



Investment Insights

State of the state: New York

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Overview

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. Despite facing budget gaps in the next few fiscal years, we believe the state will retain its creditworthiness due to its history of conservative budgeting, proactive management, and material increases in reserves.

Invesco is positive on the Hudson Yards Infrastructure Corporation. We believe the corporation may be likely to successfully navigate economic cycles through its ability to access financial markets, experienced leadership team, and a backstop provided by New York City.

State overview

The COVID-19 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 our stable outlook on the credit.

The empire state has demonstrated strong management practices and quickly identified gap-closing measures to balance the budgets for Fiscal Years (FY) 2022 and 2023, which had projected budget gaps of 10% and 11% of total disbursements as of the fiscal 2021 enacted budget.¹ Additionally, New York benefits from well-funded pensions and a moderate fixed cost burden.²

Fiscal year 2023 results

Fiscal Year 2023 (ending March 31, 2023) ended with general fund revenues outperforming initial estimates by 13.8%.³ Outperformance was led by higher-than-anticipated tax receipts—specifically personal income tax (PIT) receipts that were 23.5% higher than initial estimates.³

Through conservative spending estimates and the revenue outperformance, the state was able to end the year with a positive balance of \$43.5 billion, or 11% above revised estimates.⁴

Fiscal year 2024

The enacted fiscal 2024 state operating fund budget is \$125.3 billion, a 1.3% increase over that of fiscal 2023.⁴ This increase is attributable to increases in K-12 school aid funding, as well as Medicaid funding.⁵

State tax revenues are expected to decline by 7.8% year-over-year, led by a decline in personal income tax receipts. PIT receipts, which accounted for 53% of fiscal 2023 total tax revenues, are expected to decrease by \$6 billion, or 10%, year-over-year due to declining nonwage income trends, such as unemployment pay or capital gains.⁴

Through the first quarter of fiscal 2024 (ending June 30, 2023), revenues were tracking a modest 1.3% above initial estimates, led by outperformance of business tax and pass-through entity receipts, which came in 10% and 12% higher than expected, respectively.³ PIT receipts came in 1% lower than estimates.³ We were encouraged to see expenditures come in 3.3% below estimates, resulting in a fund balance that was 3% greater than anticipated.³

