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New York City Is Selling Bonds. Fitch Ratings Just Downgraded Its Credit.

New York City is planning to sell $1.5 billion of bonds next week to refinance maturing debt. And two ratings firms have warned about the city's credit ahead of the sale, citing the potential for long-term fallout from the coronavirus pandemic.

The bonds, which will be sold with maturities from one to 16 years, are being issued to refinance existing debt. The sale is happening at a vulnerable time for the city, as Covid-19 cases start to rise and officials weigh closures of schools and businesses.

Declining sales and tax receipts are responsible for a 9.1% decline in the city's revenue forecast for 2021, about $6.5 billion less than it expected before the pandemic began, according to marketing documents for the Dec. 16 sale. Notably, property taxes are expected to only be about 1% below original projections and real estate taxes made up about 47% of the city's tax revenue in 2020.

"The city has sound independent legal ability to adjust property tax rates and a variety of fees and charges to offset the modest revenue declines expected in a typical economic downturn," Fitch Ratings said in a note downgrading the credit late Tuesday. Still, "rates for other important revenue sources (mainly income and sales taxes and state aid) are not within management's independent control."

Fitch cut the city's credit rating by one notch, to AA- from AA, leaving it with its fourth-best rating, and six tiers above junk. The move reflects the firm's "expectation that the impact of the coronavirus and related containment measures will have a longer-lasting impact on New York's economic growth than most other parts of the country."

That move follows S&P Global Ratings' decision on Tuesday to assign a "Negative" outlook to the city's bonds, though it kept its AA rating on the securities.

New York City is also under pressure because of the potential for mass-transit service reductions, according to S&P. The Metropolitan Transportation Authority has said it might need to cut service and lay off workers if it doesn't receive federal aid, but it isn't clear when such a relief package might be passed. The MTA is tapping the Federal Reserve's municipal liquidity facility—closing at the end of this year—to help cover a sizable budget deficit this year and next.

The outlook implies a "one-in-three chance" that the rating will be downgraded over roughly the next two years, S&P said in its note.

"The negative outlook reflects our opinion of uncertainties, such as a recent uptick in the virus transmission rate that could negatively affect the city's financial forecast, the trajectory for global tourism trends and additional federal stimulus funding for state and local governments, service reductions at the [MTA] that could affect the economic recovery within the region, and weakness in property tax values that will not be evident until fiscal 2023," S&P analyst Nora Wittstruck said in a statement.

Barron's

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