FitchRatings

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Fitch Rates $1.87 Billion New York Dorm Auth PIT Revs at 'AA+'; Outlook Revised to Stable

Fitch Ratings - New York - 11 Jun 2021: Fitch Ratings has assigned 'AA+' ratings to the following Dormitory Authority of the State of New York (DASNY) state personal income tax (PIT) revenue bonds (general purpose):

--$1,826,150,000 series 2021C (taxable bonds);

--$31,950,000 series 2021D (tax-exempt bonds).

The bonds are expected to be offered by negotiated sale the week of June 14, 2021. Par amounts are subject to change pending final sale.

In conjunction with this transaction, Fitch also has affirmed New York State's Issuer Default Rating (IDR) at 'AA+' and the 'AA+' ratings on its general obligation (GO) bonds. In addition, Fitch has affirmed the ratings on various dedicated tax and appropriation-backed bonds linked to the state's IDR, as detailed at the end of this release.

The Rating Outlook has been revised to Stable from Negative.

Bond proceeds will be used to defease outstanding bonds of the Sales Tax Asset Receivable Corporation and to refund a portion of outstanding DASNY secured hospital bonds.

State PIT revenue bonds are secured by financing agreement payments to be made by New York State, subject to legislative appropriation. Payments are derived from 50% of receipts from the PIT, 50% of receipts from the employer compensation expense program (ECEP), and 50% of receipts from the pass-through entity tax (PTET).

DEDICATED TAX ANALYTICAL CONCLUSION

Fitch's 'AA+' rating on New York State's PIT revenue bonds is based on solid long-term growth prospects for dedicated revenues securing the bonds and the 2x additional bonds test (ABT) which provides considerable cushion relative to potential cyclicality. Given the significantly enhanced incentive for appropriation, the rating on state PIT bonds is on par with New York State's IDR despite the appropriation requirement. The Stable Outlook reflects the outlook on the state's IDR.

IDR ANALYTICAL CONCLUSION

The revision of the Outlook to Stable from Negative reflects the state's fiscal and economic progress to date as it recovers from the coronavirus pandemic. Although the state economy is likely to lag national medians for recovery, the massive influx of direct aid and economic stimulus from federal actions, including the American Rescue Plan Act (ARPA), is bolstering the state's rebound and will provide material, albeit temporary, fiscal support to New York State.

The 'AA+' IDR reflects very strong gap-closing ability and responsive budget management that leave it well-positioned to address near-term fiscal challenges, including from expanded spending commitments in the latest budget and inherent revenue cyclicality. New York's low long-term liability burden suggests significant capacity to address capital spending pressures, including for the Metropolitan Transportation Authority (MTA).

Economic Summary

New York's economy is characterized by considerable breadth and high wealth levels. Measured on a per capita basis, New York's personal income was 126% of the nation's in 2020, ranking it third among the states. Services dominate the economic profile, including large financial activities, education and health care, and information sectors, with economic activity centered on New York City and the surrounding region.

DEDICATED TAX KEY RATING DRIVERS

PIT STRUCTURE ENHANCES APPROPRIATION INCENTIVE: A statutory provision depriving the state's operating funds of at least $12 billion (about 15% of fiscal 2021 state operating fund tax revenues) in the event of non-appropriation effectively eliminates appropriation risk.

SOLID GROWTH PROSPECTS: Pledged PIT receipts have solid long-term growth prospects consistent with the state's broad-based, wealthy and service-dominated economy.

AMPLE CUSHION DESPITE ECONOMIC SENSITIVITY: PIT receipts are economically sensitive. The 2x ABT prevents overleveraging of the pledged revenue stream and provides ample cushion to absorb potential volatility.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--For the IDR, a more robust economic recovery that supports longer-term improvement in revenue growth prospects to be more in line with Fitch's expectations for the national economy;

--For the IDR, material improvement in the state's operating performance including sustained higher levels of reserves relative to operating spending or significant moderation of long-term structural pressures;

--For the PIT revenue bonds, an upgrade of the state's IDR.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--For the IDR, evidence that pandemic-related economic shifts have weakened the state's economic profile and could more permanently reduce the state's revenue growth prospects;