1. New York State FY 2021 Enacted Budget Financial Plan, April 2020

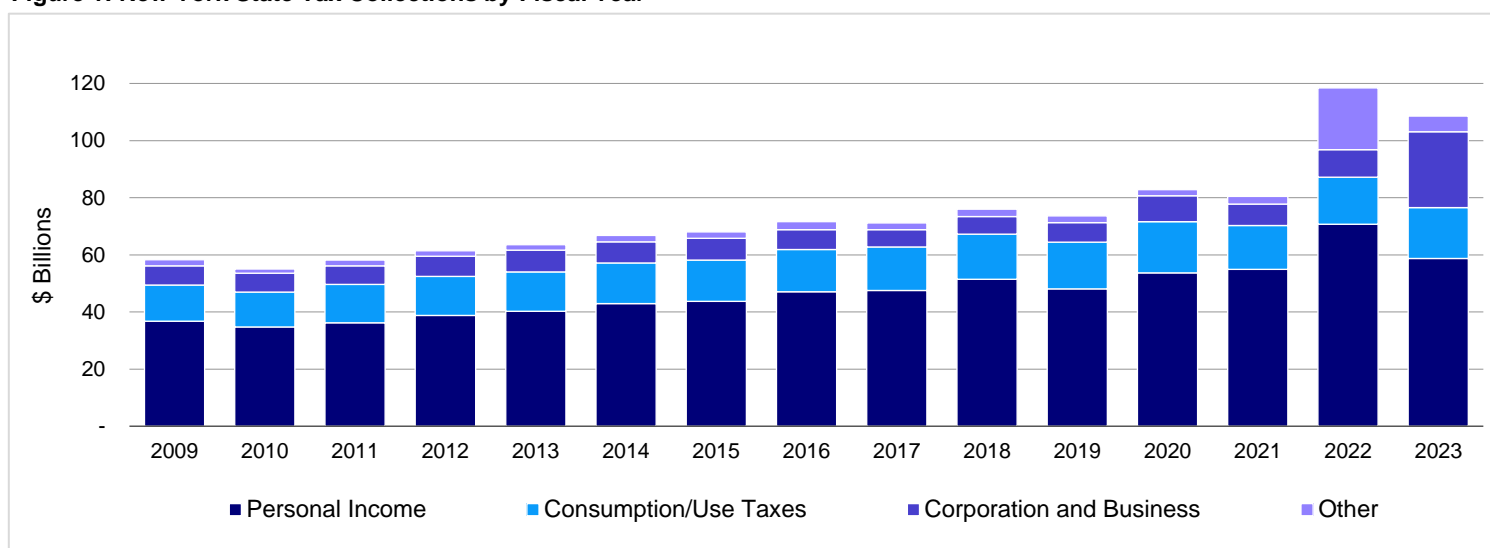
2. CreditScope, as of March 31, 2023

3. New York State FY 2024 Enacted Budget Financial Plan, First Quarterly Update, dated July 26, 2023

4. New York State FY 2024 Enacted Budget Financial Plan, dated June 9, 2023

5. Moody's, dated July 26, 2023

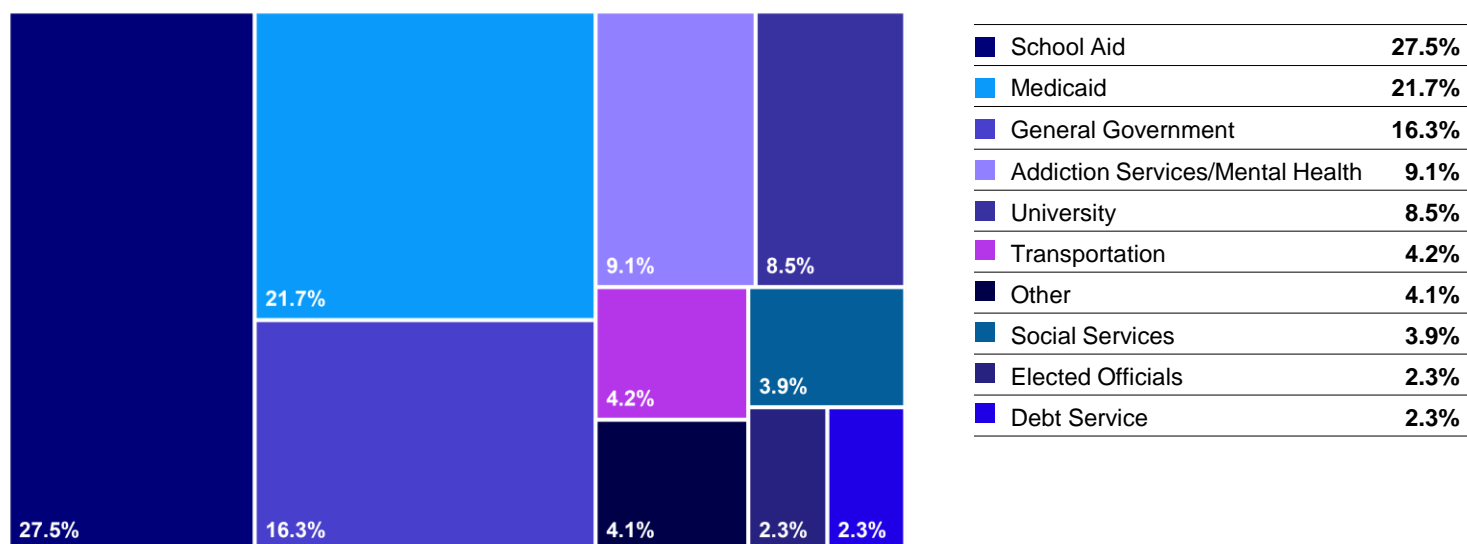
Figure 1: New York State Tax Collections by Fiscal Year



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Personal Income	42.96	43.71	47.06	47.57	51.50	48.09	53.66	54.97	70.74	58.78
Consumption & Use	14.24	14.53	14.82	15.24	15.75	16.38	18.02	15.33	16.50	17.82
Corporation & Business	7.35	7.55	6.91	6.03	6.14	6.83	9.00	7.48	9.59	26.51
Other	2.31	2.31	2.84	2.38	2.61	2.38	2.21	2.67	21.66	5.48

Source: New York State Department of Taxation and Finance Fiscal Year Tax Collections, dated April 17, 2023

Figure 2: Fiscal Year 2024 New York State Operating Funds Spending



Source: New York State Division of the Budget as of March 31, 2023. Total may not equal 100% due to rounding.

