

The City of New York

Comprehensive  
Annual Financial Report  
of the  
Comptroller

INTRODUCTORY SECTION

Part I

Fiscal Year Ended June 30, 2001



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER

ALAN G. HEVESI  
COMPTROLLER

October 30, 2001

TO THE PEOPLE OF THE CITY OF NEW YORK

I am pleased to report in this Comprehensive Annual Financial Report that the City of New York completed its fiscal year ended June 30, 2001 with a General Fund surplus, as determined by generally accepted accounting principles, for the 21st year in a row.

This year's financial statements are presented using an entirely new financial reporting model promulgated by the Governmental Accounting Standards Board. The changes required are described extensively in the new financial statements. The City has implemented these changes one year earlier than required and is one of the first large governments to report under these new standards.

Within the new financial reporting model, the General Fund remains a primary indicator of the financial activity and legal compliance for the City. The General Fund had revenues and other financing sources in fiscal year 2001 of \$40.232 billion and expenditures and other financing uses of \$40.227 billion, resulting in a surplus of \$5 million. Those expenditures and other financing uses include transfer and subsidy payments of \$2.944 billion to help eliminate the projected budget gap for fiscal year 2002. Fiscal year expenditures and other financing uses were \$2.347 billion more than fiscal year 2000, an increase of 6.2 percent. City funds, which are total revenues and transfers less State and Federal Categorical Aid grew by \$1.509 billion, or 5.7 percent. Total expenditures and City Funds were \$2.903 billion and \$2.337 billion, respectively, above appropriations in the fiscal year 2001 Adopted Budget.

Fiscal year 2001 began with continuing national and City economic growth, although at a much slower rate than the previous fiscal year. Before the events of September 11, the national economy and, with a lag of several months, the City's economy were slowing down on declining consumer and business confidence, partly reflecting precipitous declines in the equity values of the dot-com industry. The City began seeing a more pronounced slowdown by May 2001, when the monthly job numbers began to decline. Unemployment jumped from 5.0 percent to 5.8 percent in the first months of the new fiscal year, before September.

Other 2001 data also pointed to the slowdown. The help-wanted advertising index, which measures the demand for jobs and has proven to be sensitive to labor market conditions, fell sharply from 49 in July of 2000 to 30 by July of 2001. The seasonally adjusted initial unemployment claims, i.e., the number of first-time applicants for unemployment insurance, increased by 8,533 per month during the

first eight months of calendar 2001 compared with a decline of 1,434 during the first eight months of calendar 2000. The decline was felt on the income side as well, as Wall Street profits in the first quarter of calendar 2001 were \$4.1 billion, compared to \$8.2 billion in 2000. The City's inflation rate remained low at around 2.9 percent for the first eight months of calendar year 2001.

The City General Fund, which has benefited from the ability to roll over large amounts of revenue for the last several years, is expected to suffer immediately from the economic slowdown and unexpected costs. Before September 11, my Office was already projecting gaps in the range of \$3.6 billion to \$4.9 billion in fiscal 2003 and beyond. It is now expected that lost revenues and increased costs will force emergency measures to avoid gaps even in 2002. One of the key unknowns is the extent to which federal and State funds will make up for City shortfalls.

By the end of 2002, the City's economy is expected to show strong growth as a result of a national recovery and strong local reconstruction efforts. The extent of the recovery will depend on the magnitude of insurance coverage and assistance from the Federal government for the City's recovery effort. Another key factor will be the effectiveness of the City in bringing old and new businesses back to the downtown business district and in drawing tourists back to its restaurants, hotels, and performing arts. The City's recovery and budget health will also depend, in part, on the performance of Wall Street, its core industry.

## ***RECOVERING FROM SEPTEMBER 11***

September 11, 2001 was the day New York City learned how many heroes it has. We will never forget our gratitude to the hundreds of firefighters, police officers and emergency personnel who raced into danger to save others and paid the ultimate price. Our hearts go out to their families and the families of all the victims. Those heroes died to preserve this great City. Our debt to them includes not just caring for their families, but continuing to dream big New York dreams and persevering against all odds to make them a reality.

As soon as the towers had fallen, while the fires still burned, thousands rushed in to save those who had not escaped. Firefighters and police officers worked tirelessly to find comrades who were trapped. Construction workers from around the City raced to the site. Every one is a hero.

With magnificent leadership from Mayor Giuliani, and with support from Governor Pataki and Senators Schumer and Clinton and the entire Congressional delegation, New Yorkers did not panic, did not run, and did not hide. The terrorists destroyed the twin towers, but we refused to let them destroy our City. Millions rallied to offer support and prayer.

Now we must fight to restore our City. One of the greatest strengths we bring to that fight is our diversity. The people who died in the twin towers represent a global multitude of races, religions and ethnicities. So do the rescue crews. That's who we are as a City, the most diverse in the history of cities. By continuing to stand together, we deny terrorism any victory. Now more than ever, we must be vigilant against racism or bigotry of any kind, especially against members of our Muslim and Arab-American communities.

It is not possible to reduce to dollars and cents the losses New Yorkers have suffered from the vicious World Trade Center attack, just as there is no way to put a dollar value on the heroism and determination of our response. But to obtain the resources we will need to rebuild and create a better and stronger New York City, we must try to understand, in dollar terms, what the attack cost our economy.

