FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms New York State's 'AA+' IDR; Revises Outlook to Negative

Fri 10 Apr, 2020 - 6:06 PM ET

Fitch Ratings - New York - 10 Apr 2020: Fitch Ratings has affirmed the State of New York's 'AA+' Issuer Default Rating (IDR), and the 'AA+' ratings on the following state bonds:

--$2.1 billion in outstanding general obligation (GO) bonds;

--$34.9 billion in outstanding personal income tax (PIT) revenue bonds;

--$10.8 billion in outstanding state sales tax revenue bonds;

--$2.5 billion in outstanding Local Government Assistance Corporation (LGAC) and Sales Tax Asset Receivable Corporation bonds;

--$1.2 billion in outstanding dedicated highway and bridge trust fund (DHBTF) bonds.

In addition, Fitch has affirmed the ratings on other securities linked to New York State's IDR, as detailed at the end of this release.

The Rating Outlook has been revised to Negative from Stable.

SECURITY

The GO bonds are backed by the full faith and credit of the State of New York.

State PIT revenue bonds are secured by financing agreement payments made by New York State, subject to legislative appropriation. Payments are derived from 50% of the state's PIT receipts and 50% of receipts from the employer compensation expense program.

State sales tax revenue bonds are secured by financing agreement payments made by New York State, subject to legislative appropriation. Payments are derived from one cent of the four-cent statewide sales tax, net of refunds, rising to two cents after LGAC bonds are refunded.

LGAC bonds are secured by financing agreement payments made by New York State, subject to legislative appropriation, from a separate one cent of the four-cent statewide sales tax, net of refunds. STAR bonds are secured by a $170 million annual payment from the same pledged sales tax, on a subordinate basis to LGAC debt, subject to legislative appropriation.

DHBTF bonds are special obligations of the New York State Thruway Authority payable from transportation revenues dedicated to the highway and bridge trust fund in the form of cooperative agreement payments, subject to annual appropriation.

ANALYTICAL CONCLUSION

The revision of the Rating Outlook to Negative on New York State's 'AA+' IDR and on ratings linked to the IDR, reflects the considerable economic and fiscal uncertainty faced by the state as it confronts the coronavirus pandemic. Fitch views the sudden economic shock brought by the pandemic and the severe recession now unfolding as being well beyond the routine cyclicality typically faced by state and local governments and reflected in IDRs. While New York has a track record of very strong operating performance, its ability to absorb the shock and maintain financial resilience will be tested by the depth and duration of the recession. The resulting pressure on credit is particularly acute for New York as one of the global epicenters of the pandemic.

The Negative Outlook indicates the direction the rating is likely to move over a one- to two-year period, however it does not imply that a rating change is inevitable. Fitch expects the direction of the state's credit quality to become clearer only after the immediate health crisis subsides and as the outlines of the recession and the effectiveness of the state's fiscal responses come into view. The Outlook revision, and the evaluation of the state's credit quality going forward, are informed by Fitch's coronavirus baseline and downside scenarios as described further below.

ECONOMIC RESOURCE BASE

The state's economic resource base is broad and dominated by services. The finance sector is a particularly large and important component of overall economic and fiscal performance, and is prone to above-average cyclicality. Economic growth is concentrated in the downstate region, home of the nation's largest metropolitan area. Wealth indices are well above average and employment growth has been steady until the coronavirus outbreak.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

New York State's revenue base is diverse and has solid long-term growth prospects, driven by the state's solid economic profile. Taxes, in particular the large PIT component, are economically sensitive. The state has complete independent legal control over revenues.

Expenditure Framework: 'aaa'

The natural pace of New York's spending growth, driven by education and Medicaid funding demands, is likely to be marginally above revenue growth over time, requiring ongoing budget management. The state has ample flexibility to control spending and fixed carrying costs are above average for a state but represent a low burden on resources.

Long-Term Liability Burden: 'aaa'

New York State's long-term liability burden, including debt and net pension liabilities, is just under the median for U.S. states as a percent of personal income, with tax-supported debt having declined steadily in recent years. Pensions are well-funded, with net liabilities below the median for states. Effects of the current market volatility are likely to result in an uptick in net liabilities.