--For the IDR, a weakening of the improved budgetary management practices that have been institutionalized over the last decade, including more careful management of spending growth, leading to the reemergence of material and recurring structural imbalances, particularly as temporary tax measures expire;

--For the PIT revenue bonds, a downgrade of the state's IDR;

--For the PIT revenue bonds, an erosion of the expected ample coverage of debt service by pledged PIT, ECEP and PTET receipts.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Federal Relief Provides Critical Support

Multiple federal pandemic aid measures enacted in 2020 and early 2021 have provided considerable direct fiscal support and boosted overall economic activity in New York and throughout the country. The Committee for a Responsible Federal Budget estimates such measures to have provided a total of $260 billion to New York residents, businesses, health care providers and public entities, the majority in the form of various loan programs such as the Paycheck Protection Program.

Direct fiscal aid to New York State authorized last year included a 6.2% increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid, which provided $3.4 billion in fiscal 2021 and is expected to provide another $2.5 billion during fiscal 2022 (which began on April 1). The state also received $5.1 billion from the Coronavirus Relief Fund (CRF) included in the Coronavirus Aid, Relief and Economic Security (CARES) Act, passed in March 2020; all of these funds are offsetting a range of pandemic-related response costs, including for certain personnel expenses, through 2021.

Last month, the state received an allotment of $12.75 billion from ARPA's Coronavirus State and Local Fiscal Recovery Funds (FRF). Although federal guidance on permitted uses of FRF continues to evolve, the state will direct the new resources to a range of pandemic recovery needs through 2024.

State Lags in Economic Recovery

New York's labor market was particularly hard hit by the initial wave of the pandemic and necessary public health countermeasures. From February to April of 2020, New York suffered a 20% employment loss, far steeper than the 15% rate nationally. Since then, New York's recovery has trailed the nation, regaining just under 52% of lost jobs through April 2021; the comparable figure nationally is about 65%. As of April 2021, unemployment stands at 8.2% in New York, well above the 6.1% national rate. The Fitch-adjusted unemployment rate, which combines official unemployment plus estimated labor force exits, also stands at 8.2% in New York, only slightly above the 8.1% national rate, suggesting progress in New York's labor markets.

The recovery has taken hold as vaccination efforts, broader reopening, and renewed federal stimulus from ARPA support the economy. The state's forecast as of the enacted budget for fiscal 2022 anticipates nonfarm employment rising 9.1% in fiscal 2022, compared to the 12.4% loss experienced in fiscal 2021. Wages would rise 5.2% in fiscal 2022 after a 1.7% decline the year before. Personal income would fall 0.6% in fiscal 2022 as pandemic support to households expires, following a 7.5% rise in fiscal 2021.

Fitch views current forecasts as having a notably higher degree of uncertainty compared to past forecasts given the continued unknowns posed by the pandemic recovery. Among the key uncertainties for New York State is the pace and strength of the recovery in New York City, the anchor of the state's economy (IDR 'AA-'/Negative). Near-term, the economic effect of the pandemic has been particularly severe in the city, and a weak rebound in employment, visitor volumes, real estate, commuting patterns and other activities there would affect overall state economic performance and could delay the state's fiscal recovery.

Progressively Improving Revenues

Similar to other states, New York's revenue performance has progressively improved relative to forecasts at the start of the pandemic. Revenue strength has been attributable to several factors, including the effects of stimulus provided by federal aid to individuals, households and businesses and the relatively less acute effect of the pandemic on higher wage filers who generate a disproportionate share of state PIT receipts, even as lower wage filers experience a disproportionate share of job losses.

State operating funds tax revenue in fiscal 2021 was forecast to plunge to $74.3 billion (8.8% below the prior year) as of the fiscal 2021 enacted budget, in March 2020. Unexpectedly strong collections ultimately raised this figure to $81.2 billion (only 0.3% below the prior year). For fiscal 2022, the state anticipates further strong growth, boosted by ARP and the continued recovery. Tax revenues would rise to $89.8 billion (10.6% above the prior year), driven both underlying PIT and sales tax gains, and by PIT and business tax rate increases enacted with the budget (detailed below).

