First-Quarter FY 00 Highlights

- **Tax revenues were $187.6 million above plan, and $57.1 million above first-quarter FY 99.**
- **Major miscellaneous revenue collections were marginally below plan, by $3.4 million.**
- **The Board of Education will receive $278 million more in state education aid than planned.**
- **Prior-year state education receivables were $640 million.**
- **The public assistance caseload has declined by 27,564 to 653,317 since the end of FY 99.**
- **Overtime spending in first-quarter FY 00 was $16.1 million above plan, largely accumulated by the Police, Sanitation and Transportation Departments.**
- **The City's work force as of September 30 was 244 above plan and 1,766 more than the same period last year, largely because of new hires at the Board of Education.**
- **An independent audit of the City's Pension System validated the City Actuary's computations and results, but urged changes in inflation, investment return, salary-growth, and mortality assumptions.**
- **Judgment and Claims expenditures, $34 million for July-August, were 33 percent more than the same period in FY 99.**
- **The Tobacco Settlement Asset Securitization Corporation issued debt securitized by revenue from the tobacco settlement.**

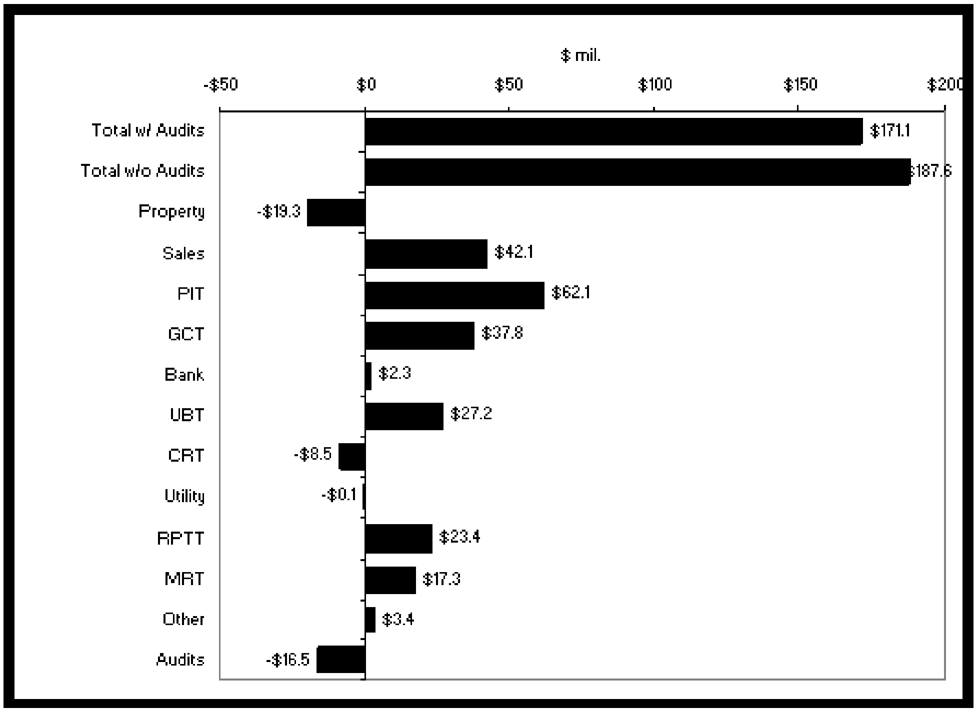
Tax Revenues Tax revenues for first-quarter FY 00 were $6.491 billion, excluding revenues from audits, reflecting growth of $57.1 million, or 0.9 percent, compared with the same period in FY 99.

These revenues were $187.6 million above the June Plan excluding audits, and $171.1 million above plan including audits. (See Chart 1.)

During the first quarter of FY 00, tax liens of $66.7 million were sold, $61.7 million more than in the June Plan. Tax collections overall were strong, although the impact of the cuts in some tax rates or coverage is evident in lower and even negative tax-collection growth rates.

