MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades New York State's issuer rating to Aa1; upgrades related credits and revises outlook to stable

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New York, April 13, 2022 -- Moody's Investors Service has upgraded to Aa1 from Aa2 New York State's issuer rating and the ratings on general obligation (GO), personal income tax revenue and sales tax revenue bonds. As part of this rating action, Moody's also upgraded to Aa1 from Aa2 the rating on the New York State Workers' Compensation Board Employer Assessment Revenue Bonds and to Aa2 from Aa3 the ratings on other appropriation-backed debt of the state including bonds of the State's Mental Health Services Facilities and the Building Aid Revenue Bonds of the New York City Transitional Finance Authority (TFA), NY. As of March 31 2021, the State of New York had about $77 billion in debt outstanding, inclusive of the TFA bonds and bond premium. Moody's revised the outlook to stable from positive.

RATINGS RATIONALE

The upgrade to Aa1 for New York's issuer rating reflects a significant increase in resources combined with agile financial management that has resulted in balanced or nearly budgets projected through the state's five-year financial plan. Recognizing its need for a financial buffer to counter the volatility inherent in the state's economic and revenue structure, it has channeled some of those resources into expanded reserves, reductions in certain outstanding liabilities, such as postponed pension contributions, and risk reduction, such as termination of outstanding interest rate swaps. These actions point to the role of strong governance in triggering the upgrade.

The Aa1 issuer rating reflects the state's large and diverse economy, ample fund balance and liquidity, and a moderate level of direct leverage that results from a conservatively managed pension system. The rating also incorporates risks associated with the Metropolitan Transit Authority, a component unit of the state, and uncertainties regarding recovery of the office-intensive New York City metropolitan area, which is the key driver of the state's economy. The rating also recognizes New York's relatively high cost of living and reliance on the volatile financial services industry.

The Aa1 rating on the state's general obligation bonds is the same level as the issuer rating as the state pledges its full faith and credit to the bonds.

The Aa1 and Aa2 ratings on the state's appropriation-supported debt reflects the contingent nature of the requirement that debt service be appropriated annually for debt service and the essentiality of projects financed by the bonds. The higher (Aa1) rating on the income tax and sales tax bonds reflects the strong incentive to appropriate posed by statutory requirements that funds be set aside for debt service before the balance is available for other purposes, rendering these bonds similar in credit strength to the state's general obligation. The Aa2 rating on other appropriation-backed debt is one notch below the issuer rating, reflecting the more moderate legal structure incorporated in the relatively greater risk of non-appropriation.

The Aa1 rating on the Workers' Compensation Board employer assessment bonds is based on the strong assessment base, a mid-year assessment adjustment process and other very strong legal provisions. The rating is closely related to the state's issuer rating and the lack of structural elements that might otherwise allow a higher rating cap this rating at the level of the issuer rating.

RATING OUTLOOK

The stable outlook reflects the resources and budget management tools available to the state to align spending and revenue. The state's moderate leverage will allow it to absorb some increased debt for its own needs and those of the MTA, and various budget management tools that provide financial flexibility will enable the state to achieve budget balance if developments cause the state's revenue and spending trends to diverge from the baseline.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Issuer rating: Recovery and expansion of the state's economic and revenue base that outpaces growth in long-term liabilities and reduces leverage below the US state median

- Issuer rating: Building and maintaining reserves commensurate with the state's revenue volatility risks

- Issuer rating: Maintaining budget balance with a preponderance of recurring actions

- GO rating: issuer rating upgrade

- Dedicated tax revenue, appropriation, and special tax (Workers' Compensation Board) ratings: issuer rating upgrade

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Issuer rating: Sustained reliance on significant non-recurring budget solutions, a material increase in the state's long-term liability burden, or sustained weakness in the economic recovery of the New York City metropolitan area that leads to growing structural imbalances, including through extraordinary assistance to the Metropolitan Transportation Authority (MTA)

- GO rating: issuer rating downgrade

- Dedicated tax revenue, appropriation, and special tax (Workers' Compensation Board) ratings: issuer rating downgrade or the respective legal structures weaken

LEGAL SECURITY

Payment of the general obligation bonds rests on the full faith and credit of the state.

The state's dedicated tax bonds are payable from the deposit of portions of the personal income tax or the state general sales tax into revenue bond funds, the balance of which cannot be accessed for general fund purposes until the legislature has appropriated debt service payments and they have been set aside. Other appropriation and lease revenue bonds are ultimately payable from appropriations made by the New York legislature.

The DASNY Workers' Compensation Board Pledged Assessment and Employer Assessment bonds are payable from an assessment on worker's compensation insurance policies paid by employers statewide to a segregated account. Debt service payments do not require appropriation.

PROFILE

New York State is the 4th largest US state by population. Located in the Northeastern US, New York has a large and diverse economy with high per capita income at 120% of the US average and gross state product of $1.85 trillion.

METHODOLOGY

The principal methodology used in the general obligation, underlying lease and appropriation ratings was US States and Territories Methodology published in March 2022 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1299298 . The principal methodology used in the New York State Workers' Compensation Board assessment bonds ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260087 . The additional methodology used in the personal income tax revenue and sales tax revenue ratings was US Public Finance Special Tax Methodology published in January 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1260087 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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