MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns Aa2 to NYC GO bonds, Fiscal 2025 Series D, Subseries D-1 and D-2; outlook stable

27 Sep 2024

New York, September 27, 2024 -- Moody's Ratings (Moody's) has assigned Aa2 ratings to the City of New York's $820 million General Obligation Bonds, Fiscal 2025 Series D, Taxable Social Bonds, Subseries D-1 and $680 million General Obligation Bonds, Fiscal 2025 Series D, Taxable Bonds, Subseries D-2. The bonds are scheduled to price October 9. The outlook is stable.

RATINGS RATIONALE

The Aa2 issuer rating reflects New York City's post-pandemic economic recovery, including record-high private employment, positive trends in assessed property values despite commercial real estate challenges, steady tax revenue growth, and strong tourism metrics. The expanding economy is driven by the city's competitive advantages: a young, highly skilled labor pool that over time has helped make New York City households wealthier; strong higher education and medical centers that also contribute higher paying jobs; and strong domestic and international transportation links that support New York City's position as a global economic, financial and cultural hub. Very strong institutional strength and financial governance have allowed successful implementation of budget control measures to close budget gaps primarily caused by the migrant crisis. Projected gaps remain in fiscal years 2026 through 2028 but are manageable in size and based on a restrained revenue forecast. New York 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 because of this operational scope. Despite those responsibilities, the city's fixed costs for debt service, pensions and retiree healthcare are among the strongest of the nation's largest local governments.

The recent criminal indictment of the mayor introduces a negative element of political disorder into New York City's credit profile. It does not, however, signify a departure from the city's established fiscal discipline and strong financial governance; those systems have also proved resilient over time to a variety of challenges. Despite the controversy surrounding the mayor and some of his high level appointees, management of the city's operations remains robust by its professional agency staffs.

In the event there is an abrupt exit of the mayor, a process is embedded in the city charter for the public advocate to become mayor temporarily and hold a special election within 90 days. We would expect an orderly and quick resolution to the issue.

RATING OUTLOOK

The stable outlook reflects the city's continued economic expansion and tax revenue growth, and the expectation that strong financial management will help the City navigate ongoing budget pressures in fiscal years 2026 through 2028 driven by continued but waning costs of the migrant crisis and the end of pandemic-era federal aid. A strong institutional framework, including generally conservative revenue forecasts, frequent multiyear forecasting and multiyear phase-ins of changes in commercial property assessed values, provide the city ample time to make budget adjustments when necessary.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Continued economic recovery that brings tax revenue growth closer to the 5.4% pre-pandemic trend, and ongoing structurally balanced budgets

- Stronger reserves, including deposits to the Revenue Stabilization Fund

- Reduction of fixed costs ratio closer to Aa median of about 11%

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Additional spending pressure that pushes forecast budget gaps closer to 10% of city funds revenue

- Further declines in our calculated available fund balance, or use of OPEB assets to balance the budget

- Economic events such as sustained declines in equity prices, or trends that create significant structural budget imbalances beyond those caused by the current migrant influx

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

LEGAL SECURITY

New York City's 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. State law requires that the real property tax - which is used to pay general obligation debt service - be segregated into a general debt service fund held by the state comptroller. The state also statutorily covenants not to impair the rights of city bondholders to be paid when due. Those features do not create a statutory lien on the property tax in favor of general obligation bondholders, but are strengths in the payment mechanism that are not found in most local government general obligation bonds.

USE OF PROCEEDS

The Subseries D-1 bonds will be issued as social bonds. Proceeds will be used to reimburse the city for capital investments in a variety of affordable housing programs. Proceeds of the Subseries D-2 bonds will be used for general city capital purposes.

PROFILE

New York City is the largest city in the US by population (8.26 million estimated as of July 2023) and by the size of its economy (real GDP of $1.1 trillion). New York City's GDP is larger than all but four states. 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 approximately one million students.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at https://ratings.moodys.com/rmc-documents/425429. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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 on https://ratings.moodys.com/rating-definitions .

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