The personal income tax (PIT) accounts for one-third of the amount of tax above plan. Revenues for first-quarter FY 00 were $62.1 million above the June Plan, but 0.5 percent below the first-quarter FY 99 PIT. PIT withholdings in the first four months of FY 00 were 3.7 percent below FY 99, indicating that the expiration of the surcharge will affect PIT collections in future. However, on a common rate and base, PIT revenues were 15.9 percent higher than the same quarter a year earlier. The reason is that the PIT rate was effectively reduced on December 31, 1998, when the 12.5 percent PIT surcharge expired.

Chart 1. *NYC Tax Collections Less June Plan Projections, First-Quarter FY00*



Note: PIT=personal income tax, GCT=general corporation tax, Bank=banking corporation tax, UBT=unincorporated business tax, CRT=commercial rent tax, RPTT=real property transfer tax, MRT=mortgage recording tax.
Source: Office of the Comptroller, The City of New York, November 1999, based on data from the Office of Management and Budget.

Sales tax revenues were $42.1 million above plan in first-quarter FY 00 and $37.0 million higher than FY99. The exceptional performance of the PIT and sales tax can be attributed to the continued strength of the local economy.

Total revenues from the three business taxes (general corporation, banking corporation, and unincorporated business) were all above plan during first-quarter FY 00 and overall were ahead of the same period a year earlier. The general corporation tax was $37.8 million above plan, but $10.8 million below FY 99 on a year-to-date basis. The banking corporation tax was $2.3 million above plan and $8.6 million above FY 99 collections for the same period. The unincorporated business tax was $27.2 million above plan and $19.4 million above FY 99 collections.

Property-tax revenues, on the other hand, were $19.3 million below plan. Since this was $72.3 million above FY 99 collections, plan estimates appear to have been somewhat bullish. Real-estate market values have continued to grow in 1999, but the growth rate has not matched 1998's exceptional performance.

The commercial rent tax was $8.5 million below plan and $11.3 million below FY 99 collections. This can be explained by an increase in buildings exempted from the tax.

The real-estate-transaction and mortgage recording taxes both exceed plan estimates but were below FY 99 collections. This reflects a slowdown in the real-estate market attributable to a slight rise in interest rates. The real estate transaction tax was $23.4 million above plan, but $31.7 million below FY 99 collections. The mortgage recording tax was $17.3 million above plan, but $34.4 million below FY 99 collections.

Other taxes were $3.4 million above plan and $6.1 million above FY 99 collections. Audit revenue was $16.5 million below plan.

Major FY 00 Miscellaneous Revenue Initiatives The City has budgeted $2.898 billion in FY 00 from non-tax miscellaneous revenues, of which $1.375 billion, or almost 50 percent, will be generated from major revenue initiatives. The remaining revenues, $1.523 billion, consist mainly of water and sewer payments reimbursing the City for operations and maintenance of the water and sewer system ($847 million), tuition and fees from the City University Senior and Community Colleges ($134 million), and payments from the Health and Hospitals Corporation ($103 million), and other revenue sources ($439 million), such as fingerprinting, recreation facility permits, and taxi inspection fees.

For the first quarter of FY 00, the City's major revenue initiatives produced $257 million, which was 1.3 percent, or $3.4 million, less than budgeted. (See Table 1.) Revenues collected from parking violation fines were $11 million less than budgeted. Parking violation fines issued through September totaled 2,168,016, slightly more than the 2,155,096 issued during the same period in FY 99. However, the City has increased its projection of new parking violation revenues in FY 00 (above FY 99) by $9 million to $389 million.

