Invesco

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. 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 Triborough Bridge & Tunnel Authority. With seven bridges and two tunnels in the New York Metropolitan Area, the Authority enjoys minimal demand elasticity and revenue diversity.

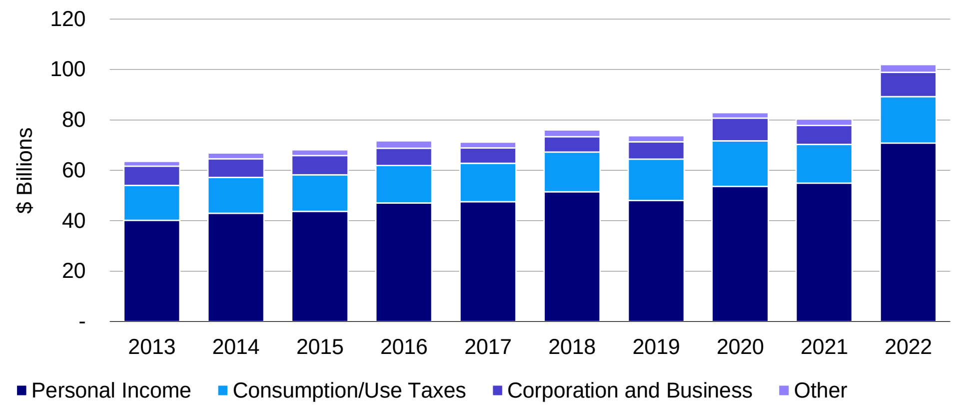
State overview

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 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, thanks to both economic recovery and temporary tax rate increases, actual tax revenues ended up 27.1% higher ($22.3 billion) at $104.7 billion.[1] In the state's latest budgetary update, tax receipts are projected to increase more modestly, up 11.1% to end FY 2023 $116.3 billion. Personal income tax receipts and consumption & use tax receipts make up the bulk of total tax revenues, with personal income tax revenues accounting for approximately 57% and consumption and use tax revenues constituting roughly 18% of tax revenues.

Figure 1: New York State Tax Collections by Fiscal Year

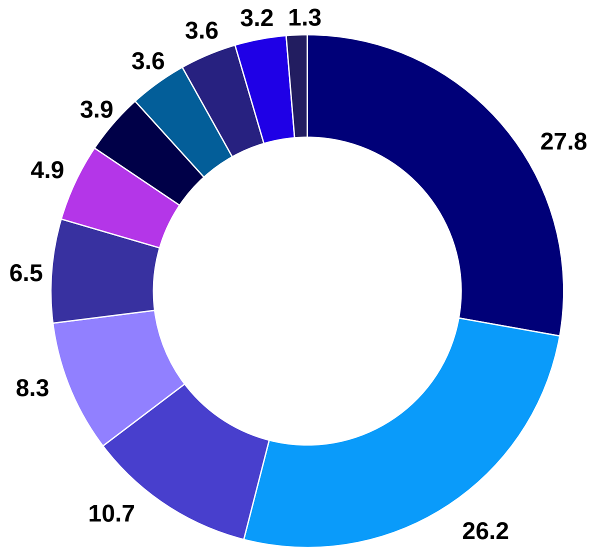


	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Personal Income	40.23	42.96	43.71	47.06	47.57	51.50	48.09	53.66	54.97	70.74
Consumption/ Use	13.85	14.24	14.53	14.82	15.24	15.75	16.38	18.02	15.29	18.52
Corporation & Business	7.58	7.35	7.55	6.91	6.03	6.14	6.83	9.00	7.52	9.59
Other	1.94	2.31	2.31	2.84	2.38	2.61	2.38	2.21	2.50	3.03

Source: : New York State Department of Taxation and Finance Fiscal Year Tax Collections: 2019 - 2020, dated January 26, 2023; New York State Budget FY 2022 First Quarterly Update, dated September 16, 2021; New York State Department of Taxation and Finance Monthly Tax Collection Reports, dated October 18, 2022.

New York State's conservative budgeting and proactive expense management have allowed a prudent use of resources. Including rainy day reserves of $6.5 billion, the General Fund* is expected to have a cash balance of $19.5 billion at the end of FY 2023 (March 31, 2023), offering a healthy cushion to support state's finances.[1] The FY 2024 budget includes a plan to raise the maximum allowable balance for the rainy day reserve from 15% to 20% of projected General Fund spending, after raising it from 5% to 15% the previous year, allowing the State to continue strengthening its cash cushion against adverse events. Fiscal Year 2023 began on April 1, 2022 with projected balanced operations.

Figure 2: Fiscal Year 2023 New York State Operating Funds Spending (%)



School Aid	27.8%
Medicaid	26.2%
Debt Service	10.7%
University	8.3%
Addiction Services & Mental Heath	6.5%
Social Welfare	4.9%
Other	3.9%
Public Protection/Criminal Justice	3.6%
Transportation	3.6%
Elected Officials	3.2%
General Government	1.3%

Source: New York State Division of the Budget as of March 31, 2022. Total may not equal 100% due to rounding.