Enacted Plan Balances Fiscal 2022

The enacted budget estimates a balanced general fund budget in fiscal 2022 after closing a baseline gap now estimated at $9.5 billion. The revenue outlook is $11.8 billion higher than earlier expectations due to $4.1 billion in upward forecast revisions, $3.3 billion from the new, temporary PIT brackets on high earners, temporary business tax increases and an additional $4.5 billion in non-tax federal aid. Looking forward, the upward forecast revision raises baseline revenues through the fiscal 2025 financial plan period, as does most of the temporary tax rate increases; the temporary business tax increases expire in 2023 and the temporary PIT high income brackets expire in 2027. Federal aid in the budget is material in fiscal 2022, including $4.5 billion planned use of ARPA funds and $2.5 billion for enhanced FMAP prior to its expiration in December 2021. The remaining ARPA funds are programmed through fiscal 2025.

Spending in the enacted fiscal 2022 plan is targeted both to time-limited recovery needs and permanent program expansions. Direct state recovery initiatives are concentrated in fiscal 2022 at $3.1 billion, including for workers outside of the unemployment system and small businesses. The budget includes a considerable increase in K-12 foundation aid, to be phased in over three years; the cost rises from about $1 billion in fiscal 2022 to $4.4 billion in fiscal 2025, largely offset by expected revenue increase from temporary PIT and other tax rate changes, although raising the risk of future structural challenges once temporary rates expire.

The budget also makes one-time spending commitments, including for retroactive labor settlements, an $825 million deposit to the rainy-day fund and $320 million to the other post-employment benefits (OPEB) trust fund. Also $918 million was used at the end of fiscal 2021 to pay down most of the remaining state balance for the pension contribution stabilization program, providing both budgetary and interest savings in future years.

ECONOMIC RESOURCE BASE

The state's large and wealthy economic base is diverse but economically sensitive. The finance sector is important to overall fiscal performance but has a history of volatility and employment in the sector remains below levels attained prior to the Great Recession. Expansion in other services, notably technology and tourism, has also supported growth and improved diversity over the last decade. Pandemic-related weakness was particularly severe in New York, and the recovery to date has lagged the nation's, suggesting that the state's economic recovery could remain slower going forward.

PIT revenue bonds, as with New York State's other dedicated tax bond programs relied upon for capital spending, are linked to the state's 'AA+' IDR by virtue of the requirement for annual legislative appropriation. Each month an amount equal to 50% of estimated available PIT revenue (i.e. receipts after refunds) from the withholding portion of the tax and 50% of estimated ECEP and PTET receipts are deposited into the revenue bond tax fund.

After retention of 125% of required payments for PIT bonds due in the succeeding month, excess monies are transferred to the state's general fund. Should amounts in the revenue bond tax fund be insufficient, the state comptroller is required to transfer from the general fund without the need for further appropriation. If no appropriation is made, deposits to the revenue bond tax fund are trapped and cannot be used (except for GO debt, if necessary), depriving the state of the monies in excess of debt service.

PIT is New York's largest source of state operating revenues. The tax is levied on adjusted gross income less deductions and exemptions at rates now ranging from 4% to 10.9% under three separate rate schedules. PIT components, including from withholding (the largest share), estimated payments, final returns, delinquencies and refunds, are affected by a range of timing considerations, with synchronized or offsetting factors in any given year, as well as by the broader cyclicality of personal income in the state.

Collections prior to the coronavirus pandemic were volatile due to the impact of the December 2017 federal tax changes commonly known as the Tax Cuts and Jobs Act (TCJA), and due to the repatriation of foreign hedge fund earnings, even as steady labor markets conditions supported withholding receipts.

For fiscal 2020 (which ended March 31, before the economic effects of the pandemic took hold), PIT receipts surged 11.6%, to $53.7 billion, with withholding receipts up 5%. Fiscal 2021 PIT receipts were affected by the pandemic, although to a far lesser degree than anticipated when the fiscal 2021 budget was originally enacted. Fiscal 2021 PIT receipts rose 2.4%, to nearly $55 billion, with the withholding component rising 2.6%. Given the strength of the recovery, federal pandemic support, and state tax rate changes, sizable growth in PIT is expected in fiscal 2022, with enacted budget anticipating total PIT receipts rising 11.1%, to $61.1 billion, and the withholding component rising 8.4%.