Table 1. *Major FY 00 Miscellaneous-Revenues Initiatives, First Quarter Collections ($ millions)*

	Plan	Actual	Better/(Worse)
Parking Violation Fines	$99,197	$88,055	($11,142)
Overnight Investments of Treasury Cash	23,148	30,755	7,607
Parking Meters	17,769	18,360	591
Cable Television Franchises	13,909	16,736	2,827
City Register Fees	4,800	5,354	554
Affirmative Litigation	6,140	3,412	(2,728)
Construction Permits	9,636	10,393	757
Park Facility Privileges	8,426	9,675	1,249
Fire Inspection Fees	7,696	7,338	(358)
Street Openings/Utility Permits	3,572	3,348	(224)
Environmental Control Board Fines	7,188	8,982	1,794
Rents from City-Foreclosed Buildings	3,552	3,573	21
Taxi Licenses	5,022	7,871	2,849
Moving Violation Fines	4,500	3,946	(554)
Sheriff Desk Fees	2,208	1,087	(1,121)
Red Light Camera	3,023	2,103	(920)
Birth and Death Certificates	2,550	2,755	205
Garages and Long-Term Parking	2,625	2,961	336
In-Rem Auction Sales	2,946	4,273	1,327
Airport Rental Revenues	973	875	(98)
All Other Major Initiatives	31,956	25,583	(6,373)
TOTAL	**$260,836**	**$257,435**	**($3,401)**

Source: NYC Financial Management System.

The City also collected lower revenues than budgeted from affirmative litigation, mainly from a delay in the settlement of litigation benefiting the City. Collections for all other initiatives were lower than projected from such programs as pest control fees and building inspection fees.

Similar to FY 98 and FY 99, the City has benefited during the first quarter from higher-than-projected earnings on overnight investments of cash balances, mainly as a result of higher-than-average cash balances. Interest income was $31 million, $8 million (or 45 percent) more than budgeted. The City projects interest income of $80 million in FY 00 from investments of daily cash balances. The City earned $154 million in FY 99 and $161 million in FY 98 from interest earnings. The City also experienced higher collections than budgeted for taxi-license fees and cable-television-franchise fees.

Board of Education The Board of Education reported a surplus of $242 million in FY 99, continuing a trend of four consecutive years with a sizable surplus. Between FY 96 and FY 98, BOE reported budget surpluses that ranged from $155 million to $300 million. The fiscal outlook for BOE has also brightened in FY 00 because of additional education aid provided to the City in the State's Adopted Budget. BOE has indicated that it will receive $278 million more in education aid than previously anticipated in the City’s FY 00 Adopted Budget. About 37 percent, or $104 million, of the additional aid is provided for class-size reduction in the early grades, middle schools, and high schools. A similar increase has also been provided for the expansion of the Universal Pre-Kindergarten program. In addition, the State has also restored $63 million in Teacher Support Aid for supplementing teacher salaries.

<u>Prior-Year Education-Aid Receivables</u> The City's books currently include a balance of $640 million in State education aid receivables covering FYs 90-98. Previously, prior-year education-aid receivables for FY 90 amounted to $39 million. The State provided funding that reduced this amount to $24 million of the end of FY 99. Based on the Comptroller's Office policy of writing off State education-aid receivables that have been outstanding for ten years or more, the $24 million would have been written off as the City finalized its books for FY 99. However, the write-off was averted because the State appropriated the necessary funds to pay the City for the outstanding FY 90 claims during FY 00.

The remaining balance of $616 million includes $311 million in pending State reimbursement for pre-kindergarten and summer handicapped programs. The Board of Education views these receivables as less problematic since there is a continuous process to resolve the claims. The other receivables that make up the balance of the $616 million were mostly comprised of special-education high cost/excess cost aid and building-aid claims.

At the end of FY 00, the Comptroller's Office will consider the write-off of unpaid education-aid receivables from FY 91 that total $33 million, which could reduce the City's revenue budget by a similar amount in FY 00. The State must continue to make progress and appropriate the necessary funds to pay the City for prior-year education-aid claims. If no further progress is achieved by the State over the next three years, the Comptroller's Office plans to write off $181 million of unpaid State education-aid covering FYs 92-94. Furthermore, unless the State makes significant progress in retiring its prior-year education-aid claims, the Comptroller's Office has indicated that it would not accrue $226 million of additional education aid currently owed to the City. The staff of BOE had previously estimated that the unaccrued amount was $408 million.

