THE BOND BUYER

New York State will sell short-term paper to patch coronavirus revenue losses

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Short-term borrowing is part of New York State's plans to navigate the fiscal minefield created by the coronavirus.

The $177 billion fiscal 2021 budget Gov. Andrew Cuomo signed in April provided mechanisms that authorize up to $8 billion in short-term borrowing to offset revenue losses.

Of that, $4.5 billion is in the works. New York's 2021 bonding plans include $3 billion in personal income tax notes aimed at offsetting a projected 8.6% dip in PIT receipts for the year. The state is negotiating with a consortium of banks on a line of credit it expects to close on in June that will net around $1.5 billion of proceeds.

New York Gov. Andrew Cuomo, shown Sunday in Albany, in April signed a budget that authorizes up to $8 billion of short-term borrowing. ***Bloomberg News***

“New York State is facing a cash crunch as we contend with a 14% drop in revenue and the impacts of the federal decision to push income tax payments to July, which is delaying as much as $10 billion in revenue," said DOB spokesman Freeman Klopott. "This leaves us with no other option but to sell short-term bonds and secure a line of credit with the expectation that we will pay back these funds within the current fiscal year as the delayed tax revenue comes in.”

New York is facing a $13.3 billion budget gap for the next year and $58.3 billion loss in state operating fund tax receipts over the next four years, according to S&P Global Ratings analyst Timothy Little. The state is planning to cut $8.2 billion of state aid to localities this year unless additional federal aid is received. Its estimated year-end fund balance of $5.6 billion could also be jeopardized, Little said.

State lawmakers amended New York's statutory debt limit as part of the budget approval process to exclude any 2021 fiscal borrowing from counting against its debt cap to boost bonding capabilities in future years. The state’s annual debt capacity is calculated by personal income growth and limited to 4% of total PIT revenues.

The New York State Division of Budget is estimating a $3.7 billion debt cap in 2022. This compares to $204 million of expected borrowing included in Cuomo’s original executive budget proposal prior to the COVID-19 outbreak.

“Albany's already strong budgetary management tools were further expanded this year to address revenue shortfalls,” Little wrote in a May 13 report. “Absent the debt exclusion, the state would exceed its debt cap as personal income declines through the recession.”

PIT receipts make up about 65% of New York’s tax revenues, and the state will also face liquidity challenges from a three-month postponement of the tax-filing deadline to July 15 from April 15. The PIT notes New York plans to issue can be renewed once for up to a year and as a contingency option could be refinanced on a long-term basis.

S&P rates New York State general obligation bonds AA-plus with a stable outlook. New York GOs are also rated AA-plus by Fitch Ratings and Kroll Bond Rating Agency with Moody’s Investors Service rating the state Aa1. Moody’s and Fitch both revised the state’s credit outlooks to negative from stable in April citing expecting revenue drops resulting from COVID-19.

“As effects of the COVID-19-induced recession mount, S&P Global Ratings expects the state to face a difficult, but not unmanageable, operating environment for the foreseeable future," Little said. The ability to reduce expenditures to achieve structural balance, maintain reserves, and manage liquidity is consistent with our view of the state's overall credit quality."

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