New York's rate schedule has been subject to frequent changes by the legislature. As part of the fiscal 2022 enacted budget, the legislature established new top brackets at 10.3% for filers with income over $5 million and 10.9% for income over $25 million, which are forecast to generate more than $2.7 billion in fiscal 2022 and rising thereafter. The new top rates will remain in place through 2027, even as a previously-enacted eight-year phased-in decline of middle-income tax rates continues through 2025. As of 2028, the top bracket will fall back to the 8.82% rate for single filers with income over about $1.1 million, the top rate in place since 2012. New York's new top rate exceeds New Jersey's (10.75% at $1 million as of tax year 2020) and Connecticut's (6.99% at $500,000).

PLEDGE MODIFIED TO REFLECT TAX LAW CHANGES

New York State has also enhanced the security available to PIT bondholders in legislation enacted in 2018, with the fiscal 2019 state budget, and in 2021, with the fiscal 2022 state budget. The changes have been part of a broader package of state tax changes designed to limit the negative effects on personal filers from the TCJA's $10,000 cap on state and local tax deductions.

The 2018 tax law changes included establishing charitable trust funds for certain state education and health care purposes and raising the set aside of estimated PIT receipts available for bondholders to 50% from 25% to offset the risk that higher charitable deductions might affect bondholders. Additionally, 50% of receipts from the newly-created ECEP was added to the pledge. The ECEP is an optional tax on business payroll accompanied by a PIT tax credit for individual filers; combined PIT and ECEP receipts are intended to match collections under the previous PIT. Taxpayers' use of the charitable provisions has been limited to date and the ECEP generated only $3.2 million in receipts in fiscal 2021.

Half of receipts from the newly-enacted PTET are likewise being added to the pledge. The optional PTET taxes state-sourced income from partnerships or S corporations at the entity level, rather than the individual filer level, with an offsetting refundable tax credit for partners and shareholders. The PTET has provisions allowing for reciprocity with New Jersey and Connecticut, and is similar to recently-enacted state tax provisions in both states. New York has not yet forecast the extent to which filers will opt to use the PTET, but expects it to be revenue neutral over time.

SOLID LONG-TERM GROWTH PROSPECTS

Fitch views growth prospects for PIT revenues over time as solid, reflecting the state's broader economic and revenue growth prospects. PIT revenue collections in recent years have been driven by broader economic gains supporting steady withholding growth, as well as the effects of federal and state tax law changes. The compound annual growth rate for withholding receipts from fiscal 2010 to fiscal 2020 was 3.9%. Rate changes are frequent, including temporarily higher top rates that have been adjusted and extended periodically, most recently as part of the fiscal 2022 enacted budget.

ROBUST RESILIENCE

PIT collections are economically sensitive, particularly the components associated with non-withholding. Fitch views the 2x maximum annual debt service (MADS) historical ABT based on the 50% set-aside as providing considerable cushion for bondholders relative to economic volatility. The importance of residual revenues to state operations limits the likelihood that the state would substantially increase leverage up to this level.

To evaluate the sensitivity of the dedicated revenue stream to cyclical declines, Fitch considers revenue sensitivity results after applying a moderate recessionary assumption of -1% GDP -- based on the Fitch Analytical Stress Test (FAST) -- and based on the largest historical revenue decline. Both scenarios assume full leverage to the ABT. Including the current sale MADS totals about $4.4 billion, in fiscal 2022.

Pledged revenues of $26.8 billion in fiscal 2020 cover MADS 6.2x, and could decline almost 84% while still providing sum sufficient coverage of debt service, a robust level of resilience. This level of cushion is 21x the 2.3% revenue decline generated by the FAST model, and almost 3x the 17% revenue decline based on historical experience (in fiscal 2003). Fitch considers these coverage levels to be highly resilient.

Revenue Framework: 'aa'

New York State's revenue base is diverse and has solid growth prospects, driven by its diverse, wealthy economic profile. The tax base, concentrated in the large PIT component, is economically sensitive. The state has complete independent legal control over revenue.

Expenditure Framework: 'aaa'

The natural pace of New York's spending growth, driven by education and Medicaid funding demands, is likely to be marginally above revenue growth over time, requiring ongoing budget management. The state has ample flexibility to control spending.

