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Fitch: New York State Leaves Local Tax Revenue in Limbo.

Fitch Ratings-New York-23 June 2017: The New York State legislature is expected ultimately to approve extending key revenue sources for local governments, despite adjourning its 2017 session without approving the extensions, says Fitch Ratings. However, there may be a lapse in tax collections by local governments if the legislature does not arrive at an agreement prior to its next scheduled session in 2018.

The legislature adjourned its 2017 session on Wednesday without an agreement on a bill that would extend the right for 53 counties to charge sales taxes above the 3% base sales tax rate and New York City to continue its current income tax rate. Many counties levy an additional 1% or more, some of which may be shared with their municipalities. This tax must be renewed biennially by the legislature. The bill would also have continued mayoral control of the New York City public school system.

We do not believe the legislature's intention was to deprive local governments of a revenue source that for many funds a significant portion of their budgets. However, the parts of the bill concerning the schools were highly politicized.

State officials are reportedly discussing arrangements to vote on a bill incorporating the tax extensions before the next session. Fitch expects the extensions to ultimately be extended before they expire, but Fitch will take any rating actions it deems appropriate if this expectation is not met.

In addition to potentially affecting government operations, failure to extend taxes would impact debt service coverage for a number of state-created authorities whose bonds are secured by sales tax revenue. The New York City Transitional Finance Authority's (TFA) bonds are secured by both sales and income tax revenues. While only a minimal portion of the city's sales tax revenue is at risk, the loss of the extension of the current income tax base rate and 14% surcharge could result in a loss of tax revenues of \$8.1 billion by fiscal 2021, according to an analysis by the TFA. Debt service coverage on TFA bonds is very strong, as it is for bonds issued by the Nassau County Interim Finance Authority, the Buffalo Fiscal Stability Authority and the Erie County Fiscal Stability Authority - all rated 'AAA'/Stable.

TFA reports the effects on fiscal 2018 revenues of a reduction in the income tax rate, effective Jan. 1, 2018, would be \$2.9 billion. This has a modest impact on TFA coverage yet would create a gap in the city's fiscal 2018 budget (beginning July 1, 2017) as the income taxes reduced represent 3.4% of budgeted revenues. However, for those with fiscal years ending December 31 and taxes expiring on November 30, current year budget adjustments would be needed.

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Additional information is available on www.fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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