S&P Global
Ratings

RatingsDirect®

Summary:
New York City; General Obligation

Primary Credit Analyst:
Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

Secondary Contact:
Cora Bruemmer, Chicago + 1 (312) 233 7099; cora.bruemmer@spglobal.com

Table Of Contents

Summary:

New York City; General Obligation

Credit Profile		
US$372.155 mil GO bnds, fiscal 2024 series b, taxable social bnds, subseries B-1 due 10/01/2053		
Long Term Rating	AA/Stable	New
US$327.845 mil GO bnds, fiscal 2024 series b, taxable social bnds, subseries B-1 due 10/01/2046		
Long Term Rating	AA/Stable	New
US$235.0 mil GO bnds, fiscal 2024 series b, taxable bnds, subseries b-2 due 10/01/2037		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to New York City's approximately $700 million fiscal 2024 series B, subseries B-1 general obligation (GO) social bonds (taxable) and approximately $235 million fiscal 2024 series B, subseries B-2 GO bonds (taxable).
- The outlook is stable.

Security

As of June 30, 2023, the city had about $40.1 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 2024 series B bonds and the GO debt outstanding. Proceeds of the subseries B-2 bonds will fund citywide capital expenditures, and the subseries B-1 bond proceeds will reimburse the city for prior expenditures to finance a portion of the construction costs of affordable housing projects.

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 38 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, active venture capital segment, 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.

New York City estimates costs associated with an accelerating influx of asylum-seekers will increase significantly to $12 billion over three fiscal years, up $7 billion from the latest financial plan. Because of the lack of additional state and federal funds to support New York City, the city recently directed city agencies to reduce city-funded spending by 5% throughout the financial plan through a Program to Eliminate the Gap (PEG). Unless its revenues materially outperform the financial plan because of better-than-expected economic growth or it receives additional state and federal support, the city will implement additional 5% cuts scheduled for the January financial plan and executive budget. We believe the city is proactive in addressing the financial strain because of the large influx of asylum-seekers, while also finding ways to move them faster out of its shelter system and supporting them in obtaining work permits. That said, accelerating arrivals or increased costs associated with providing shelter could add additional stress to the budget and might require further cuts, which could ultimately affect service levels.

In the near term, downside risks to the rating could emerge if fiscal stress from the costs associated with asylum-seekers escalates. Over the medium term, prolonged or worsening softness of the commercial real estate sector translating into more pronounced pressure on lease renewals, office valuations, and, in turn, property tax revenue could present a downside risk to the rating. Stagnant return-to-office trends and overall economic activity could also worsen if the Metropolitan Transportation Authority (MTA) were to reduce its service to shore up its financial position as federal stimulus funds wind down. However, congestion pricing, set to go into effect in 2024, could help bolster the MTA's finances. In addition, S&P Global Economics no longer expects that the U.S. will fall into recession but rather, will experience a shallower but more protracted national economic slowdown. (See "Economic Outlook U.S. Q3 2023: A Sticky Slowdown Means Higher For Longer," published June 26, 2023, on RatingsDirect.)

The city's recent attempt to address its large unfunded net other postemployment benefits (OPEB) liability, by shifting employees to Medicare Advantage, was thwarted by a judge's decision to prohibit this move. We understand the city is appealing the decision and, in the interim, continues to make payments under its current OPEB plan.

With the June 2023 financial plan, projected fiscal 2023 revenues increased to $110.8 billion (about 9.6% higher than the adopted budget of about $101.1 billion), largely because of better-than-budgeted personal income, business, and sales tax revenue. Consequently, the city increased its surplus roll in fiscal 2023 (to prepay fiscal 2024 expenditures) to $5.5 billion (up $2.4 billion from the April 2023 financial plan) though still below fiscal 2022 highs ($6.1 billion). The surplus roll is accumulated over the course of the fiscal year and the adopted budget does not include this amount.

The fiscal 2024 adopted budget of about $107.1 billion reflects a number of key priorities including increases in education funding and expanding Fair Fares to more low-income residents, while the capital budget includes record funding for affordable housing totaling $4 billion. In addition, the fiscal 2024 budget continues to prioritize crisis management and violence prevention programs to help with the cleanliness and safety of public spaces. The budget also reflects conservative assumptions regarding economically sensitive revenues, especially personal income tax revenue, which is projected to fall, in part because of expectations for lower Wall Street bonuses and lower real estate transaction taxes because of high interest rates.