Long-Term Liability Burden: 'aaa'

New York State's long-term liability burden, including debt and net pension liabilities, is near the median for U.S. states as a percent of personal income and an overall low burden on resources. Tax-supported debt has declined over the last decade, although is likely to rise again in the near term. Pensions have been well-funded, with net pension liabilities well below the median for states. .

Operating Performance: 'aa'

Operating performance has been aided by improved budgeting practices in place over the last decade, including caps on annual spending growth and more conservative forecasting. Formal budgetary reserves are modest relative to cyclical revenues but have grown in recent years. Financial resilience is driven by the state's willingness to quickly adjust revenues and expenditures in response to fiscal deterioration, and its ability to build considerable flexibility into its regularly updated multi-year financial plans to absorb fiscal volatility.

Revenues to support state operations, which encompass general fund and other state-funded activity except capital spending, derive primarily from taxes on personal income, sales and corporate activities. PIT receipts are especially important, accounting for about two-thirds of forecast all funds tax revenues as of the enacted budget for fiscal 2022, which began on April 1, while sales and other consumption tax receipts are about 20% of revenues and various business taxes combined are just under 10% of revenues.

The PIT is levied through a progressive rate structure, including temporary top rates that were expanded as part of the enacted fiscal 2022 budget and will remain in place through 2027. Tax revenues in general are economically sensitive, particularly PIT receipts tied to capital gains and bonuses. Cyclicality in collections has also been triggered by filers' responses to federal tax law changes, the most recent example of which is the TCJA, passed in December 2017.

New York's diverse, wealthy economic profile and strong economic performance is the basis for revenue growth prospects that are likely to be solid, exceeding inflation although falling below the pace of national GDP growth over time. Personal income gains in New York have tracked the nation's over the last decade and further supported state revenue growth over time.

Common to U.S. states, New York has the independent legal ability to raise operating revenues without any external approval required. The state has demonstrated a willingness to use revenue-raising powers as a routine part of fiscal management.

New York's expenditure profile is broad, driven by an expansive scope of services. Medicaid and education, including local education support and higher education, are the largest spending commitments, constituting about half of total state operating funds disbursements. Rising Medicaid needs include those resulting from the state's assumption of local Medicaid growth that was previously the obligation of county governments; counties continue to pay a fixed portion at calendar 2015 levels.

As with most states, the pace of spending growth in the absence of offsetting policy actions is expected to be in line with to marginally above expected revenue growth, driven by education and by social services, particularly Medicaid. The fiscal challenge of Medicaid is common to all U.S. states and the nature of the program as well as federal government rules limit the states' options in managing the pace of spending growth.

Federal action to revise Medicaid's fundamental programmatic and financial structure does not appear to be a near-term priority of the current federal administration or Congressional leadership. As with all federal programs, Medicaid remains subject to regulatory changes that could affect various aspects of the program.

The state has substantial flexibility to cut spending as needed, with the broad expense-cutting authority common to most U.S. states. This ability is routinely demonstrated in response to economic and revenue setbacks, with the state routinely curtailing planned aid to localities and state operations to ensure fiscal balance.

Fixed carrying costs for debt and retiree benefits are above average for a state, at 5.9% of governmental expenditures as of the fiscal 2020 audit, the most recent, but represent a low burden on resources. The state has a generally strong history of making actuarial pension contributions, with comparatively high funded ratios in the state's plans helping to support manageable contributions over time.

An optional contribution deferral mechanism, authorized in 2010 and used by the state annually through fiscal 2016, temporarily lowered the state's contributions in return for higher future contributions over a 10-year repayment period. The state used excess balances to repay most of the deferred balance at the end of fiscal 2021.

The state has long made only pay-go contributions for OPEB, which exceed the state's pension contributions, but the fiscal 2022 enacted budget takes an initial step toward prefunding OPEB benefits with a $320 million trust fund deposit, beyond the pay-go contribution.

Spending Growth Policy Caps

New York implemented broad policy curbs on spending growth beginning fiscal 2012, including a 2% state operating funds expenditure growth benchmark, a separate school aid growth cap, and a global cap on most state-funded Medicaid linked to historical medical CPI trends. The state largely adhered to the 2% state operating funds expenditure growth benchmark through fiscal 2021, although actual expenditure growth varies from this figure due to timing shifts, such as debt service prepayments.

