City of New York, NY – G.O.

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METHODOLOGY

Public Finance: U.S. Local Government General Obligation Rating Methodology

Ratings

Description	Rating Action	Rating/Outlook or Watch	
		From	To
Issuer: City of New York, NY			
General Obligation Bonds, Fiscal 2027 Series A	Assigned	AA+/Stable	
General Obligation Bonds	Affirmed	AA+/ Negative	AA+/Stable

Rating Summary

The Outlook revision to Stable from Negative reflects the timely adoption of a $125.8 billion FY 2027 budget (the "Adopted Budget") that addresses approximately $8 billion in previously underbudgeted annual expenditures, balances Fiscal Years 2026 and 2027, incorporates enacted State support, and adds to the General Reserve without broad service reductions. While structural imbalance persists, the Adopted Budget's approach for fiscal years 2026 and 2027, though heavily reliant on non-recurring resources and timing delays, is meaningfully improved from the Preliminary Budget framework of potential property tax increases and reserve draws that underpinned KBRA's Negative Outlook, assigned on March 20, 2026.

The long-term rating continues to be supported by New York City's strong institutional budget and financial management framework. Strong revenue resiliency derives from the City's prominence as an international business and cultural center, and its exceptionally broad and diverse economic base. The rating also reflects the City's manageable debt profile, which anticipates annual debt service to stay below 15% of City tax revenues through FY 2030. Pension funding metrics are expected to remain very strong (89.3% aggregate pension funded ratio across all systems as of June 30, 2025), notwithstanding the planned re-amortization of the unfunded liability. Under the revised re-amortization schedule, City contributions will be reduced by an estimated $10.7 billion through FY 2032, while contributions from FY 2033 through FY 2037 will increase by approximately $15.6 billion. In total, the City is expected to save approximately $7.0 billion over the Financial Plan period as a result of these changes.

Counterbalancing the above-mentioned strengths is a continuing structural budget gap created by spending growth that, in recent years, has outpaced even solid revenue performance. Spending increases relating to wages, health insurance, rental assistance, and debt service are projected to continue to outpace both local inflation and recurring revenue growth, contributing to outyear gaps of $6.4 billion in FY 2028, $8.2 billion in FY 2029, and $8.5 billion in FY 2030. While the projected FY 2028 gap equates to 6.7% of budgeted city revenues, in-line with historical averages, the FY 2029 and FY 2030 gaps, at 8.3% and 8.4% of budgeted city revenues, respectively, are above average, though lower than those experienced during the Great Recession.

Preliminary FY 2026 tax collections through June totaled approximately $85.4 billion, up 7.3% year-over-year. Personal income and pass-through entity tax receipts ("PTET") increased 13.4%, business income tax receipts rose 9.5%, and real-estate transaction tax receipts increased 25.5%, while property tax receipts grew at a more moderate 2.2%[1]. These favorable growth rates support the NYC Office of Management and Budget's ("OMB's") forecasted increases in total tax revenue of 6.6% in FY 2026 and 3.6% in FY 2027 which we view as reasonable, though less conservative than in recent years. Strong tax receipts have bolstered fiscal year-end liquidity, permitting the City to maintain sufficient cash balances while making large advance payments to nonprofit service providers at the start of FY 2027 (July 1, 2026). Cash balances typically reach their seasonal low in early December.

Economic indicators remain supportive, but uneven. Total City employment of 4.9 million[2] exceeds the prior 2019 peak. However, average wage rate growth trailed the local inflation rate, and City unemployment, at 5.2% as of June, 2026 is elevated compared to the State and nation. Notwithstanding recent increases in job postings, employment remains weak in the City's retail, and leisure & hospitality sectors. Manhattan office vacancy and availability rates have declined far more rapidly than in other major urban centers over the last three years, new leasing activity for Manhattan Class-A office space, which recovered to pre-pandemic levels in 2025, is expected to be improved for a second straight year, and Manhattan primary office asking rents increased 2.0% in calendar year 2025.