Reserves and Liquidity

New York State's conservative budgeting, tax revenue growth, and proactive expense management have allowed a prudent use of resources and growth in rainy day funds. Since 2020, the state has added \$20 billion to its reserves.⁴ At the close of fiscal year 2023, New York had \$19.5 billion in principle reserves, or 16% of the state operating budget for fiscal 2024.⁴ This figure is up 119% from fiscal 2022.⁴ Liquidity has also been strong, ending fiscal year 2023 with a general fund cash balance of \$27.5 billion, or 30% of general fund disbursements.⁵

The enacted fiscal 2024 budget contains legislation that increases the cap on rainy day funds from 15% of general fund spending to 25%, as well as increasing the maximum annual deposit into the rainy day funds from 3% of general fund spending to 15%, demonstrating continued dedication to bolstering the state's reserves.⁴

Economic update

New York is the nation's fourth most populous state with 19.7 million residents. While the state's population had remained essentially flat for the last decade, calendar years 2021 and 2022 saw slight year-over-year population declines of 2% and 1%, respectively.⁶

New York State's per capita income and median household income remained strong at 115% and 107% of the national average, respectively; however, its poverty level has trended above that of the nation as a whole. As of December 2022, New York's poverty rate was 13.5% compared to the national average of 12.6%. Encouragingly, the state's poverty level has been trending downward since 2017.³

Per the New York Comptroller's latest Financial Condition Report, financial activities (30%), professional services (14%), and transportation and trade (12%) industries are the lead contributors to the state's economy.⁷ State gross domestic product (GDP) in 2021 was \$1.5 trillion, representing 7.7% of the nation's GDP and ranking third in size nationwide.⁷ The state continues its recovery following the coronavirus outbreak and lock-down orders in March 2020. The leisure and hospitality sector, the hardest hit sector during the pandemic, realized a 13.6% gain, although employment in this sector is still 25% below pre-pandemic levels.⁷

Most recent available reports show New York's GDP decreased to an annual rate of 1.3% during the first quarter of 2023, which was down from 2.6% in the fourth quarter of 2022 and lower than the 2.0% national annual rate for GDP growth.⁸ July 2023 employment metrics indicated an unemployment rate of 4.1% for the state, which was slightly above the national rate of 3.9% in the same period.⁹

Long-term challenges

We expect that the state's liability profile may weaken in the near term, however, its pension system is well-funded, and we believe debt levels will remain manageable. Long-term challenges include increases in Medicaid disbursements and projected budget gaps in the next coming fiscal years.

Medicaid disbursements are expected to increase from 21% of state operating disbursements in fiscal 2023 to 24% in fiscal 2027, which may hinder budgetary flexibility.⁴ Additionally, New York State expects budget gaps from fiscal 2025 through fiscal 2027 averaging 10% of its budgeted disbursement.⁴ Although these gaps present potential financial headwinds, it should be noted that New York has projected multi-year gaps in the past while ultimately being able to produce balanced budgets.¹

While rising Medicaid costs and projected gaps should be closely monitored, given New York State's robust reserve levels and demonstrated history of gap-closing ability, we expect general credit stability over the next 12 to 18 months.

The General Fund is the major operating fund of the state. It receives all state income not earmarked for a particular program or activity and not specified by law to be deposited in another fund.

Gross domestic product (GDP) represents the total monetary value of all final goods and services produced (and sold on the market) within a region.

6. US Census Bureau, as of December 31, 2022

7. Office of the New York State Comptroller, FY 2022 Financial Condition Report, dated October 21, 2022

8. Bureau of Economic Analysis, Gross Domestic Product by State and Personal Income by State, 1st Quarter 2023, dated June 30, 2023

9. Bureau of Labor Statistics, as of July 31, 2023

Issuer spotlight

Hudson Yards Infrastructure Corporation

Moody's Rating: Aa2/Stable as of November 17, 2022

S&P Rating: AA-/Positive as of October 7, 2021

Fitch Rating: AA-/Stable as of February 17, 2023

The Hudson Yards Infrastructure Corporation is a local development corporation that was established to fund the construction of the Hudson Yards Financing District (district). The district consists of 45 square blocks located on the west side of midtown Manhattan in New York City, near midtown Manhattan's central business district and the Penn Station redevelopment area.¹⁰ Beneficially, the number 7 subway line was extended to the Hudson Yards station to provide the district with subway access to Times Square and the borough of Queens.¹⁰ Within the district, there are high-end office buildings, as well as a significant amount of residential and hotel space with access to a variety shops, restaurants, and cultural institutions.¹¹

Hudson Yards Infrastructure Corporation's debt service is payable from a mixture of property taxes and fees generated within the district. However, in the event of a revenue shortfall, New York City has the ability to make interest payments until the shortfall is cured.¹² Given how important the development of Hudson Yards is to the overall health of New York City, it is highly likely that the locality will fulfill its obligation as the ultimate backstop in a distressed situation. For this reason, the Hudson Yards Infrastructure Corporation's credit rating is linked to that of New York City.

Monitoring the financial performance of credits is a primary focus for the Invesco municipal research team as borrowers continue to manage the operating and economic challenges related to the pandemic. Having characteristics such as a strong security package to pay debt service, the ability to access financial markets, and an experienced leadership team are likely to help Hudson Yards Infrastructure Corporation successfully navigate throughout economic cycles. The revenue streams that secure the bonds and the underlying credit qualities of Hudson Yards Infrastructure Corporation remain solid, which we believe supports a bond rating in the AA category.

