Bond Case Briefs

Municipal Finance Law Since 1971

S&P Bulletin: New York City Fiscal 2021 Budget Reflects Caution Amid Uncertain Economic Recovery

NEW YORK (S&P Global Ratings) July 7, 2020–S&P Global Ratings said today that New York City's $88.2 billion fiscal 2021 adopted budget is balanced and reflects a reduction of $4.6 billion, or nearly 5%, from the fiscal 2020 adopted budget, indicative of the ongoing revenue challenges stemming from the fragile economic recovery as well as uncertainty over further state aid reductions that could be implemented to shore up the state's financial position. Furthermore, we believe the unknown timing for a rebound in tourist activity could weigh on the revenue forecast, as the governor recently implemented a travel quarantine for visitors arriving from states with high infection rates while federal restrictions on arrivals from many foreign countries remain in place.

We believe the city's fiscal 2021 budget and June 2020 financial plan incorporate a cautious approach to recovery, including total private sector employment not returning to the precrisis peak until first-quarter 2023. It mirrors S&P Global Economics' forecast as identified in our report "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020 on RatingsDirect, which indicated that although the recession may have reached bottom in May 2020, the lingering effects of COVID-19 will severely limit upside potential until an effective vaccine is widely available. Over the longer term, we will observe how various changes could affect the city's revenue sources, including how smaller real estate footprints by major corporations or continued net out-migration by individuals and families could initiate a negative feedback loop of declining property values and lower personal income tax revenue, potentially leading to service cuts. That said, New York City has successfully diversified its corporate tax base with technology and other service sector companies. We believe that this, coupled with excellent universities, diverse entertainment offerings, and attractiveness as a leisure and business travel destination, will lead the city's economy to ultimately rebound, albeit potentially at a slower pace than that of other large cities.

Central to the budget negotiations and a key factor in adopting the budget is a $1 billion reduction to the New York Police Department's budget, which consists of:

Shifting $430 million in operating funds to youth and social services and $537 million in capital funds primarily to the New York City Housing Authority;
Limiting overtime costs; and
Reducing headcount by 1,100 by canceling a cadet class.

The revision largely reflects the community unrest that led to a change in expenditure priorities. We believe policing practices could be modified in a way that reduces the social risk stemming from these protests. Furthermore, despite the acceleration in revenue loss from March to June to $9 billion (affecting both fiscal years 2020 and 2021), the utilization of reserves remains the same with $1.3 billion in fiscal 2020 and $2.75 billion in fiscal 2021.

The June 2020 financial plan through 2024 reflects out-year budget gaps in fiscal years 2022 through 2024 at 4.4%, 3.1%, and 3.2%, sequentially, declining to 3.1%, 1.8%, and 1.9% of revenue net of contingency line items for the city’s general and capital stabilization reserves equal to $1.25 billion. Given the recurring personnel and agency expense savings, the projected gaps are smaller than those estimated with the April executive budget. The plan includes restoration of the general and capital stabilization reserves in the out-years as anticipated in the fiscal 2021 executive budget following near depletion in fiscal years 2020 and 2021.

This report does not constitute a rating action.