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Ratings

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Summary:

New York City; General Obligation

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Credit Profile		
US$1146.045 mil GO bnds ser 2023 F-1 due 08/01/2039		
Long Term Rating	AA/Stable	New
US$265.495 mil GO bnds ser 1 due 08/01/2039		
Long Term Rating	AA/Stable	New
US$153.64 mil GO bnds ser 2023 F-2 due 08/01/2025		
Long Term Rating	AA/Stable	New
US$50.0 mil GO bnds ser G due 08/01/2039		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to New York City's approximately $1.61 billion fiscal 2023 series F, G, and 1 general obligation (GO) bonds, consisting of tax-exempt subseries F-1 ($1.15 billion), taxable subseries F-2 ($153.6 million), tax-exempt series G ($50.0 million), and tax-exempt series 1 ($265.5 million).
- The outlook is stable.

Security

As of March 31, 2023, the city had about $39.1 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 F, G, and series 1 bonds. The city will use series F and G transaction proceeds to refund GO bonds outstanding. The city will also remarket portions of the fiscal 2021 series D and E taxable GO bonds as tax-exempt and redesignate the bonds as fiscal 2023 series 1.

Credit overview

The 'AA' rating reflects our view of New York City's substantial economic size, including a population of 8.3 million (July 2022 estimate) 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 77% 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. The city's 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. We also believe that the city's focus on modifying retiree health care benefits through a shift to Medicare Advantage, which is expected to lead to annual savings of approximately $600 million, shows commitment to reducing this long-term risk and may also result in a reduction in the net other postemployment benefits (OPEB) liability that we would view favorably.

That said, we believe downside risks could worsen and have repercussions for the city's economy and financial position that include stagnant return-to-office trends that could negatively affect lease renewals and commercial real estate values, ongoing albeit potentially limited impact from the regional bank pressures, and S&P Global Economics' expectation that the U.S. will fall into a short, shallow recession in 2023 with greater chances of a hard landing following the collapse of Silicon Valley Bank and the fed funds rate remaining higher for longer. (See "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023, on RatingsDirect.) Furthermore, we believe substantial service reductions by the Metropolitan Transportation Authority to shore up its financial position as federal stimulus funds wind down could stall overall economic growth in the region.

The April 2023 financial plan updated revenue and expenditures for fiscal 2023 with the total budget increasing to $108.9 billion (about 7.7% 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 $2.1 billion in additional collections over the January 2023 financial plan as a result of increased sales, hotel, and business taxes as tourism and consumption activity surpassed management's conservative forecast. Furthermore, total savings under the Program to Eliminate the Gap increased to $4.7 billion across fiscal years 2023 and 2024 (since June 2022). The improved revenue outlook and expenditure reductions allowed the city to increase its surplus roll in fiscal 2023 (to prepay fiscal 2024 expenditures) to $3.0 billion (up $868 million from the January 2023 financial plan). The surplus roll is accumulated over the course of the fiscal year and the adopted budget does not include this amount. The city plans to draw down its general and capital stabilization reserves (equal to about $1.76 billion) in fiscal 2023. We view these reserves as available for budget contingencies, and they will, in part, help cover the $1.4 billion in asylum seeker costs in fiscal 2023, of which the city expects to cover $962 million with the state covering the remainder.

While fiscal 2023 results are trending above the adopted budget's forecast, the $106.7 billion fiscal 2024 executive budget and updated financial plan, released in April, 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, lower real estate transaction taxes, and costs associated with asylum seekers. While transaction taxes are a small piece of the city's total revenue, fiscal 2023 collections remain at $2.2 billion in the April plan and held flat for fiscal 2024, reflecting modest residential price declines of 3.3% in calendar 2023 likely stemming from higher interest rates. Values for Class 4 real estate, which consists of commercial and office space, show an increase to nearly $142 billion (up $9.1 billion, or 6.9%) based on the most recent tentative tax roll. However, management cautiously reduced the Class 4 property values in the forecast by 10% in fiscal 2025 in recognition of the ongoing challenges in the commercial real estate market. Management reports that about 91.7 million square feet of office space is available for lease, of which 59.7 million square feet is Class A. While the total available for lease is substantial, Class A space is typically more desirable and marketable, which could underscore stability in commercial real estate property values.

Other elements of the fiscal 2024 executive budget include:

- Funding priorities for affordable housing, decarbonization efforts, and ongoing initiatives to ensure the city's safety and cleanliness;

- Total asylum seeker costs in fiscal 2024 of $2.9 billion with projections for the city, state, and federal government to cover $1.7 billion, $562 million, and $600 million, respectively;
- Maintenance of reserves (not including the surplus roll) at a near-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 restoration of the general and capital stabilization reserves ($1.45 billion);
- Additional savings from the Program to Eliminate the Gap, which generates $4.7 billion over fiscal years 2023 and 2024 through efficiencies ($962 million), expense re-estimates ($2.6 billion), revenue re-estimates ($646 million), and debt service savings ($450 million), and incorporates total savings of nearly $9.0 billion in fiscal years 2025 through 2027 (since June 2022);
- Out-year budget gaps of $4.2 billion (4.0% of total revenue), $6.0 billion (5.6%), and $7.0 billion (6.4%) in fiscal years 2025 to 2027, sequentially, which fully reflect labor settlement costs estimated at $16.0 billion over the April financial plan horizon.

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. The recent release of PlaNYC, which highlights the city's efforts to protect its economy and population from climate threats, underpins management's proactive strengths.
- 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 precludes a higher rating in the near term, but the change to Medicare Advantage and discontinuation of the city's senior care plan could lead to a lower liability in the longer term, and we view this favorably.
- 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. For example, 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. In addition, the city continues to prioritize resources and efforts to address crime, which has raised community concerns. The executive budget extends support to policing initiatives, including the mayor's Blueprint to End Gun Violence, that aim to execute on enhanced programming that could help restore actual and perceived personal safety.

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 city continues to pursue infrastructure projects to raise seawalls, floodgates, berms, and other measures, could help protect vulnerable areas and buffer residents from the effects of climate change. 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 spurred by the New York City Green New Deal which is expected to result in a 30% reduction in greenhouse gas emissions--a key contributor to climate change--by 2030. The city's development of key performance indicators to monitor its sustainability and resiliency efforts as well as publication of annual reports showing progress toward its goals are positive for transparency and accountability.

Outlook

The stable outlook reflects our view of New York City's relatively resilient economy, including its near full recovery of jobs lost during the pandemic, which is sooner than forecast. In addition, the city benefits from a global presence, and diversified employment in technology, health care, financial services, and arts and entertainment. We believe the city's commitment to build reserves to a level that exceeds the pre-pandemic amount on a sustained basis supports its credit fundamentals and helps position it to absorb the economic headwinds and a short, shallow recession expected in 2023.

Downside scenario

We could lower the rating if the city is unable to address its projected budget gaps, if national macroeconomic downside risks impede the economic recovery, 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

Should the city's economic trajectory and financial reserves remain robust, we could raise the rating or revise the outlook to positive, particularly if the change in the retiree supplemental health care plan to Medicare Advantage substantially lowers the net OPEB 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	8,335,897			8,804,190
City unemployment rate (%)	5.2 (March)	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			

New York City key credit metrics (cont.)				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
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
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

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