
[Moody's Downgrades New York State, New York City Credit Ratings.](#)

Ratings concern cites mounting toll of coronavirus pandemic on state and local economies, with sales-tax and income-tax revenues cratering

Moody's Investors Service downgraded the credit ratings of both New York City and New York state on Thursday, a consequence of the coronavirus pandemic's mounting toll on the New York economy.

The general obligation bond ratings of both the city and state fell one level, to Aa2 from Aa1, though they remain high investment grade. Moody's kept the city's outlook "negative," saying its rating could drop further if the city relies heavily on borrowing for cash flow.

A spokeswoman for Mayor Bill de Blasio's office expressed disappointment with the downgrade and said his administration has a "track record of strong fiscal management."

The pandemic, which has killed far more people in New York than in any other state, crushed sales and income tax revenues for both the city and state as they implemented sweeping shutdowns to slow the spread of the coronavirus. Both governments face significant revenue shortfalls.

The downgrades could drive down the trading price of hundreds of millions of dollars worth of outstanding general obligation debt issued by the city and state. They could raise interest rates for both governments, increasing the cost of new borrowing to finance capital projects or plug budget holes. Any increase in borrowing costs would likely force the already-cash-strapped governments to raise taxes, to find new revenue streams or to cut spending.

Moody's said New York state has so far used stopgap actions to balance the budget, postponing lasting changes, and that the city has been relying on the federal government to send aid or the state government to grant borrowing authority.

Robert Mujica, budget director for New York Gov. Andrew Cuomo, called the downgrade evidence that the nation's state and local governments need half a trillion dollars in aid from Congress to make up for the hit from the pandemic.

After a cash infusion in the spring, Congress has been unable to agree on a follow-up aid package, with Republicans opposing aid levels sought by Democrats. The spring funding didn't include replacement dollars for revenue lost by state and local governments.

"Today's action by Moody's should be a wake-up call to the federal government," Mr. Mujica said in a statement.

New York state lowered its expected revenues by $14.5 billion as a result of the pandemic, and to conserve cash has been holding back 20% of scheduled payments to municipalities, social service organizations, and, in some instances, school districts.

State financial documents released in August project an $8.4 billion deficit for the fiscal year that starts on April 1. Mr. Cuomo, a Democrat, has resisted calls from labor unions and progressive legislators to raise taxes on the wealthy.

At the city level, Mr. de Blasio, a Democrat, has slashed some city services and ordered 5-day furloughs for more than 9,000 municipal employees, including himself, through March.

The ratings firm predicted that the lasting economic impact of Covid-19 on the city will be among the most severe in the country, dragging down the state and state-controlled Metropolitan Transportation Authority. The firm said containing the global spread of Covid-19 and bringing office workers, travelers and families back to the city will be crucial for recovery.

In a letter to Mr. de Blasio last month, more than 160 business leaders expressed concern about public safety, cleanliness and other quality-of-life issues in the city.

The mayor has warned that up to 22,000 city employees could be laid off if the city can't find another way to close the budget gap.

Mr. de Blasio has said the city needs to balance a $9 billion budget deficit over the next two years, and still hopes for a federal bailout or the authority from the state to borrow up to $5 billion.

Investors are likely to be patient with public officials using debt to plug budget holes if they commit to an ongoing plan to raise revenue or cut expenses, said Howard Cure, director of municipal-bond research at Evercore Wealth Management, a firm that invests in municipal bonds, including those issued by New York state and city.

"I think the financial community and citizens would be tolerant of some kind of short-term borrowing, but you need a plan to make it viable," said Mr. Cure, a lifelong New York City resident, as he prepared to buy a takeout dinner of beef chow fun—and pay sales tax on it—on 1st Avenue in Manhattan.

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