New spending commitments for expanded K-12 foundation aid and the effect of federal pandemic recovery funds will drive planned spending well over the policy caps for state operating funds and school aid through most of the plan period, although state-funded Medicaid spending counted within the cap is forecast to remain within the global cap.

State operating funds spending rises 7.7% in fiscal 2022, and at lower rates thereafter. School aid rises 11.3% in school year 2022, reflecting both the higher foundation aid plus the restoration in fiscal 2022 of local aid cuts made in fiscal 2021. Following several sizable increases after the budget year as foundation aid continues to phase-in, school aid spending growth would fall to a level consistent with the personal income growth benchmark by 2025.

Medicaid remains within the global cap, with growth rising 2.9% to 3% through the financial plan, in part due to the pandemic-related enhanced FMAP being received in 2021 and the gradual recovery of the economy thereafter. The state has statutory powers that strengthen its ability to stay on budget, although the cap excludes certain Medicaid costs, such as those associated with the state's assumption of local Medicaid growth, the effect of increased minimum wages, and shifts in utilization.

Policy changes were implemented beginning in fiscal 2021 in response to state-funded Medicaid spending exceeding targets prior to the pandemic. Approximately two-thirds of $2.2 billion in savings initiatives have been made to date to reduce costs in managed care, managed long-term care and other program areas; additional savings are subject to federal approval and expiration of enhanced FMAP.

Although Fitch views New York as well-positioned to address unforeseen weakness, higher program commitments could expose the state to more significant structural budget mismatches in the future. The state expects most federally funded pandemic recovery-related spending to roll off as federal aid expires, even as the economic recovery supports revenue gains sufficient to support the enlarged commitment to schools.

Based on Fitch's 2020 state liability report (and based on fiscal 2019 data), the burden of debt and net pension liabilities adjusted by Fitch to a 6% discount rate measures 5% of personal income, matching the 5% median for U.S. states. This represents a low burden on resources.

The trend of declining debt through much of the current decade has recently reversed. Fitch calculates that New York's direct debt as of March 31, 2021 totals 4.6% of 2020 personal income. Revenue bonds secured by personal income and sales taxes, as well as GO bonds, are the largest share. This figure also includes various service contract structures, and Fitch adds state tax-supported debt of the MTA and its affiliates, including dedicated tax fund bonds and bonds newly-issued under the payroll mobility tax bond program.

Due to the pandemic, the state suspended its statutory debt limits for debt issued during fiscal 2021 and 2022; these cap outstanding debt to 4% of state personal income and debt service to 5% of state all funds receipts. This allowed planned borrowing during 2021 to be excluded from the cap, accommodating both $4.5 billion in subordinate PIT cash flow notes issued for liquidity purposes early in the pandemic (and since repaid), and $2.8 billion to date in PIT bonds for MTA capital, replacing planned local aid transfers for debt service. There is strong centralization and oversight within the Division of the Budget and approval by the Public Authorities Control Board is required for issuances by public authorities.

Funding of two major statewide multi-employer pension systems, covering general and police and fire employees, has benefitted from historically strong contribution practices. Reported ratios of fiduciary assets to total pension liabilities as of the systems' own fiscal 2020 audit are at 86.4% for employees and 84.9% for uniformed employees, based on their 6.8% discount rates (these ratios will be reflected in the state's fiscal 2021 audit); these levels are at least 10% points lower than the prior year, due primarily to the steep pandemic-related market losses late in fiscal 2020.

Adjusting the systems' reported fiscal 2020 figures to a 6% discount rate per Fitch's U.S. Public Finance Tax-Supported Rating Criteria lowers these ratios to 79.3% and 77.6%, respectively. The state comptroller reports that pension assets in the state's main system bounced back 34% in fiscal 2021, although the effect of this performance on plan funding and contributions is not yet known.

OPEB Liability Remains Sizable

The state reported an OPEB liability of $65.9 billion as of its fiscal 2020 audit under GASB 75, which aligns OPEB reporting more closely to how pensions are reported, a level equivalent to 4.7% of 2020 personal income. The state pays OPEB on a pay-go basis, but established a formal trust fund in 2018 and is making initial payments to prefund benefits in fiscal years 2022 and 2023, as noted earlier.

