State of the state: New York

Investment Insights | Fixed Income

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- The state of New York has benefited from a robust and wealthy economy, adequate resources, and budget flexibility, which supports Invesco's stable outlook on the credit.
- New York State's conservative budgeting has allowed a prudent use of resources in the last few years. The state has seen a fast recovery from the pandemic thanks to federal funds, higher-than-anticipated tax revenues, and proactive financial management.
- Invesco is positive on the Port Authority of New York & New Jersey, which operates a large and essential transportation infrastructure and is a long track record of stable finances and adequate liquidity.

Clara Sanguinetti
Senior Research Analyst

Steve Hong
Senior Analyst and Team Lead

Stephanie Larosiliere
Head of Municipal Business Strategy & Development

State overview

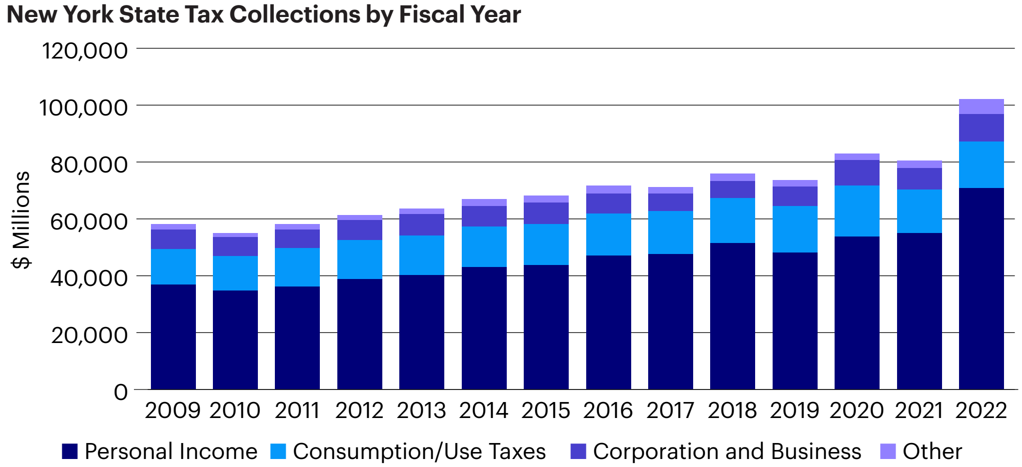
Invesco's view

The pandemic caused a dramatic and sudden disruption in the New York economy. However, thanks to federal relief funding and a fast recovery in tax collections, the state was able to quickly stabilize its finances. Additionally, New York benefits from a robust and wealthy economy, adequate resources, and budget flexibility, which also helped mitigate the adverse economic impact and supports Invesco's stable outlook on the credit. The state has demonstrated strong management practices and quickly identified gap-closing measures to balance the budgets for Fiscal Years (FY) 2021 and 2022. Moderate leverage levels allowed the state to issue debt as an alternative to additional expenditure reductions. Lastly, employment numbers reflect a larger economic impact to New York than most other states, but recent data indicates continued improvement in the job sector and the state's overall economic recovery.

Fiscal years 2022 and 2023

Fiscal Year 2022 (ending March 31, 2022) benefited from higher-than-anticipated tax receipts. For example, in April of 2021 annual tax revenues for FY 2022 had been projected to be $91.1 billion, an increase of 10.6% ($8.7 billion) from the prior year; however, tax revenues ended up 27.1% higher ($22.3 billion) over the period, at $104.7 billion,[1] thanks to both economic recovery and temporary tax rate increases. In the state's latest budgetary update, state tax receipts for FY 2023 are projected to increase at a more modest rate (2.6%) to $107.5 billion. Through April 2022, personal income tax receipts and consumption & use tax receipts exceeded April 2021 collections by 12.7% and 9.8%, respectively.[2] These two revenue sources make up the bulk of total tax revenues, with personal income tax revenues accounting for approximately 58% and consumption and use tax revenues constituting roughly 16% of tax revenues.

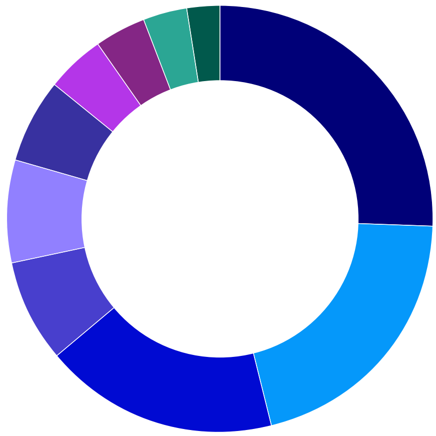
New York State Tax Collections by Fiscal Year



Source: New York State Department of Taxation and Finance, 2020-2021 and Gross and Net Tax Collections, March 2022.