The city's office real estate market faces uncertainty in light of office occupancy rates that have peaked at about 62% and office vacancy rates of more than 20%, though the high vacancy rates are partially due to increased construction, especially of Class A office space. Assessed values for Class 4 real estate, which consists of commercial and office space, increased to about $129 billion (up $5.8 billion, or 4.7%) based on the fiscal 2024 tax roll. However, assessed values for less-desirable Class B offices rose by only 2.5% and management reduced the Class 4 property values in the forecast in fiscal 2025 in recognition of the ongoing challenges in the commercial real estate market.

In the past few fiscal years, New York City benefited from significant inflows of federal aid as part of the American Rescue Plan Act and other federal relief programs. This additional funding supported important initiatives to drive the pandemic recovery, extend support to low-income households, and address inequities. As this funding runs out, the city will either have to find new revenue sources or make cuts to these programs or other operational spending, both of which are politically challenging, in order to maintain balanced operations over the coming years.

Other elements of the fiscal 2024 adopted budget include:

- Funding priorities for affordable housing, education, 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 $2.2 billion, $562 million, and $135 million, respectively;
- Maintenance of reserves (not including the surplus roll) at a near-record level, consisting of the retiree health benefits trust fund (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 PEG, which was implemented as part of the adopted budget and financial plan in 2023, which generates more than $4.8 billion over fiscal years 2023 and 2024 through efficiencies ($935 million), expense re-estimates ($2.7 billion), revenue re-estimates ($646 million), and debt service savings ($587 million), and incorporates total savings of over $9.0 billion in fiscal years 2025 through 2027 (since June 2022);
- Larger out-year budget gaps of $5.1 billion (4.8% of total revenue), $6.8 billion (6.4%), and $7.9 billion (7.3%) in fiscal years 2025 to 2027, sequentially, which fully reflect labor settlement costs estimated at $16.0 billion over the June 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 notwithstanding a recent data breach at the city's Teachers' Retirement System, 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 change 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 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 its neighborhoods. In addition, the city continues to prioritize resources and efforts to tackle crime. To that end, it recently announced the Blueprint for Community Safety in which it will invest $485 million to create safer communities, prioritizing precincts with the highest rates of gun violence.

We believe exposure to the Atlantic 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 manage the effects of climate change. However, we believe the city is ahead of peers in that it has integrated various climate scenarios underpinned 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 is pursuing infrastructure projects to raise seawalls, floodgates, berms, and other measures, which could help protect vulnerable areas and buffer residents from the effects of climate change. Finally, New York City is recruiting the offshore wind industry to diversify its economy and energy production in the face of decarbonization and net-zero policy initiatives. In our view, its 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 occurred 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 New York City to weather a shallower but more protracted national economic slowdown.

Downside scenario

We could lower the rating if the city is unable to address its projected budget gaps, if national macroeconomic weakness impedes the economic recovery, or if longer-term population migration and working conditions fundamentally alter the revenue forecast and property tax values. Furthermore, if a persistent structural misalignment of revenues and expenditures emerges as the city exhausts federal stimulus funding, 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, if eventually implemented, substantially lowers the net OPEB liability.

New York City -- key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	113			
Market value per capita ($)	178,468			
Population		8,335,897	8,459,001	8,804,190
City unemployment rate(%)	5.6	5.7	10.0	12.2
Market value ($000)	1,487,691,324	1,271,275,008	1,177,160,961	1,284,978,218
Ten largest taxpayers % of taxable value	8.0			
Adequate budgetary performance				
Operating fund result % of expenditures		1.2	(0.4)	(0.0)
Total governmental fund result % of expenditures		(3.1)	(3.4)	0.3
Strong budgetary flexibility				
Available reserves % of operating expenditures		12.7	10.9	8.0
Total available reserves ($000)		13,445,348	10,826,057	7,619,489
Very strong liquidity				
Total government cash % of governmental fund expenditures		13	14	14
Total government cash % of governmental fund debt service		115	101	146
Very strong management				
Financial Management Assessment	Strong			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.0	13.8	9.4
Net direct debt % of governmental fund revenue	85			
Overall net debt % of market value	6.5			
Direct debt 10-year amortization (%)	52			
Required pension contribution % of governmental fund expenditures		8.5		
OPEB actual contribution % of governmental fund expenditures		4.0		
Very strong institutional framework				

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

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.