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S&P Bulletin: NYC Generally Well Positioned To Handle COVID-19's Near-Term Economic Effects

NEW YORK (S&P Global Ratings) March 18, 2020—S&P Global Ratings said today that New York City's (AA/Stable) strong liquidity threshold positions it well for the evolving COVID-19 situation in the near term.

In support of this view, we cite a high average cash balance of about \$7.6 billion for fiscal 2019, an average daily cash balance of \$5.6 billion (six months ended Dec. 31), and total cash receipts that are up 5.3% in the first half of fiscal 2020 over the prior year. These factors partly offset our belief that New York City could experience acute economic effects amid ongoing severe limitations on global travel, given its role as an international tourist hub and as the No. 1 U.S. port of entry (according to the U.S. Department of Commerce).

Furthermore, the city predicts its cash balances daily, which is operationally instrumental when one-time shock events such as COVID-19 occur. In addition, the city's forecast for wage growth (driving its personal income tax revenue projections) for 2020 is 2.3%, conservatively lower than the nation's forecast of 2.9% (prior to incorporating the events of COVID-19).

Over the short term, we also believe that the federal government could infuse some financial support to stabilize the city's operations, as occurred following the events of Sept. 11, 2001, particularly to assist New York State and the city with Medicaid costs. In addition, with the city's public schools closed at least until April 20, the governor reports that the state will hold districts harmless if they do not meet the 180 days of required instruction; we anticipate that this will translate to no significant loss in state aid supporting the city's education costs (approximately 30% of expenditures in fiscal 2019).

As we stated in our report "COVID-19's Potential Effects In U.S. Public Finance Vary By Sector" published March 5, 2020 on RatingsDirect and our updated economic forecast published March 17, 2020 ("A U.S. Recession Takes Hold As Fallout From The Coronavirus Spreads"), we expect the virus to create a material headwind to growth in the near term, leading to negative economic growth in the first two quarters of 2020. We believe New York City's economy will suffer the same if not more significant headwinds over the medium term given the mayor's decision to limit restaurant and bar service to takeout and delivery options and as residents engage in social distancing and corporate directives to work from home, limiting discretionary spending and consumption habits. These changes are expected to lead to softening trends in sales tax revenue. (Collections accounted for about 10% of the city's revenue in fiscal 2019.) Furthermore, with Broadway dark until at least April 12 and a lack of tourism affecting hotel and motel activity, we believe the city's personal income tax receipts will likely show the lingering effects of COVID-19 into fiscal 2021 (which begins July 1, 2020) and calendar 2021 given S&P Global Ratings' expectations for a slow U-shaped economic recovery.

As compared with most local governments, the 'AA' general obligation rating reflects S&P Global Ratings' view of New York City's more pronounced exposure to global events that could affect its

operations and revenue projections. We continue to monitor the city's response and economic softening that occurs as a result of COVID-19 and the potential effect on the rating.

This report does not constitute a rating action.

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