New York has a level of financial resilience that Fitch has assessed at very strong, allowing it to manage through periods of fiscal stress while maintaining adequate levels of fundamental fiscal flexibility, although this level could erode in the event that economic and fiscal performance during the recovery from the pandemic and beyond fall short of historical experience.

During the Great Recession and in the recovery that followed the state made significant improvements in budget management, materially increasing its financial resilience relative to future economic and revenue cyclicality, in Fitch's view. These included a more conservative consensus revenue forecasting process, targeted formulas to restrain state operating fund and Medicaid spending growth, timelier budget enactment, reduced reliance on one-time resources, and most recently the setting aside of additional resources in formal budgetary reserves.

As noted earlier, some of these improvements have become less effective over time, most notably the spending growth curbs, and spending associated with the pandemic response and recovery are likewise materially affecting the state's spending growth trajectory.

New York's exposure to economic and revenue cyclicality is above average, driven primarily by economically sensitive PIT receipts, although the state has at its disposal a wide array of budget management tools that have enabled it to confront sizable projected budget gaps.

Fitch Analytical Stress Test for New York

The FAST scenario analysis tool relates historical tax revenue volatility to GDP to support the assessment of operating performance under Fitch's criteria. FAST is not a forecast, but represents Fitch's estimate of possible revenue behavior in a downturn based on historical revenue performance. Actual revenue declines will vary from FAST results, which provide a relative sense of the risk exposure of a particular state compared to other states. Despite its comparatively higher exposure to revenue declines shown by FAST, New York State has very strong financial resilience that would enable it to manage through periods of fiscal stress.

Budgetary management has consistently supported financial flexibility. As of fiscal 2022, the state expects to have $3.3 billion in its rainy-day reserve, equal to 3.7% of estimated state operating fund tax revenue, and additional deposits included in the enacted fiscal 2022 budget would bring total balances to $7.4 billion, equal to 8.2% of forecast state operating fund tax revenues. These include a $1.5 billion reserve for economic uncertainties and $2 billion held in the general fund from monetary settlements received from financial institutions since fiscal 2015.

The state had not prioritized building a formal budgetary reserve to absorb revenue-related cyclicality, although more recently excess balances have enabled it to build up the rainy-day fund. The state has otherwise demonstrated considerable flexibility within its budget framework to address unforeseen needs. Additionally, the state maintains a rigorous, multiyear fiscal planning process, with frequent updates, within which it quickly identifies and incorporates the long-term implications of changing conditions.

General fund liquidity and the ending balance has expanded materially in recent years with the receipt of almost $13.4 billion from monetary settlements, including a further $600 million in fiscal 2021. To date the state has applied much of these windfalls to capital needs, non-recurring general fund operations including retroactive labor settlement costs, and the resolution of a federal audit disallowance. Until disbursed, these balances have temporarily augmented liquidity and remain a significant source of fiscal flexibility if needed. Federal pandemic aid from ARPA totaling $12.8 billion will also augment state liquidity until fully expended, in 2024.

Related Rating Actions

In conjunction with assignment of the 'AA+' rating on DASNY's series 2021C and 2021D PIT revenue bonds and affirmation of the 'AA+' ratings on the state's IDR and GO bonds, Fitch also affirms the ratings on the following dedicated tax bonds linked to the state's IDR and rated at, or one notch below, the IDR:

--Personal income tax (PIT) revenue bonds, affirmed at 'AA+';

--State sales tax revenue bonds, affirmed at 'AA+';

--Sales Tax Asset Receivable Corporation bonds, affirmed at 'AA+';

--New York State Thruway dedicated highway and bridge trust fund bonds, affirmed at 'AA+';

--Triborough Bridge and Tunnel Authority (TBTA) (MTA bridges and tunnels) regional payroll mobility tax bonds, affirmed at 'AA+/F1+';

--MTA (NY) dedicated tax fund bonds, affirmed at 'AA/F1+'.