Statutory reserves, which include the Revenue Stabilization Fund ("RSF") and the Retiree Health Benefits Trust ("RHBT"), held $7.2 billion ($2.0 billion in the RSF and $5.2 billion in the RHBT, aggregating approximately 8% of City Funds revenues) as of the May Executive Budget Financial Plan. The Adopted Budget reverses the Preliminary Budget's proposed last-resort drawdown of $1.21 billion from these reserves. With the City facing federal funding risks for healthcare and social services, its decision to maintain a fiscal cushion rather than to use reserves to balance the budget is a key factor in the Outlook revision to Stable from Negative.

In addition to the RSF and RHBT statutory reserves, the City maintains contingent reserves (the General Reserve and the Capital Stabilization Reserve) to cushion against cost overruns. For FY 2027, the Adopted Budget reduces the General Reserve from $1.2 billion to $450 million and eliminates $250 million in funding for the Capital Stabilization Reserve. Restoration of budgeted reserves to the roughly $1.45 billion typically available at the start of recent fiscal years is projected to occur in FY 2028 and beyond.

The City appears to be moving toward formal reserve policy reform, which KBRA has long cited as a positive rating sensitivity. The Commission on Government Efficiency ("COGE") released its final report and proposed Charter Amendments on July 23, 2026. An amendment to Section 1528 of the Charter would formalize the City's RSF framework by establishing a reserve target equal to at least 12% of prior-year tax revenues, measured across the RSF and any other reserve funds identified in a published methodology. OMB, in consultation with the Comptroller, would be required to publish the methodology by May 1, 2027, explaining how reserve balances and required deposits are calculated, with consideration given to revenue growth, operating surplus levels, and other factors relevant to sound fiscal management. Beginning in FY 2028, deposits would be required if reserves fall below the target, subject to appropriation through the City's normal budget process, and the methodology would be updated at least every four years. Withdrawals would also require budgetary approval, and no more than 50% of the RSF could be withdrawn in a fiscal year unless the Mayor certifies a compelling fiscal need, such as a recession, revenue decline, disaster, or declared emergency. The proposed Charter amendments are expected to be considered by voters at referendum on November 3, 2026.

Relative to the prior year's budget, the FY 2026-FY 2030 Financial Plan recognizes new agency spending needs for chronically underbudgeted programs including rental and cash assistance, shelters, special education due process cases, public assistance, uniformed overtime, and other administration priorities of roughly $8.2 billion in FY 2026, growing to $10.2 billion in FY 2030. The City's assumption of the Health Insurance Stabilization Fund and other expense re-estimates add another $911 million to $1.3 billion to budgeted spending in fiscal years 2026 through 2029.

The Adopted Budget's inclusion of certain previously underbudgeted expenditures improves transparency around spending obligations, reducing previously hidden expenditure risk, though certain major recurring expenditure categories, including overtime, childcare, due process cases, and SNAP administrative funding may still be underbudgeted.

1 Office of the New York City Comptroller, New York by the Numbers Monthly Economic and Fiscal Outlook No. 115 – July 2026.

2 As of June, 2026; New York State Department of Labor. Not seasonally adjusted.

At the same time, however, the Adopted Budget contributes to future structural imbalance in its substantial reliance on one-time or temporary resources, prior-year expense write-downs, and expenditure delays. State support and authorizations totaling approximately $8.0 billion, consisting of new revenue, direct aid, and State authorizations materially reduced fiscal 2026 and 2027 budget pressure. Measures to achieve near-term budgetary balance and fund current and new initiatives over the FY 2026 – FY 2030 Financial Plan period are further discussed herein.

The City has historically relied on prepayments as a budget balancing tool. While prepayments can mask structural imbalance, the level of available prepayments generally informs whether recurring spending is growing or declining relative to annual surplus generation. The combined spending and revenue changes of the Adopted Budget make available approximately $1.96 billion in FY 2026 to prepay FY 2027 expenses, which, despite being the lowest amount set aside in the last decade, evidences improved budgetary flexibility compared to the Preliminary Budget.

The Stable Outlook reflects KBRA's view that the Adopted Budget marks a meaningful shift toward more transparent budgeting, recognizing significant previously underbudgeted recurring expenditures, while balancing FY 2026 and FY 2027 without drawing on statutory reserves. Although sizable out-year gaps remain and additional recurring savings are needed, the budget begins to address high-growth cost areas through targeted savings and cost-containment actions.

