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Summary:

New York City; General Obligation

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Credit Profile		
US$1500.0 mil GO bnds, fiscal 2025 series C, tax-exempt bonds, Subseries C 1 due 09/01/2052		
Long Term Rating	AA/Stable	New
US$300.0 mil GO bnds, fiscal 2025 series C, taxable bnds, subseries c2 due 09/01/2037		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to New York City's $1.8 billion general obligation (GO) bonds, fiscal 2025 series C, consisting of $1.5 billion tax-exempt GO bonds, subseries C-1 and $300 million federally taxable GO bonds, subseries C-2.
- The outlook is stable.

Security

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 2025 series C bonds and the GO debt outstanding. Proceeds of the fiscal 2025 series C bonds will be used to finance capital projects of the city and for the payment of certain costs of issuance.

As of June 30, 2024, the city had about $41.7 billion of GO debt outstanding.

Credit overview

The 'AA' rating reflects our view of New York City's substantial economic size and diversity, with a population of 8.3 million (2023 Census estimate). The New York City metropolitan statistical area's (MSA) GDP remains the highest across the U.S.'s 10 largest MSAs at approximately $2.2 trillion and remains more than 76% larger than that of the next-largest MSA (Los Angeles-Long Beach-Anaheim), according to 2022 data. New York City's excellent universities, first-class health care providers, active finance and venture capital industry, and attractiveness as a leisure and business travel destination support the city's status as a global employment, financial, and tourism hub.

However, with employees' return to office lagging and office vacancy rates of more than 20%, we continue to monitor the potential effects of lower office valuations on the city's finances. While pressure is most pronounced on Class B office space, which accounts for 1.3% of revenue, flattening vacancy rates across this segment could indicate a leveling-off point. We will pay attention to what extent stress extends to Class A and Trophy offices. However, we note that overall office property taxes accounted for only about 5.5% of total fiscal 2024 revenue, and the city's assessment process spreads the full effects of new valuations over five years, which we consider potentially mitigating factors. Furthermore, total assessed values for Class B office space have just surpassed fiscal 2021 highs in the final fiscal 2025 assessment roll, following an 11% reduction in fiscal 2022. Lastly, we will monitor how the governor of New York's directive to the Metropolitan Transportation Authority to indefinitely postpone the central business district tolling plan (also referred to as "congestion pricing") for New York City will affect capital planning and operational reliability of the transit system and the potential effects on the city's economic activity, including visitors and return-to-office.

Financial reserves of almost $12.8 billion (11.8% of general fund expenditures) at fiscal year-end 2023 (including the $5.5 billion surplus roll) provide an important buffer against potential budgetary challenges. Economic activity remains resilient, as reflected in a $3.2 billion projected tax revenue increase in the adopted fiscal 2025 budget compared with the adopted fiscal 2024 budget, with broader macroeconomic activity forecast to cool slightly to 1.7% growth in 2025 from 2.5% growth in 2024 (see "Economic Outlook U.S. Q3 2024: Milder Growth Ahead," published June 24, 2024, on RatingsDirect). The city conservatively forecasts tax revenue to be 4.3% above fiscal 2024 levels. We also continue to monitor the city's response to a surge in migrants and asylum seekers and its effect on the budget (see "Migrants And Asylum Seekers Pose Budgetary Challenges In New York City, Chicago, And Denver," published Feb. 13, 2024). While estimates have decreased since the November 2023 financial plan because of cost-saving measures the city implemented, another surge in migrants and asylum seekers over and above the city's projections, as well as a lack of additional federal support, could strain the budget. New York was able to offset elevated migrant costs through various cost-saving measures, including its Program to Eliminate the Gap (PEG), although it has begun to gradually roll some of these measures back. We expect management will continue to take necessary steps to bring the budget into balance, as is legally required.

Other key highlights of New York City's $112.4 billion adopted fiscal 2025 budget and long-term financial plan, published in June 2024, include:

- A $4.1 billion net increase in expenditures relative to the fiscal 2024 adopted budget, which includes $3.05 billion in agency expenses and $547 million other City Council initiatives, such as affordable housing, education, ongoing essential service initiatives, and human service workers, offset by $3.76 billion of PEG savings.
- Approximately $4.4 billion for the prepayment in fiscal 2024 of fiscal 2025 expenses, although this is somewhat lower than in past years, coupled with $2.3 billion in cost reductions related to asylum seekers;
- Modestly growing, but manageable outyear budget gaps at $5.5 billion, $5.6 billion, and $6.5 billion in fiscal years 2026 through 2028, respectively, as the city incorporates funding for certain programs throughout the entire financial plan; and
- Conservative forecast assumptions around Wall Street profits at approximately $25.9 billion, which are projected to remain well below the 2021 high of $58.4 billion; residential sale activity, which is forecast to gradually improve from its 2023 low but remains below the 2021 peak; and projected tourism activity that will surpass pre-pandemic levels in 2025.