For additional information on the state sales tax revenue bonds, see "Fitch Affirms Outstanding New York State Sales Tax Revs at 'AA+'; Outlook Negative", dated April 6, 2021. For additional information on the TBTA regional payroll mobility tax bonds, see "Fitch Rates $1.3 Billion TBTA Payroll Mobility Tax Bonds at 'AA+'; Outlook Negative", dated April 8, 2021. For additional information on the MTA dedicated tax revenue bonds, see "Fitch Affirms MTA, NY's Dedicated Tax Fund Bonds at 'AA'; Outlook Remains Negative," dated March 2, 2021. These releases can be found at www.fitchratings.com.

Fitch has also affirmed the 'AA' ratings on various appropriation-supported bonds, one notch below the state's IDR:

--Service contract bonds issued by state agencies;

--DASNY City University of New York (CUNY) revenue bonds;

--DASNY Department of Health (DOH) revenue bonds;

--DASNY mental health services facilities improvement revenue bonds;

--DASNY secured hospitals program revenue bonds;

--New York City Transitional Finance Authority state building aid revenue bonds;

--MBBA special school purpose revenue bonds (prior year claims - The City of New York), 2012

series A.

Fitch has also affirmed the 'AA-' ratings on several state intercept-backed bonds, two notches below the state IDR, reflecting individual program mechanics for the intercept:

--DASNY school districts revenue bond financing program revenue bonds;

--DASNY court facilities lease revenue bonds (City of New York issue).

The Outlook on the ratings for the all of the related debt listed above has been revised to Stable from Negative.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
New York, State of (NY) [General Government]	LT IDR	AA+	Affirmed		AA+
• Metropolitan Transportation	LT	AA	Affirmed		AA

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Authority (NY) /Dedicated Tax Revenues/ 1 LT					
• Metropolitan Transportation Authority (NY) /MTA Payroll Mobility Tax Revenues/ 1 LT	LT	AA+	Affirmed		AA+
• New York, State of (NY) /DASNY CUNY/ 1 LT	LT	AA	Affirmed		AA
• New York, State of (NY) /DASNY Department	LT	AA	Affirmed		AA

ENTITY/DEBT	RATING			RECOVERY	PRIOR
of Health/ 1 LT					
• New York, State of (NY) /DASNY Schools Intercept Program/ 1 LT	LT	AA-	Affirmed		AA-
• New York, State of (NY) /DASNY Secured Hospitals/ 1 LT	LT	AA	Affirmed		AA
• New York, State of (NY) /General Obligation - Unlimited	LT	AA+	Affirmed		AA+

ENTITY/DEBT		RATING		RECOVERY	PRIOR
Tax/ 1 LT					
• New York, State of (NY) /Highway & Bridge Trust Fund/ 1 LT	LT	AA+	Affirmed		AA+
• New York, State of (NY) /LGAC Fund (Sales Tax)/1 LT	LT	AA+	Affirmed		AA+
• New York, State of (NY) /Lease Obligations -	LT	AA-	Affirmed		AA-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Standard - Court Facilities/ 1 LT					
• New York, State of (NY) /Sales Tax Revenues/ 1 LT	LT	AA+	Affirmed		AA+
• New York, State of (NY) /Special School Purpose Revenues - 2012 NYC/ 1 LT	LT	AA	Affirmed		AA
• New York, State of	LT	AA	Affirmed		AA

ENTITY/DEBT	RATING			RECOVERY	PRIOR
(NY) /State Appropriation - Mental Health Services/ 1 LT					
• New York, State of (NY) /State Appropriation/ 1 LT	LT	AA	Affirmed		AA
• New York, State of (NY) /State Building Aid Appropriation Revenues/ 1 LT	LT	AA	Affirmed		AA
• New York, State of	LT	AA+	Affirmed		AA+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
(NY) /State Personal Income Tax Revenues/ 1 LT					
• Metropolitan Transportation Authority (NY) /Dedicated Tax Revenues/ 1 ST	ST	F1+	Affirmed		F1+
• Metropolitan Transportation Authority (NY) /MTA Payroll Mobility Tax Revenues/ 1 ST	ST	F1+	Affirmed		F1+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub.04 May 2021) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Triborough Bridge & Tunnel Authority (NY)	EU Endorsed, UK Endorsed

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