New York State's conservative budgeting and proactive expense management have allowed a prudent use of resources. Including rainy day reserves of $3.3 billion, the General Fund had a cash balance of $9.0 billion at the end of FY 2022 (March 31, 2022), offering a healthy cushion as federal aid phases out.[1] Positively, the FY 2023 budget includes a plan to raise the maximum allowable balance for the rainy day reserve from 5% to 15%, allowing a higher cash cushion against adverse events. FY 2023 began on April 1, 2022 with projected balanced operations.

FY23 New York State Operating Funds Projected Spending



School Aid	**26%**
Medicaid	**21%**
General Government	**18%**
University	**8%**
Other	**8%**
Debt Service	**6%**
Addiction Services and Mental Health	**5%**
Transportation	**4%**
Social Services	**4%**
Elected Officials	**2%**

Source: New York State Division of the Budget as of March 31, 2022.

Economic update

The state's population grew 2.1% between 2010 and 2017 to 19.8 million, and then declined 1.4% to a population of 19.51 million in 2020, making it the fourth most populous state in the nation.[3] New York's per capita income and median household income remained strong at 115% and 109% of the national average, respectively, though the poverty rate of 12.7% was above the national average of 11.4%.[4] The financial activities (30%), professional services (14%), and transportation and trade (12%) industries are the lead contributors to the state's economy,[5] which ranks 3rd in size trailing Texas and California. Following the coronavirus outbreak and lock-down orders in March 2020, real GDP decreased in all 50 states. New York's real GDP declined 5.9% in 2020,[6] with the largest declines seen in the health care, recreation, food and accommodation sectors.[7] Following declines in Covid-19 cases and easing of lock-down orders, GDP started to recover in all states with accommodation sectors, and information and professional services being the lead contributors. Most recent available reports show New York's GDP increased 4.8% during the fourth quarter of 2021, while the US increased at a rate of 6.9%.[8] May 2022 employment metrics showed NY's unemployment rate continued to improve, falling from 11.7% in August 2020 to 4.4% in May 2022, while the national average fell from 8.4% to 3.6% during the same period with notable gains in leisure, hospitality, and professional and business services.[9]

Long-term challenges

Though the state's liability profile may weaken in the near term, its pension system is well-funded, and we expect debt levels to remain manageable. Long-term challenges include a negative population trend since 2017. Due to stricter immigration controls, international immigration has declined significantly after helping compensate for domestic outmigration for several years. Immigrants account for 23% of the state's population.[10] The state also faces pressure from Medicaid spending. Budget officials anticipate fast-growing state-share Medicaid costs, which in FY 2022 were equivalent to approximately 21% of state operating revenues. Despite the state being allocated $4.2 billion in Enhanced Federal Medical Assistance Percentage funds in FY 2021 and $2.5 billion in FY 2022,[11] an action plan is needed to control Medicaid spending growth, particularly considering that enrollment may increase in the short term following the spike in unemployment.[12]

Issuer spotlight

Issuer: Port Authority of New York and New Jersey
Moody's Rating: Aa3/Stable (May 6, 2022)
S&P Rating: AA-/Stable (May 6, 2022)
Fitch Rating: A+/Stable (May 16, 2022)

The Port Authority of New York & New Jersey (Port Authority) experienced a severe reduction in traffic and revenues in 2020 due to economic and travel restrictions relating to the COVID-19 pandemic. While bridge & tunnel usage and cargo transport have recovered to pre-pandemic levels, aviation passengers and Port Authority Trans-Hudson (PATH) ridership fell more significantly and are still below March 2019 levels by 17% and 48%, respectively.[13] Nevertheless, FY 2021 operating revenues grew 21% year-over-year to $5.13 billion, albeit 7% below FY 2019's operating revenues.[14] The Port Authority's airport activity recovery is lagging that of the overall US airports due to its higher share of international travelers, but it is expected to reach pre-pandemic levels within the next year. The PATH system will likely take longer to recover due to the slow return of commuters into New York City and hybrid work schemes. The Port Authority forecasts that usage in all facilities will have recovered to 2019 levels in 2024.[13] Uncertainty and volatility due to the pandemic continues to pressure the Port Authority's finances, but adequate liquidity and federal funds offer relief through the estimated recovery timeline.