For that reason, in October the Comptroller's Office issued a preliminary report on the costs to the City's economy of the attack. The study found that the attack on

the World Trade Center will likely cost the City economy between \$90 billion and \$105 billion by the end of fiscal year 2003. That includes \$45 billion for the value of buildings and people already lost and \$45 billion to \$60 billion for on-going costs, including lost economic activity over the next two fiscal years. As a result, City taxes and other revenues will be \$1.3 billion less than previously expected in fiscal years 2002 and 2003. Insurance is likely to cover only about a third of those costs, about \$37 billion. The City could lose 115,300 jobs this fiscal year, although there will be an offset with some new jobs from clean-up, repair, construction and security.

New Yorkers are the toughest, smartest, most resilient people in the world. We will recover from this attack. The federal and state governments have already proven that they are committed to helping us. The Comptroller's Office economic impact study makes it clear that what the President and Congress have committed so far is just a down payment on what it will take to ensure that the terrorists don't succeed in destroying not just the two towers, but also America's and the world's financial capital.

This study provides preliminary data. The Comptroller's Office will continue to update the information and will cooperate with other efforts to calculate costs.

***Loss of Buildings and People—  
\$45 billion***

Rebuilding the World Trade Center as smaller buildings is estimated to cost \$6.7 billion. Repairing and restoring other damaged buildings will cost about \$5.3 billion, for a total cost of \$12 billion.

Replacing and repairing infrastructure will cost about \$9.4 billion, including \$4 billion for subways, \$3 billion for telephone, electric and other utility systems, and \$2.4 billion in losses for the Port Authority, including the PATH train but excluding the Trade Center buildings.

The value of furniture and fixtures, employee property, computer systems, vehicles, inventory in stores, etc., is another \$12 billion. For securities firms in the WTC complex, the technology losses alone are estimated to be \$3.2 billion.

It is impossible to put a real value on a human life and the pain of losing a loved one. But for purposes of economic analysis, one way economists ascribe an economic value to human life is by calculating how much an individual would have earned over his or her expected working life. On that basis, using the high average income for New Yorkers in general and financial workers in particular, the cost to the City economy of 5,600 deaths is about \$11 billion.

***Continuing Costs & Loss of  
Economic Activity in  
FY 02 — \$42 billion***

The City is initially paying for clearing the area and the most visible portion of the cleanup, nearly 1.2 million tons of steel, concrete and debris. My Office has already agreed to register four emergency contracts totaling \$1 billion for cleanup, with an additional \$5 billion projected for stabilization and remediation. Another \$7 billion in costs is expected for City government personal-service costs (such as police, fire, and sanitation overtime) and other-than-personal-service (OTPS) costs such as destroyed City vehicles, road rebuilding, and burial costs. Finally, \$1 billion is the estimate of spending by private owners for cleanup and repairs.

It could cost \$3 billion for treatment of those injured and for the loss of work from trauma and the long-term effects of the attack for victims, their families, and countless other citizens.

Many companies lost business as a result of the attack and economic activity will be affected for a long time. The total amount of lost business activity is

projected at \$21 billion for fiscal year 2002. Wall Street firms were severely affected by the closure of the NY Stock Exchange and many trading centers, and are projected to lose \$7.5 billion in economic activity over fiscal year 2002. Hotels, restaurants and theaters lost an estimated \$2.3 billion. Retail and wholesale trade lost \$1.7 billion, insurance \$1.3 billion.

Lost rent from destroyed and damaged buildings is about \$1.75 billion. About \$700 million will be recouped as companies move to other locations in New York City, so the net loss is about \$1.05 billion.

Wages lost to the City economy because businesses locate elsewhere will be about \$3 billion in FY 02.

The City could lose 115,300 jobs this year, including 17,500 in retail and wholesale trade, almost 15,000 in the securities industry, almost 29,000 in service industries including 7,000 in airlines alone, 8,000 in restaurants and 6,000 in hotels.

***Continuing Costs & Loss of  
Economic Activity in FY 03 —  
\$3 billion to \$18 billion***

The long-term impact of the attacks depends on how quickly the national and local economies recover and on the location decisions that companies make. There is not enough space in Manhattan for all the firms displaced from the World Trade Center. Some are moving out of the City. Some may return when there is new space, others may not. The impact on the city's economy in FY 03 could range from \$3 billion to \$18 billion.

**OFFSETS**

***Insurance — \$37 Billion***

Life insurance payouts could total \$4 billion, slightly more than one-third of the economic loss of \$11 billion.

Property/casualty insurance payments are estimated at \$17 billion, half the total loss of \$34 billion.

Business interruption insurance may provide \$11 billion of the \$21 billion lost.

The remaining \$5 billion will come from coverage such as unemployment insurance, Workers' Compensation (which provides both death benefits and disability benefits), and health insurance.

***Federal and State Aid***

The federal government has appropriated \$20 billion for recovery aid for New York, Washington and Pennsylvania, but it is still unclear how much of this the City will receive. Clearly, given the costs, this will not be enough. The level of state financial assistance is also unclear at this time. It is essential that New York City receive an appropriate amount of aid, given the costs, and that this aid come quickly and with as few strings as possible.

***Reduction in Taxes & Other  
Revenues — \$1.3 billion in  
FYs 02 and 03***

Reduced economic activity will mean lower incomes for businesses and residents and lower City taxes and other revenues. In FY 02, tax revenues are projected to be \$738 million less than currently projected, including \$338 million less in sales and hotel taxes, \$189 million in business taxes, \$112 million in personal income taxes, \$45 million in commercial rent tax and \$45 million in parking violations.

In FY 03, taxes and other revenues are projected to be \$567 million less than currently projected, including \$195 million in property taxes, \$135 million less in sales and hotel taxes, \$95 million in business taxes, \$50 million in personal income taxes, \$38 million in commercial rent tax and \$37 million in parking violations.