Key Credit Considerations

The rating actions reflect the following key credit considerations:

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- The City's role as an international business and cultural center and hub of the country's largest metropolitan economy highlights the diversity and resilience of the resource base supporting the G.O. Bonds.
- Pension funding metrics are favorable, and pension governance is institutionalized.
- Budget transparency has improved, reducing the risk that predictable recurring costs will re-emerge as midyear budget shocks.

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- Significant long-term structural budgetary imbalance persists, driven by recurring spending for programs with rapidly growing costs, such as rental assistance, non-asylum shelter costs, DOE due process cases, class-size implementation, SNAP administrative funding cuts and overtime.
- The Adopted Budget's reliance on one-time or temporary resources, expense write-downs, and expenditure delays contribute to future structural imbalance.
- Federal funding and policy risks remain material fiscal overhangs.

Rating Sensitivities

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- Adoption of a formalized reserve policy targeting reserve size and conditions for deposits and withdrawals.
- Maintenance of sound revenue resiliency in the face of prevailing policy and economic headwinds.
- Trend of decline in projected out-year budget gaps as a function of an increase in recurring revenues and/or a decline in recurring expenditures.
- Formalization, through incorporation to the City Charter, of the City's policy of limiting debt service to 15% of tax revenues in each year of the Financial Plan.

- Budgetary instability, significant depletion of reserves or materially increased out-year budget gaps.
- Relaxation of, or diminished adherence to, well-established policies and procedures.

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Key Ratios

The City of New York, NY	
Key Facts (Audited 2025)	
Net Indebtedness Per Capita[1]	$13,501
Overall Debt as a % of Full Market Value	7.7%
Debt Amortization Within 10 Years	47.0%
Fixed Costs as a % of Governmental Expenditures	13.1%
Ending General Fund Balance as a % of General Fund Expenditures	3.7%
Demographic Data	
Population (July 2025)	8,584,629
Population Estimate - Percentage Change (April 1, 2020-July 1, 2025)[2]	
City of New York	-2.5%
State of New York	-1.0%
United States	3.1%
Personal Income Per Capita	$92,674
New York City as % of U.S.	127.0%
FY 2027 Adopted Budget and Four-Year Financial Plan	
FY 2026 Budget	$125.1 billion
FY 2027 Adopted Budget Size	$125.8 billion
Projected Budgetary Gaps	
FY 2026	Balanced
FY 2027	Balanced
FY 2028	$6.4 billion/6.7% of City Revenues
FY 2029	$8.2 billion/8.3% of City Revenues
FY 2030	$8.5 billion/8.4% of City Revenues

[1] For purposes of calculating debt per capita and debt as a percentage of full market value, KBRA considers Indebtedness of the City to include i) GO debt net of assets held for debt service and inclusive of net premiums (discounts), ii) capital leases, iii) PBC indebtedness subject to appropriation, which includes ECF, DASNY (Municipal Health Facilities Lease Revenue Bonds, Court Facilities Program Bonds and approximately half of rental payments for City University Construction Fund bonds relating to community college facilities), iv) IDA Stock Exchange Bonds; v) the amount of the City's contingent obligations to HYIC and HHC as of fiscal year end June 30, 2025, subject to appropriation and vi) TFA-FTS Bonds. Although TFA-FTS indebtedness does not constitute debt of, and is not paid by the City, it is included in the debt ratios because it is payable from personal income tax revenues and, if necessary, sales tax revenues of the City which would otherwise be available for operations, and because of the TFA's significant role in funding the City's capital needs. The City's obligations to cover contingent liabilities have not been triggered in recent years.

Rating Determinants

Rating Determinants (RD)	
1. Management Structure and Policies	AA+
2. Debt and Additional Continuing Obligations	AA
3. Financial Performance and Liquidity Position	AA+
4. Municipal Resource Base	AA+

A discussion of each Rating Determinant and the Bankruptcy Assessment may be found in previous KBRA reports, the most recent of which is dated April 9, 2026.

