the effects of global warming. However, we believe the city is ahead of peers in that it has integrated various climate scenarios underscored by local scientific projections into its climate resiliency design guidelines that consider various climate hazards, including heat, precipitation, flooding, and sea level rise. Furthermore, the more than $20 billion OneNYC resiliency plan, which includes various infrastructure projects to raise seawalls, floodgates, berms, and other measures, could help protect vulnerable areas and buffer residents from the effects of climate change. Also, to help control heat days, which in the long term could negatively affect employee productivity and economic growth, the city is planting trees and utilizing cooling centers and green roofs. Finally, the city is recruiting the offshore wind industry to diversify its economy and energy production in the face of decarbonization and net-zero policy initiatives. The estimated $14 billion of private investment with the New York City Green New Deal will help ensure a 30% reduction in greenhouse gas emissions--a key contributor to climate change--by 2030. The city has developed key performance indicators to monitor its sustainability and resiliency efforts and plans to annually report progress toward its goals.

Outlook

The stable outlook reflects our view of New York City's relatively resilient economy following the shock of the pandemic, benefits from a global presence, and diversified employment in technology, health care, financial services, and arts and entertainment. In addition, we believe the city's commitment to build reserves to a level that exceeds the pre-pandemic amount supports its credit fundamentals and helps position it to absorb the economic headwinds and shallow recession expected in 2023.

Downside scenario

We could lower the rating if the projected budget gaps widen, if the economic recovery stalls, or if longer-term population migration and working conditions fundamentally alter the revenue forecast and property tax values. Furthermore, should the city be required to absorb substantial expenditures once it exhausts federal stimulus funding, without corresponding revenue growth that leads to persistent structural misalignment, we could lower the rating.

Upside scenario

While the financial conditions have fundamentally improved--with larger reserves nominally and as a percentage of operating expenditures--the city's high fixed-cost structure, particularly a net OPEB liability that exceeds the median for U.S. States (see "Market Swings Could Signal Contribution Volatility For U.S. State Pensions And OPEBs," published Aug. 3, 2022), makes consideration of a higher rating unlikely during the outlook period. However, should the city's economic trajectory and financial reserves remain robust, we could raise the rating if a material change to the retirement OPEB plan leads to a substantially lower liability.

New York City Key Credit Metrics

	Most recent	Historical information		
		2022	2021	2020
Strong economy				
Projected per capita EBI as % of U.S.	107			
Market value per capita ($)	170,213			
Population				8,804,190
City unemployment rate (%)	5.5 (Jan.)	5.7	10.0	12.2
Market value (tril. $)	1.4	1.3	1.2	1.3
Ten largest taxpayers as % of taxable value	8.4			
Strong budgetary performance				
Operating fund result as % of expenditures		1.2	(0.4)	(0.0)
Total governmental funds result as % of expenditures		(3.1)	(3.4)	0.3
Strong budgetary flexibility				
Available reserves as % of operating expenditures		12.7	10.9	8.0
Total available reserves (bil. $)		13.5	10.8	7.6
Very strong liquidity				
Total government cash as % of governmental funds expenditures		13	14	14
Total government cash as % of governmental funds debt service		115	101	146
Very strong management				
Financial management assessment	Strong			
Very weak debt and long-term liabilities				
Debt service as % of governmental funds expenditures		11.0	13.8	9.4

New York City Key Credit Metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Net direct debt as % of governmental funds revenue	85			
Overall net debt as % of market value	6.7			
Direct debt 10-year amortization (%)	50			
Required pension contribution as % of governmental funds expenditures		8.5		
OPEB actual contribution as % of governmental funds expenditures		4		
Very strong institutional framework				

Note: Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments