New York State Outlook Revised To Negative On Looming Budget Uncertainty

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NEW YORK (S&P Global Ratings) Dec. 11, 2020--S&P Global Ratings revised its outlook to negative from stable on the State of New York. We also affirmed our 'AA+' rating on the state's general obligation (GO) debt outstanding and our 'AA' rating on its appropriation-backed obligation debt with various issuers and entities. We also affirmed our 'AAA/A-1+', 'AAA/A-1', 'AA+/A-1', 'AA,A-1' joint support and dual ratings on various issues where the short-term ratings are based on the liquidity support from various financial institutions.

In addition, we revised the outlook to negative from stable, while affirming our long-term rating, on various revenue bonds rated under our "Priority-Lien Tax Revenue Debt" criteria (published Oct. 22, 2018, on RatingsDirect), which factors in both the strength and stability of the pledged revenues, as well as the general creditworthiness of the linked obligor, in this case the State of New York (GO rating). The priority-lien rating on these bonds is limited by the state's general creditworthiness.

Our affirmation of various revenue bond ratings includes our:

- 'AAA' rating on the New York State Dormitory Authority's employer assessment revenue bonds;
- 'AAA' rating on the Nassau County Interim Finance Authority sales tax revenue bonds;
- 'AA+' on various personal income tax revenue bonds issued by the New York State Dormitory Authority and various other agencies;
- 'AA+' on sales tax revenue bonds issued by various agencies of the state;
- 'AA+' rating on the New York State Thruway Authority second general highway and bridge trust fund bonds; and our
- 'AA' rating on the Metropolitan Transportation Authority's Dedicated Tax Fund bonds.

In addition, S&P Global Ratings assigned its 'AA+' long-term rating to the New York State Urban Development Corp.'s (UDC) series 2020E (tax-exempt) and 2020F (taxable) state personal income tax (PIT) revenue bonds. At the same time, we affirmed our 'AA+' long-term rating on parity PIT-secured bonds outstanding. The outlook is negative.

The series 2020 bonds are issued on a parity with all other bonds which have been or may be issued under the General Resolution. As of Nov. 30, 2020, there were approximately $43.3 billion of state PIT bonds outstanding.

"The negative outlook on the GO debt reflects our view of heightened risks to the state's ability to maintain structural budgetary balance and effectuate planned budget reductions over the current and subsequent fiscal years," said S&P Global Ratings credit analyst Timothy Little. "While we view the state's financial plan as reasonably achievable to maintain balance, near-term risks include potentially weaker economic growth compared to the rest of the country, uncertainty surrounding continuing federal aid, and contagion risk from financial and economic stress associated with the Metropolitan Transportation Authority (MTA) and the New York City metropolitan statistical area (MSA)."

"The negative outlook on the PIT revenue bonds reflects that of the state of New York," added Mr. Little. We rate the bonds based on our "Priority-Lien Tax Revenue Debt" criteria (Oct. 22, 2018), which take into account both the strength and stability of the pledged revenues, as well as the general credit quality of the obligor where taxes are distributed and/or collected, in this case, the State of New York (GO rating: 'AA+/Negative').

The state's economy was hit hardest in April due to health and safety measures put it place to mitigate the spread of coronavirus. For the month of April, the state's year-over-year decline in total employment was 19.4% almost 1.9 million jobs mostly in the leisure and hospitality sector. However, the state's financial services sector's employment has remained relatively flat in part due to the disproportionate effect mitigation efforts had on low-wage workers and a longer trend of financial services firms moving toward automation for certain functions and leaner operations.

Given the severity of the downturn, it will likely be years before the New York economy gets back to where it was before the pandemic hit. Real gross output in New York is expected to decline in 2020 more than that of the nation, with much of the recovery expected to happen in 2021 and beyond. In a Boston Consulting Group study commissioned by the state in April, the analysis suggested the state's economy would recover to the "Pre-COVID" level in the first quarter of 2023. When a vaccine or viable treatment option is widely available, the New York City region is likely to post strong economic gains, a positive for the state's overall economic profile. However, unknown long-term changes in consumer behavior, the region's workforce, and immigration could have potentially negative effects.

Our outlook revisions reflect our view that the risks posed by the COVID-19 pandemic to public health and safety as a social risk, if sustained, could weaken the state's economy, liquidity, and budgetary performance. (For more information on the potential effects of the COVID-19 pandemic on state credit conditions, see "The COVID-19 Outbreak Weakens U.S. State And Local Government Credit Conditions," April 2, 2020, and "U.S. States Mid-Year Sector View: States Will Continue To Be Tested In Unprecedented Ways," July 13, 2020).

Absent the implications of COVID-19, we consider the state's social risks in line with that of the sector as demographic trends in the state's Upstate region have been offset by strong growth in the New York City MSA. Environmental risks are somewhat elevated for the state due to its exposure to rising sea levels on Long Island, in New York City, and in communities along the Great Lakes. We view New York's governance risks as being in line with the sector and it has historically maintained a strong management and policy framework to respond to developing risks. (For more information, see "ESG U.S. Public Finance Report Card: Tri-State Region Governments And Not-For-Profit Enterprises," Oct. 28, 2020.)

RELATED RESEARCH

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