RD 3: Financial Performance and Liquidity Position Update

Comments on the Adopted Budget Financial Plan

Relative to the June 30, 2025 Financial Plan, the June 30, 2026 Adopted Budget's inclusion of certain previously underbudgeted expenditures improves transparency around spending obligations, reducing previously hidden expenditure risk (although major recurring expenditure categories, including overtime, childcare, due process cases, and SNAP administrative funding may still be underbudgeted.) At the same time, however, the Adopted Budget contributes to future structural imbalance in its reliance on one-time or temporary resources, prior-year expense write-downs, and expenditure delays.

KBRA categorizes the measures to achieve balance in fiscal years 2026 and 2027 and fund current and new initiatives over the FY 2026 – FY 2030 Financial Plan period as follows[3]:

- **$3.6 billion in one-time measures,** including $2.1 billion in prior and future-year expense write-downs/re-estimates, $1.0 billion in reduced FY 2027 contingency reserves, and $455 million in FY 2026 and FY 2027 debt service reimbursement to the City from NYC Health + Hospitals ("H+H").
- **$2.8 billion in State authorized timing relief across fiscal years 2026 and 2027,** including $2.3 billion in savings over FY 2026 and FY 2027 combined, from a re-amortization of the unfunded accrued liability for certain City pension funds, and approximately $508 million in estimated FY 2027 deferred costs from a more gradual class-size implementation timeline, which extends the deadline to school year 2029-2030.
- **$4.1 billion in State operating support plus State-authorized revenue actions over fiscal years 2026 and 2027,** including a $1.2 billion commitment for early childhood/2K announced early in the Mamdani administration, over $700 million from a decoupling of H.R. 1 federal tax provisions, $397 million in Foundation Aid and school aid, $352 million in direct aid including line of duty death reimbursement, and $1.5 billion (declining to $700 million in FY 2027 and thereafter) - including sales tax intercept relief and $500 million in unrestricted aid.
- **$500 million per year in new, recurring revenue** from a State-approved annual surcharge on second homes (the pied-à-terre tax). New York City Department of Finance proposed rules would apply the tax to homes with a market value over $5 million, and cooperative and condominium units valued at over $1 million through June 30, 2028. Beginning in FY 2029, the condo/coop threshold shifts to $5 million. Collections are subject to appeals, valuation disputes, exemptions, and possible litigation, and are concentrated among a relatively small number of high-value properties.

3 Amounts are City estimates and are approximate.

- **$4.7 billion in City Savings Program Executive Order 12 initiatives, $1.77 billion of which occur across FY 2026 and FY 2027.**
- **$5.3 billion of cost containment and citywide fringe savings, $2.0 billion of which occur across FY 2026 and FY 2027.**
- **$68-74 million per year in recurring revenue** from reduced UBT PIT tax credits, beginning FY 2027.

Reliance on One-time Measures

Among the $3.6 billion in one-time actions listed above, the Adopted Budget's reliance on $2.1 billion of prior and future-year (FY 2027) expense write-downs is unusual. The figure includes a $1.2 billion FY 2026 write-down of a FY 2023 labor reserve accrual, the write-down of $500 million in FY 2026 expenditures, and the advance write-down of $400 million in unidentified FY 2027 prior-year payables. While the City has routinely used known surplus accruals for budget balance, the Adopted Budget's use of adjustments exceeds historical levels, prompting concern that like amounts may not be available for similar offsets in future years. Further, the Adopted Budget marks the first time that future, unidentified/unverified accrual savings were used for budget balance - a less-than conservative approach that reduces future fiscal flexibility.

Expenditure Delays/Extensions

Of the $2.8 billion in near term savings from State authorized expenditure delays, approximately $2.3 billion is projected to come from a re-amortization of the City's paydown of the unfunded accrued liability ("UAL") for four of its five pension funds over the 2032-2037 period. By smoothing UAL payments over an additional five years, the re-amortization addresses a feature of the City's current UAL schedule that had required payments to increase through FY 2032, after which time the funds would return money to the City over the subsequent seven years. The approach, though present value neutral, is nonetheless a payment deferral. However, we expect any economic increase in the total liability to be manageable, so long as the temporary relief supports implementation of durable recurring savings. The use of lower near-term contributions to finance new recurring programs without providing capacity for the higher contributions due later would be viewed as structurally negative.