Economic update

New York State's population grew 2.1% between 2010 and 2017 to 19.8 million, and then declined 1.4% to a population of 19.5 million by 2020, making it the fourth most populous state in the nation.[2] The state's per capita income and median household income remained strong at 115% and 109% of the national average, respectively, though the poverty rate of 13.9% was above the national average of 11.6%.[3] The financial activities (30%), professional services (14%), and transportation and trade (12%) industries are the lead contributors to the state's economy, which ranks 3rd in size after Texas and California.[4] 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,[5] with the largest declines seen in the health care, recreation, food and accommodation sectors.[6] GDP started to recover in all states as lock-down orders eased, with accommodation sectors and information & professional services contributing the most. Most recent reports show New York's GDP increased 2.5% during the third quarter of 2022, while the US increased at a rate of 3.2%.[7] December 2022 employment metrics indicated the continued improvement of the state's unemployment rate, falling to a level of 4.3% from 11.7% in August 2020. [8] Comparatively, the national average fell to 3.5% from 8.4% during the same period, following notable gains in leisure, hospitality, and professional & business services.[8]

Long-term challenges

Though New York 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 22% of the state's population.[9] 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 New York being allocated $4.2 billion in Enhanced Federal Medical Assistance Percentage funds in FY 2021 and $2.5 billion in FY 2022,[10] an action plan is needed to control Medicaid spending growth.[11]

*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.

Issuer spotlight

Triborough Bridge & Tunnel Authority

Moody's Rating: Aa3/Stable as of January 19, 2023
S&P Rating: AA-/Stable as of December 7, 2022
Fitch Rating: AA-/Stable as of January 19, 2023

The Triborough Bridge and Tunnel Authority (TBTA)* operates seven toll bridges, two tunnels, and the Battery Parking Garage in New York City. The TBTA experienced a severe reduction in traffic and revenues in 2020 due to economic and travel restrictions relating to the COVID-19 pandemic. Despite a decline of 23% in 2020, traffic crossings recovered to pre-pandemic levels by the end of 2022.[12,13] Our stable outlook on the credit is based on several factors. The TBTA operates throughout the heavily populated New York City metropolitan area and benefits from revenue diversity in that none of its 7 bridges and 2 tunnels accounts for more than 25% of total toll revenue.[14]

The TBTA's bridges and tunnels are essential transportation crossings to the economic and commercial functioning of the region. Over the past decade, toll rates increased by a cumulative 40% proving minimal demand elasticity.[15] A possible headwind to the TBTA's traffic and revenue is the Metropolitan Transit Authority's congestion pricing program, which is still under development. While the effects are uncertain, only 2 of the nine TBTA facilities (the Queens Midtown Tunnel and Hugh Carey Tunnel) provide access to the new Manhattan congestion pricing zone (15% of toll revenue),[14] and other bridges and tunnels may actually benefit from drivers avoiding downtown Manhattan.

*TBTA issues comprised 1.94% of Invesco Rochester AMT-Free New York Municipal Fund's (OPNYX) portfolio; 1.72% of Invesco Rochester New York Municipals Fund's (RMUNX) portfolio; and 1.47% of Invesco Rochester Limited Term New York Municipal Fund's (LTNYX) portfolio as of December 31, 2022. Holdings are subject to change without notice.

1. New York State FY 2024 Enacted Budget Financial Plan, Governor Hochul and Budget Director Beattie, February 2023

2. State Population Totals and Components of Change: 2010-2020, US Census Bureau, dated July 1, 2020

3. US Census Bureau, February 1, 2023

4. Office of the New York State Comptroller, 2022 Financial Condition Report, March 31, 2022

5. Office of the New York State Comptroller, 2022 Financial Condition Report, March 31, 2022

6. Bureau of Economic Analysis, US Department of Commerce, October 2, 2020

7. Bureau of Economic Analysis, US Department of Commerce, December 23, 2022

8. Bureau of Labor Statistics, January 2023

10. Office of the New York State Comptroller, 2022 Financial Condition Report, March 31, 2022

10. New York State FY 2022 First Quarterly Update, Governor Hochul and Budget Director Mujica, dated September 16, 2021

11. NYS Medicaid Enrollment Databook, September 2019 – December 2022

12. MTA Audited 2020 Q3 Financial Statements, dated March 1, 2023

13. MTA 2023 Adopted Budget, February Financial Plan, dated February 22, 2023

14. Supplement to the Official Statement, TBTA, Series 2022A Bonds, August 11, 2022

15. History and calculation of Traffic of TBTA, Stantec, April 29, 2020

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.

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 December 31, 2022.