*Hudson Yards Infrastructure Corporation issues comprised 3.58% of Invesco Rochester® New York Municipals Fund's (RMUNX) portfolio; and 2.07% of Invesco Rochester® Limited Term New York Municipal Fund's (LTNYX) portfolio as of June 30, 2023. Holdings are subject to change without notice.

10. New York City Mayor's Office of Management and Budget, Investor Relations, as of September 15, 2023

11. Official Statement, Hudson Yards Infrastructure Corporation 2022 Series A, dated October 21, 2021

12. Standard & Poor's, October 7, 2021.

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[†] 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.

† Source: Simfund as of June 30, 2023.

About risk

All or a portion of the fund's otherwise tax-exempt income may be subject to the federal alternative minimum tax.

If interest rates fall, callable security issuers may call or prepay their securities before maturity, causing the fund to reinvest proceeds in securities with lower interest rates and reducing fund income and distributions.

An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

Derivatives may be more volatile and less liquid than traditional investments and are subject to market, interest rate, credit, leverage, counterparty, and management risks. An investment in a derivative could lose more than the cash amount invested.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

Inverse floating rate obligations may be subject to greater price volatility than a fixed income security with similar qualities. When short-term interest rates rise, they may decrease in value and produce less or no income and are subject to risks similar to derivatives.

Junk bonds have greater risk of default or price changes due to changes in the issuer's credit quality. Junk bond values fluctuate more than high quality bonds and can decline significantly over a short time.

The fund may invest in municipal securities issued by entities having similar characteristics, which may make the fund more susceptible to fluctuation.

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

The Fund invests a substantial portion of its assets in New York (NY) municipal securities, and will have greater exposure to negative political, economic, regulatory or other factors within the state. Unfavorable developments in any economic sector may have a substantial impact on the overall NY municipal market. Certain issuers of NY municipal bonds have experienced serious financial difficulties in the past, and reoccurrence of these difficulties may impair the ability of such issuers to pay principal or interest on their obligations.

There is no guarantee that the Fund's income will be exempt from federal and state income taxes.

Based on a Master Settlement Agreement ("MSA") with 46 states and six other US

jurisdictions, large US tobacco manufacturers have agreed to make annual payments to government entities in exchange for the release of all litigation claims. Several states have sold bonds backed by those future payments, including (i) bonds that make payments only from a state's interest in the MSA and (ii) bonds that make payments from both the MSA revenue and from an "appropriation pledge" by the state which requires the state to pass a specific periodic appropriation to make the payments and is generally not an unconditional guarantee of payment by a state. Settlement payments are based on factors, including, but not limited to, annual domestic cigarette shipments, cigarette consumption, inflation and the financial capability of participating tobacco companies. Payments could be reduced if consumption decreases, if market share is lost to nonMSA manufacturers, or if there is a negative outcome in litigation regarding the MSA, including challenges by participating tobacco manufacturers regarding the amount of annual payments owed under the MSA.

The fund is subject to certain other risks. Please see the current prospectus for more information regarding the risks associated with an investment in the fund.

The investment techniques and risk analysis used by the portfolio managers may not produce the desired results.

Invesco does not provide tax advice. The tax information contained herein is general and is not exhaustive by nature. It is not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding tax penalties that may be imposed on the taxpayer under US federal tax laws. Federal and state tax laws are complex and constantly changing. Investors should always consult their own legal or tax advisor for information concerning their individual situation.

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.

Invesco Rochester® Limited Term New York Municipal Fund:

The fund may invest in privately issued securities, including 144A securities which are restricted (i.e. not publicly traded). The liquidity market for Rule 144A securities may vary, as a result, delay or difficulty in selling such securities may result in a loss to the fund.

The Fund will invest in bonds with short- or intermediate-term (five years or less) maturity which may have additional risks, including interest rate changes over the life of the bond. The average maturity of the Fund's investments will affect the volatility of the Fund's share price.

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. NR indicates the debtor was not rated and should not be interpreted as indicating low quality.

For more information on rating methodologies, please visit the following NRSRO websites: www.standardandpoors.com and select 'Understanding Credit Ratings' under Rating Resources 'About Ratings' on the homepage.; www.ratings.moodys.com and select 'Rating Methodologies' under Research and Ratings on the homepage.; www.fitchratings.com and select 'Ratings Definitions Criteria' under 'Resources' on the homepage. Then select 'Rating Definitions' under 'Resources' on the 'Contents' menu.

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.

Before investing, consider the Fund's investment objectives, risks, charges and expenses. Visit invesco.com/fundprospectus for a prospectus/summary prospectus containing this information. Read it carefully before investing.