In the past few fiscal years, New York City has benefited from significant inflows of federal aid as part of the American Rescue Plan Act and other federal relief programs. This additional funding supported several programs, including for the city's Department of Education (DOE). We view positively steps management has taken to include funding for some of these programs in the financial plan but note continued cost pressures for DOE, including through the state's class-size mandate.

Overall, New York's fixed-cost profile, including pension and other postemployment benefit (OPEB) costs, remain manageable. However, because of more subdued property price appreciation and higher capital costs as a result of inflation, the city could approach its constitutional debt limit of 10% of the five-year average of property values. To provide more room for it to address its sizable capital needs, New York State's enacted fiscal 2025 budget amended the New York City Transitional Finance Authority Act, increasing the amount of FTS bonds authorized to be outstanding that will not be subject to the city's debt limit by a total of $14.0 billion, to $27.5 billion from $13.5 billion. Beginning July 1, 2024, $8 billion of such increased capacity is available, with the remaining $6 billion available beginning July 1, 2025. We will continue to monitor the city's future debt trends. Furthermore, its attempt to address its large unfunded net OPEB liability by shifting employees to Medicare Advantage was thwarted by a judge's decision to prohibit this move in 2023. We understand the city is appealing the decision and, in the interim, continues to make payments under its current OPEB plan.

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 cyber security, effective monitoring of the budget, and transparency for stakeholders. Last year's 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 15.0%-of-operating-expenditures threshold over the financial plan (although when pension and OPEB contributions are included, the fixed-cost ratio increases to 21.3%). The Office of the NYC Comptroller reported a 10% net combined return across the city's five pension systems, surpassing the city's 7% target rate for fiscal 2024, which the comptroller estimates will reduce required contributions by $1.81 billion over the next five fiscal years. However, we believe a net liability for OPEBs of nearly $95 billion in fiscal 2023 precludes a higher rating in the near term. The change to Medicare Advantage and discontinuation of the city's senior care plan could, if eventually implemented, lead to a lower liability in the longer term, and we view this favorably; and
- Very strong institutional framework score.

Environmental, social, and governance

New York City benefits from a governance structure under the Financial Emergency Act that requires maintenance of a balanced budget and from strong planning practices that mitigate risk and ensure that the financial plan addresses outyear 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 and providing financing for the development of affordable housing units in all its neighborhoods. For more information, see "Rethinking The American Dream Of Homeownership In New York City," published May 23, 2024. The recent surge in migrants and asylum seekers could present a demographic opportunity as it could underpin future economic growth, although at the same time it could exacerbate issues around affordable housing and further tie up the city's operational and financial resources. In addition, the city continues to prioritize resources and efforts to tackle crime. To that end, in 2023 it 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 their effects. 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, it is pursuing infrastructure projects to raise seawalls, floodgates, and berms, as well as other measures that 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 its 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 full recovery of jobs lost during the pandemic. In addition, the city benefits from a global presence and diversified employment in technology, health care, financial services, and arts and entertainment. We believe its commitment to building reserves to a level that exceeds the pre-pandemic amount on a sustained basis supports its credit fundamentals and helps position it to weather a shallower but more protracted national economic slowdown.

Downside scenario

We could lower the rating if the city fails 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. We could also do so if a persistent structural misalignment of revenue and expenditures emerges as the city exhausts federal stimulus funding.

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		
		2023	2022	2021
Very strong economy				
Projected per capita EBI % of U.S.	118	112	115.1	112
Market value per capita ($)	192181			
Population		8,258,035	8,335,798	8,462,216
City unemployment rate(%)	4.9	5.2	5.7	10.1
Market value ($000)	1,587,038,615	1,348,408,001	1,271,275,008	1,177,160,961
Ten largest taxpayers % of taxable value		8.9	8.9	8.1
Adequate budgetary performance				
Operating fund result % of expenditures		0.1	1.2	(0.4)

New York City--Key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Total governmental fund result % of expenditures		(4.1)	(3.1)	(3.4)
Strong budgetary flexibility				
Available reserves % of operating expenditures		11.8	12.7	10.9
Total available reserves ($000)		12,755,406	13,445,348	10,826,057
Very strong liquidity				
Total government cash % of governmental fund expenditures		18	13	14
Total government cash % of governmental fund debt service		164	115	101
Very strong management				
Financial Management Assessment	Strong			
Very weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		10.7	11	13.9
Net direct debt % of governmental fund revenue	87			
Overall net debt % of market value	6.6			
Direct debt 10-year amortization (%)	48			
Required pension contribution % of governmental fund expenditures		7.8		
OPEB actual contribution % of governmental fund expenditures		2.8		
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