Operating Performance: 'aa'

Operating performance has been aided by strong budgeting practices including multiyear planning, and by fiscal management improvements implemented in recent years, such as consensus revenue forecasting and caps on spending growth. Formal budgetary reserves are modest, with very strong financial resilience driven by the state's willingness to quickly adjust revenues and expenditures in response to fiscal deterioration. The state's ability to absorb the fiscal impact of the coronavirus crisis and recession now underway and ultimately rebuild financial resilience is a key test for the assessment of operating performance.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--The Rating Outlook could be revised back to Stable if the state is able to effectively absorb the fiscal challenges triggered by a short but severe economic contraction and rebuild financial resilience over time.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Economic contraction extending well into the second half of the year or beyond, consistent with Fitch's coronavirus downside scenario, that triggers sustained and deep revenue declines and materially erodes its historically very strong gap-closing capacity.

--A weakening of the improved budgetary management practices institutionalized over the last decade, leading to the reemergence of material and recurring structural imbalances and the reliance to an excessive degree on one time budget solutions, including long-term borrowing, to support operations.

BEST/WORST CASE RATING SCENARIO

Ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Sector-Wide Coronavirus Implications

The recent outbreak of the coronavirus and related government containment measures worldwide creates an uncertain global environment for U.S. state and local governments and related entities in the near term. As severe limitations on economic activity only began very recently, most state governments' fiscal and economic data do not reflect any credit impairment. Material changes in revenues and expenditures are occurring across the country and likely to worsen in the coming weeks and months as economic activity suffers and public health spending increases. Fitch's ratings are forward looking, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

In its baseline scenario, Fitch assumes sharp economic contractions hit major economies in 1H20 at a speed and depth that is unprecedented since World War II. Recovery begins from 3Q20 onward as the health crisis subsides after a short but severe global recession. GDP remains below its 4Q19 level through most of 2021. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the full report at http://www.fitchratings.com/site/re/10116778 (Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases, April 2020).

Federal Aid Provides Some Support for State Budgets

Federal aid measures enacted in recent weeks will benefit state budgets, although details remain fluid. The Families First Coronavirus Response included a 6.2% increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid for every quarter of the national emergency declared by the president on March 13. FMAP is the rate at which the federal government reimburses states for Medicaid spending. The Center on Budget and Policy Priorities estimates the 6.2% increase could provide New York with $6.7 billion in federal aid over a full year, or roughly $1.7 billion each quarter. The ultimate value of the FMAP rate increase will depend on states' actual Medicaid spending, among other factors.

Under the Coronavirus Aid, Relief and Economic Security Act enacted on March 27, the U.S. Treasury department will distribute $150 billion to state and local governments within 30 days of enactment under a population-based formula. The statute limits the use of funds to coronavirus expense reimbursement rather than to offset anticipated state tax revenue losses. Federal Funds Information for States projects New York is eligible for $7.5 billion, with at least $4.1 billion allocated to the state and up to $3.4 billion allocated to local governments with populations of 500,000 or more.

The Federal Reserve's recent announcement of a Municipal Lending Facility (MLF) to directly purchase up to $500 billion in short-term debt issued by states, the District of Columbia and the largest counties and cities provides a potentially valuable source of short-term liquidity for New York. Under terms of the program, Fitch calculates that New York could borrow up to $21.9 billion. Critical details for this program, including how quickly the Federal Reserve will begin purchases, are yet to be determined.

CREDIT PROFILE

Coronavirus Impact in New York: Liquidity and Budget

Fitch does not currently anticipate that any state, including New York, will be unable to meet operating cash demands but considers liquidity the most significant risk the pandemic presents and is closely monitoring developments. The direct cost of pandemic response, the sharp falloff in economic activity and financial markets, delayed PIT filings and the ultimate level and timing of federal aid remain key challenges for New York State's liquidity and budget over the near term.