State Support is Significant but Not Fully Recurring

New York State's role in reducing the City's near-term budget pressure cannot be overemphasized. The State provided over $8.0 billion to over fiscal years 2026 and 2027 through a combination of direct cash aid, State-funded or State-assisted program support, State authorized City revenues, and expenditure timing/mandate relief. The scale of reliance on Albany presents a structural-balance risk, because a meaningful portion of the benefit is non-recurring, time-limited or cost-deferring rather than a durable City-controlled recurring resource.

Non-recurring or temporary components include $500 million of one-time unrestricted State aid, FY 2027-only MTA-related support, relief from the distressed-hospital sales tax intercept, and State-authorized pension re-amortization and class-size mandate relief that defer rather than eliminate future costs. In addition, the pied-à-terre tax, while expected to generate recurring revenue during the financial plan period, is scheduled to expire after FY 2031. Continued reliance on this level of State support could pressure the City's long-term structural balance if the State is unwilling or unable to provide similar assistance in future budgets, particularly given the State's own projected out-year gaps, Medicaid and federal-funding pressures, and competing statewide priorities. Political uncertainty is also relevant: with Governor Hochul facing a 2026 reelection cycle, future State budget negotiations may be shaped by competing pressures to support New York City priorities, maintain statewide affordability and tax-policy positions, and manage the State's own fiscal exposure.

City Savings Initiatives

The Mayor's January, 2026 Executive Order 12 required City agencies to achieve savings of 1.5% ($710 million) in FY 2026 and 2.5% ($1.07 billion) in FY 2027. The FY 2027 Savings Program released in May shows that this $1.77 billion savings target was met, with most such savings comprising durable, recurring efficiency changes such as overtime management, phase-out of unused programs, space consolidations, and contract savings[4], and the remainder constituting expense or revenue re-estimates.

Of the additional $1.70 billion in cost containment and fringe savings achieved in fiscal years 2026 and 2027, only 40% are related to efficiencies, with the remainder being expense re-estimates. Moreover, the details regarding cost containment savings, which relate to CityFHEPS, DHS shelter and DOE due process cases, are limited and may thus pose risks to the budget. Because efficiency savings generally come from operational redesign, procurement reform, personnel-management and service delivery changes, rather than from re-estimates and vacancy actions, we view the savings program impacts to date as positive from a budget perspective, but not transformative.

On July 28, 2026, the Mayor established savings targets for the remaining years of the Financial Plan, directing City agencies to identify additional savings equal to 2.5% of city-funded spending in fiscal years 2027, 2028 and subsequent years. The directive is potentially constructive for structural balance, although it establishes neither a new dollar target nor a deadline for savings identification.

Actions to Address Rapidly Rising Expenses

The Adopted Budget includes actions to address the rapidly growing cost of due process cases and CityFHEPS[5] program expenditures, the latter of which the City Comptroller has estimated could range from $6 billion to $20 billion over the next five years. The City Savings Program achieves $235 million of annual CityFHEPS cost containment savings in fiscal years 2027-2030, plus $284 million of FY 2027 shelter cost containment savings.

Additionally, the Adopted Budget includes $175 million in FY 2027 funding and $125 million in baseline funding beginning in FY 2028, subject to appropriation and annual budget negotiation, for a new rental assistance voucher program to be administered by the Department of Housing Preservation and Development. The new voucher program, which is in addition to the existing CityFHEPS program, is designed to use the savings afforded by housing vouchers (as compared to the cost of shelters) to expand access for some households previously excluded from CityFHEPS. A lawsuit relating to City Council legislation that would have expanded the program was settled.

4 The Citywide Savings Plan categorizes vacancy reductions as efficiencies. City agencies used vacancy reductions to lower authorized headcount, but this was more than offset by newly funded positions.

5 CityFHEPS stands for the "City Fighting Homelessness and Eviction Prevention Supplement" rental assistance program, through which more than 60,000 currently participating households pay approximately 1/3 of their income towards rent, with the City paying the remainder.

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