Invesco's stable outlook on the credit is based on several factors. The Port Authority operates a large and essential transportation infrastructure that includes tunnels, bridges, major airports, and marine terminals. The service area is located in an affluent and heavily populated metropolitan region. There is a long track record of stable finances and adequate liquidity with diverse operating revenues consisting of 35% toll and fares, 32% rentals at aviation and marine terminals, 24% aviation fees and 7% parking fees. Challenges include the Port Authority's sizable capital needs and an elevated financial leverage. Senior debt service of $1.5 billion accounted for 27% of operating revenues in fiscal year 2021.[14] Additionally, the timing and scope of the 2017-2026 $37 billion capital plan will likely be modified to reflect the adverse impact of COVID-19 in the Port Authority's operations and financial position. Positively, the Port Authority expects to receive certain allocations from President Biden's Infrastructure Bill to help fund some of the aviation capital improvement projects. Despite the near-term challenges, Invesco believes the Port Authority is an attractive credit, with its long-term viability intact.

1. New York State FY 2023 Enacted Budget Financial Plan, Governor Hochul and Budget Director Mujica, April, 2022
2. New York State Department of Taxation and Finance Monthly Gross and Net Tax Collections, April, 2022
3. State Population Totals and Components of Change: 2010-2020, US Census Bureau, July 1, 2020
4. US Census Bureau, July 1, 2020
5. Office of the New York State Comptroller, 2021 Financial Condition Report, March 31, 2021
6. Office of the New York State Comptroller, 2021 Financial Condition Report, March 31, 2021
7. Bureau of Economic Analysis, US Department of Commerce, October 2, 2020
8. Bureau of Economic Analysis, US Department of Commerce, March 31, 2022
9. Bureau of Labor Statistics, June 3, 2022
10. Office of the New York State Comptroller, 2021 Financial Condition Report, March 31, 2021
11. New York State FY 2022 First Quarterly Update, Governor Hochul and Budget Director Mujica, July, 2021
12. NYS Medicaid Enrollment Databook, September 2019 - September 2021
13. The Port Authority of New York and New Jersey Unaudited 2022 Q1 Financial Statements
14. The Port Authority of New York and New Jersey 2022 Budget

Invesco Municipal Bond team

The Invesco Fixed Income Municipal Bond team's investment philosophy is based on the belief that creating long-term value through comprehensive, forward-looking research is the key to providing clients with diversified portfolios that aim to maximize risk-adjusted returns.

Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations.

Proprietary credit research and risk management are the foundations of our investment process, supported by a deep and experienced team of investment professionals with expertise that spans the entire municipal investment universe. We maintain an integrated, team-based investment process that combines the strength of our fundamental credit research analysts with the market knowledge and investment experience of our portfolio managers.

Our position among the top 5 municipal investment managers by assets in the US[1] enables us to access preferred market opportunities and gain valuable market insight. Our team has established relationships with more than 120 national and regional municipal debt dealers in the US. We believe these established relationships, as well as our size, allow us to achieve fluid execution in daily transactions. Our ability to aggregate trades across multiple portfolios also enables us to obtain lower institutional pricing, which can contribute to portfolio performance.

About risk

Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer's ability to make payments of principal and/or interest.

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Junk bonds involve greater risk of default or price changes due to changes in the issuer's credit quality.

The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

All fixed income securities are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/ or repay the principal on its debt. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

Municipal bonds are issued by state and local government agencies to finance public projects and services. They typically pay interest that is a tax in their state of issuance. Because of their tax benefits, municipal bonds usually offer lower pre-tax yields than similar taxable bonds. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Past performance does not guarantee future results.

A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. If securities are rated differently by the rating agencies, the higher rating is applied. Not Rated indicates the debtor was not rated and should not be interpreted as indicating low quality. A negative in Cash indicates fund activity that has accrued or is pending settlement. Pre-Refunded / Escrowed to Maturity (Prerefunded / ETM) bonds are issues backed by an escrow account, invested in US Treasuries, which is used to pay bondholders. Other includes bonds rated below single B and bonds currently not paying a coupon. For more information on the rating methodology, please visit www.standardandpoors.com and select 'Understanding Ratings' under Rating Resources on the homepage; www.moodys.com and select 'Rating Methodologies' under Research and Ratings on the homepage; www.fitchratings.com and select 'Ratings Definitions' on the homepage.

The opinions expressed are those of the author, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

1. Source: Simfund as of June 30, 2022.