<u>Public Assistance</u> The City's public assistance caseload fell by 4 percent in the first quarter of FY 00, compared with the June 1999 caseload of 680,881 recipients. The estimated September 1999 welfare caseload of 653,317 recipients represents a decline of 27,564 recipients since the end of FY 99. The decline in the first quarter is comprised of 16,617 recipients in the federally mandated Family Assistance program and 10,947 recipients in the State-mandated Safety Net Assistance program. The City's public assistance caseload has fallen by about 44 percent since reaching a historical peak of 1,160,593 recipients in March 1995. Similarly, monthly grant expenditures have dropped by about 46 percent to $134.5 million in September 1999 from $247.8 million in March 1995.

Compared with the City's projections in the Financial Plan, the estimated caseload for September 1999 was about 30,000 recipients below budget. For the first quarter alone, the City will likely realize public assistance savings of almost $9 million. Barring a reversal of the current trend of a declining caseload, the City may have overestimated its share of total public assistance expenditures by as much as $35 million to $40 million in FY 00.

<u>Overtime</u> The City paid $105.6 million for overtime in the first quarter of FY 00, about $16.1 million, or 15 percent, more than budgeted and $6.7 million, or 6.8 percent, more than the same period in FY 99. The overwhelming majority of the overspending occurs in Police ($7.1million), Sanitation ($3.9 million), and Transportation ($1.5 million). (See Table 2.)

The four uniformed agencies, the Police, Fire, Corrections and Sanitation Departments, largely drive overtime spending. Over the last three years these uniformed agencies have accounted for 80 percent of overtime spending. This pattern continues in FY 00 as the uniformed agencies have accounted for 82 percent of overtime payments.

Since FY 95, the City's overtime spending has increased by an average of 6 percent per year, and it appears that FY 00 overtime spending will increase at an even higher rate. In comparison, New York City's inflation rate averaged approximately 2.2 percent per year during the same time.

Table 2. *Overtime Spending 1st Qtr. FY 00 vs. Plan and Compared to 1st Qtr. FY 99, $'000*

	1st Qtr FY 00		Actual vs. Budget	1st Qtr FY 99	FY 00 vs. FY 99
Agency	Actual	Planned	Better/(Worse)	Actual	Better/(Worse)
Uniformed:					
Police	$33,672	$26,554	$(7,118)	$29,579	$(4,093)
Fire	25,221	24,620	(601)	23,900	(1,321)
Corrections	9,556	10,025	469	12,453	2,897
Sanitation	14,250	10,392	(3,858)	12,262	(1,988)
Sub-total	$82,699	$71,591	$(11,108)	$78,194	$(4,505)
Civilians:					
Admin for Children's Srv	3,245	2,785	(460)	4,351	1,106
Social Services	2,493	2,202	(291)	1,435	(1,058)
Transportation	4,288	2,754	(1,534)	4,904	616
All Other Civilians	12,855	10,138	(2,717)	9,951	(2,904)
Sub-total	$22,881	$17,879	$(5,002)	$20,641	(2,240)
Total City	$105,580	$89,470	$(16,110)	$98,835	(6,745)

The City has appropriated $434 million for overtime during FY 00. However, if the present spending patterns continue through the rest of FY 00, the City will overspend its overtime budget by $142 million, or by 32.7 percent. As in the past, the City may be using under-budgeting to try to control overtime costs. This practice has had little, if any, success in previous years. Over the past four years, actual expenditures have been, on average, 38 percent more than appropriations in the Adopted Budget.

Work Force The City work force, which totaled 246,636 at the end of FY 99, grew by a net of 356 employees in the first quarter of FY 00, largely the result of an increase of 754 pedagogical employees. In the last few years, BOE has undertaken a number of initiatives including Project Read, summer-school remediation and pre-kindergarten expansion, which require additional resources, namely teachers.