The state is entering the current crisis with solid cash balances following a long period of strong operating performance, supported by a high degree of inherent fiscal flexibility. As recently as February, tax collections in fiscal 2020 were performing strongly, with the comptroller reporting total state operating funds receipts 6.9% ahead of the prior year. In the January 2020 executive budget, the governor forecast a fiscal 2020 general fund balance as of the March 31 year-end at $6.5 billion, even before considering interfund balances available outside the general fund and other actions to mobilize liquidity. Despite substantial outlays to date for crisis response, the state estimates it ended the fiscal year with $8.9 billion in the general fund.

Liquidity at the close of fiscal 2020 and in the new fiscal year is being severely affected by the pandemic and by actions taken in response, particularly by the delay in tax filing to July 15. As one of the global epicenters of the pandemic, New York has borne considerable direct emergency response costs, which will continue to rise as the state increases its health care capacity.

More significantly, the fiscal 2021 executive budget anticipated $9.2 billion in state PIT receipts in April, equal to 11% of forecast state tax receipts in the new fiscal year, most of which will be collected in July given the state PIT filing delay, in sync with the federal tax filing delay. The temporary liquidity gap that will open through the first quarter of fiscal 2021 will be aggravated further by the impact of job losses and "stay-at-home" restrictions on PIT withholding, sales tax and other tax receipts. For all of fiscal 2021, the budget office estimates a rough impact of $10 billion on budgeted revenues, equal to 11% of state operating funds tax receipts forecast by the governor in January. This figure is likely to change as actual collections come in and provide a better baseline for estimates going forward.

Fiscal 2021 Budget Reflects Evolving Fiscal Dynamics

Precise details on the state's enacted budget for fiscal 2021 remain limited, but Fitch views it as providing a drastically expanded set of tools to confront both the liquidity and budgetary challenges ahead. It authorizes $11 billion in short-term borrowing to bridge the immediate liquidity gap opened by the PIT filing delay. Short-term borrowing would consist of $8 billion in PIT revenue notes and a $3 billion line of credit. Both are intended to be repaid during fiscal 2021, but could be extended and ultimately taken out with long-term PIT revenue bonds. The state anticipates issuing an initial tranche of short-term debt in late April or early May, with additional issuances dependent on the state's cash flow needs, including the availability of federal aid.

The enacted budget empowers the budget director to recalibrate spending downward, repeatedly if necessary, to conserve liquidity and to align spending to the direction of tax collections. One provision provides for an evaluation of actual to forecast tax receipts and actual to budgeted disbursements at three measurement periods: April 30, June 30 and December 31. Revenues falling 1% below or spending rising 1% above expectations would trigger across-the-board reductions of any amount necessary to maintain balance, unless the legislature agrees to an alternative plan within 10 days; debt service is not subject to reduction.

For the April 30 measurement date, the enacted budget specifies use of the executive budget tax forecast for this test, signaling that a substantial round of spending reductions is likely early in the fiscal year. Another provision more broadly authorizes the budget director to withhold appropriations for the following month upon five days' notice to the legislature. Total state operating funds spending in the plan is authorized at a $105.8 billion maximum level, while contemplating that actual spending will likely fall $10 billion below that level as revenue losses emerge. The plan reportedly allows the state to tap the FMAP rate increase, noted above, while implementing many of the reforms proposed by the governor's Medicaid Redesign Team in response to the sizable Medicaid structural imbalance that emerged at the start of fiscal 2020.

Federal funds from three rounds of coronavirus response bills passed to date (discussed above) and FEMA disaster assistance will likewise provide meaningful budgetary support and liquidity, but the timing and size of assistance remain unclear. The governor has imposed a stay-at-home order through April 29, with only limited exceptions, and has also noted the intent to coordinate with New Jersey and Connecticut on an eventual relaxation of restrictions once the immediate health crisis subsides.

Updated FAST Results Signal Fiscal Pressure

New York's exposure to economic and revenue cyclicality is above average, driven primarily by economically sensitive PIT receipts, although the state has at its disposal a wide array of budget management tools which have enabled it to confront sizable budget gaps in the past. Combined with the expanded statutory powers granted in the fiscal 2021 budget, Fitch believes that New York can absorb a higher degree of fiscal stress posed by the crisis, assuming a short, sharp contraction is followed by a return to growth in 2H20, as described in Fitch's baseline coronavirus above.

