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Could New York City Go Bankrupt? The Muni Market Doesn’t Think So.

It wasn’t quite “Headless Body in Topless Bar.” A New York Post column published online last weekend blared: “New York City is edging toward financial disaster, experts warn.” But that is news to the municipal bond market.

“New York City could go bankrupt, absolutely,” the Post quoted an economist as saying—yet that didn’t even happen during the fiscal crisis of the 1970s. And as for how the muni market is viewing the Big Apple’s credit quality, it sees it more as gilt-edged than junk. (Barron’s and the New York Post are both owned by News Corp .)

Moody’s Investors Service recently raised its rating on New York City general obligation, or GO, bonds to Aa1, just a single notch below the top-grade of Aaa. General obligation bonds are backed by tax revenues and the full faith and credit of the issuer (as opposed to a bond backed by stream of revenues, such as tolls from a bridge or highway).

Standard & Poor’s and Fitch Ratings both rate New York City AA, one grade lower than Moody’s, but still a very high-quality credit.

In raising its rating, Moody’s wrote:

“The upgrade…reflects continued strengthening and diversification of New York City’s economy, reducing its reliance on volatile financial services. The city’s competitive advantages include a young and highly skilled labor pool, access to higher education and medical centers, strong domestic and international transportation links, and low crime rates. Those fundamentals position New York City for strong future growth, especially in media, medical research, and technology, while maintaining its deep strength in financial services.”

The column ignored those positives and instead concentrated on New York City’s high spending and debt levels. The city, which has earmarked $750 million in savings in its preliminary fiscal 2020 budget, faces a “bloodbath if New York’s economy is hit by financial shocks—including a recession, which some see on the horizon—analysts warn,” the column asserted.

“In general, we find Moody’s more believable here,” the Municipal Market Analytics advisory wrote in reaction to the Post piece.

“The city’s immense and well-diversified economy provides government managers with sufficient tools to navigate modest projected deficits,” the advisory added. “So while lender caution is well placed regarding the city’s looming budget struggles, not to mention fears that the current mayor may be too slow in changing course if conditions erode faster than expected, the city’s long-term credit profile remains resilient, in particular compared with other government and corporate borrowers nationwide.”

Indeed, the muni market, which has no political ax to grind, snapped up a recent offering of $900 million New York City GOs, according to MMA. After the bonds were offered at yields within a basis point or two of the triple-A benchmarks, the notes rallied in price to lower their yields by an additional seven basis points. (A basis point is 1/100 of a percentage point.)

That alone contradicts the column's assertion that another fiscal crisis is looming. When the Big Apple's credit was crumbling in the 1970s, it took some arm-twisting to get the city's major banks to underwrite even its short-term notes. By contrast, New York City's long-term debt trades strongly.

From the perspective of one who was born and raised in New York City, who lived in Brooklyn during the fiscal crisis (and before it was cool), and who cut his teeth covering the muni market during those dark days, the comparisons between then and now are a stretch. To be sure, rising homelessness and the deteriorating transit system (the purview of the Metropolitan Transportation Authority, a state agency) raise warning flags amid the boom of billionaires' condos.

Bankruptcy is possible for major cities, as Detroit has shown. And there is life afterward, as Barron's Mary Childs has reported. But New York City is far from that, and the muni market knows it.

Barron's

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