The Fitch Analytical Stress Test (FAST) scenario analysis tool, which relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria, has now been adjusted to reflect GDP parameters consistent with Fitch's global coronavirus forecast assumptions. Under the coronavirus base case scenario, annual GDP falls -3.3% in year one, followed by growth of 3.8% and 2% in years two and three. This scenario results a first year decline in New York's tax revenues of 15.6% and cumulative decline over the three year scenario of 5%. This compares to the state median decline of 11.3% in the first year and 2.7% over the three year scenario. Given the high degree of uncertainty, under a plausible downside scenario with a sharper contraction in year one and a longer recovery, the resulting impact on revenues could weaken financial resilience and result in a lower assessment for operating performance.

New York State's 'AA+' IDR continues to reflect its considerable economic resources, solid long-term economic performance, low liability burden, very strong ability to control the budget, and responsive budget management. Until the current pandemic, fiscal performance in recent years had been steady, supported by broad economic gains, careful fiscal management, and the presence of significant balances from extraordinary monetary settlements, despite cyclical tax revenue experience.

For additional information on New York State's IDR, please see "Fitch Rates New York State's $915MM

GO Bonds 'AA+'; Outlook Stable" (Oct. 24, 2019); for more information on state PIT revenue bonds, see "Fitch Rates New York State Dormitory Auth (NY) $3.2B Personal Income Tax Revs 'AA+'' (Dec. 16, 2019); for more information on state sales tax revenue bonds, see "Fitch Rates Empire State Development's (NY) $2.1B Sales Tax Revs 'AA+'' (March 16, 2019).

Related Rating Actions

In conjunction with the affirmation of the state's IDR, Fitch has affirmed the ratings on various state appropriation-supported bonds, at 'AA', one notch below the state IDR, and revised the Outlook to Negative:

--Service contract bonds issued by state agencies;

--DASNY City University of New York (CUNY) revenue bonds;

--DASNY Department of Health (DOH) revenue bonds;

--DASNY mental health services facilities improvement revenue bonds;

--DASNY secured hospitals program revenue bonds;

--New York City Transitional Finance Authority state building aid revenue bonds;

--Metropolitan Transportation Authority dedicated tax revenues;

--State of New York Municipal Bond Bank Agency (MBBA) special school purpose revenue

bonds (prior year claims);

--MBBA special school purpose revenue bonds (prior year claims - The City of New York), 2012

series A.

Finally, Fitch has affirmed the rating on several state intercept-backed bonds, at 'AA-', two notches below the state IDR, reflecting individual program mechanics for the intercept, and has likewise revised the Rating Outlook to Negative:

--DASNY school districts revenue bond financing program revenue bonds;

--DASNY court facilities lease revenue bonds (City of New York issue).

The ratings on all of the related debt listed above are directly linked to the state's IDR.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

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RATING ACTIONS

ENTITY/DEBT	RATING		
New York, State of (NY) [General Government]	LT IDR	AA+	Affirmed

ENTITY/DEBT	RATING		
• Metropolitan Transportation Authority (NY) /Dedicated Tax Revenues/1 LT	LT	AA	Affirmed
• New York, State	LT	AA	Affirmed

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Empire State Development (NY)	EU Endorsed
Empire State Development Corporation (NY)	EU Endorsed
Metropolitan Transportation Authority (NY)	EU Endorsed
New York City Sales Tax Asset Receivable Corp. (NY)	EU Endorsed
New York City Transitional Finance Authority (NY)	EU Endorsed
New York Local Government Assistance Corp. (NY)	EU Endorsed
New York State Dormitory Authority (NY)	EU Endorsed
New York State Environmental Facilities Corp. (NY)	EU Endorsed
New York State Housing Finance Agency (NY)	EU Endorsed
New York State Thruway Authority (NY)	EU Endorsed
New York, State of (NY)	EU Endorsed
State of New York Municipal Bond Bank Agency (NY)	EU Endorsed
The New York State Urban Development Corporation (NY)	EU Endorsed

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