As of September 30, 1999, the City work force was 244 more than planned and 1,766 above the level registered during the same period a year earlier. While pedagogical personnel have increased, uniformed and civilian personnel have declined. (See Table 3.)

Corrections, as of September 30, 1999, had 300 officers fewer than planned because of lower population of inmates. There are no recruit classes scheduled in FY 00. Recently, the City's jail population reached a ten-year low of 15,692 inmates. It should be noted that, in spite of the lower work force, Corrections overtime for the first quarter has been below plan and below the same period last year. The Police department had 207 fewer uniformed officers than it had last year and was below plan by 96, largely the result of slightly higher attrition than planned. Fire exceeded its personnel target by 96 employees and had 129 more employees than a year earlier.

As previously stated, BOE's work force continues to grow. As of September, BOE had 2,762 more employees than a year earlier, and exceeded its personnel target by 943. Social Services also exceeded its target by 358, though its work force was 261 fewer than a year earlier.

Table 3. *NYC Full-Time Work Force, September 30, 1999*

	Actual	Planned		Actual	
	9/30/99	9/30/99	More/(Less)	9/30/98	More/(Less)
Agency	Work Force	Work Force	Than Plan	Work Force	than FY 99
Uniformed:					
Police	39,904	40,000	(96)	40,111	(207)
Fire	11,424	11,328	96	11,295	129
Corrections	11,035	11,341	(306)	11,386	(351)
Sanitation	7,073	7,235	(162)	7,050	23
Sub-total	69,436	69,904	(468)	69,842	(406)
Pedagogical:					
Board of Education	90,035	89,092	943	87,273	2,762
City University	2,216	2,189	27	2,225	(9)
Sub-total	92,251	91,281	970	89,498	2,753
Civilian:					
Police	8,963	8,910	53	8,692	271
Admin for Child Svcs.	7,050	7,312	(262)	7,195	(145)
Social Services	13,229	12,871	358	13,490	(261)
All Other Civilians*	56,063	56,470	(407)	56,509	(446)
Sub-total	85,305	85,563	(258)	85,886	(581)
Total City	246,992	246,748	244	245,226	1,766

* All Other Civilians include civilian employees in Fire, Corrections, Sanitation and Board of Education.

Pensions Section 96 of the New York City Charter requires that the Comptroller hire an independent actuary to biennially review and comment on the financial soundness and probity of the actuarial assumptions used to calculate employer contributions to the City's five retirement systems. Watson Wyatt & Company was engaged for two consecutive such engagements, the maximum allowed by the Charter. Each engagement included an audit of the employer contributions to the systems, a comparison of actual experience with the actuarial assumptions used in computing the employer contributions, and a review of the actuarial data-gathering process.

For its second engagement, Wyatt completed its audit of the employer contributions for FY 98 and its review of experience for the four years ending June 30, 1997 for each of the five retirement systems. Wyatt's final report on the audit of employer contributions validated the City Actuary's computations and results, and recommended some minor changes, none of which will have material impact. The final Experience Study report, however, recommended significant changes in several actuarial assumptions. Among the economic assumptions, Wyatt recommended changes in the inflation, investment return, salary growth, and overtime assumptions. Among the demographic assumptions, Wyatt recommended incorporating expected future mortality improvements in the mortality assumptions used for all systems and changes in probabilities of accidental disability for Fire and ordinary disability for Fire, Police and NYCERS' Corrections. Wyatt also recommended a change in the methodology used to evaluate variable annuity balances in TRS and BERS.

As part of his periodic review of all actuarial assumptions and methods, the Chief Actuary of the City's retirement systems intends to make his own recommendations for change. While the Chief Actuary's changes will largely be within the parameters of Wyatt's findings and recommendations, it is possible that he may modify and/or add to them. It is anticipated that the Chief Actuary will also recommend consolidating and re-establishing a new initial unfunded actuarial liability for each system derived from the difference (but not less than zero) between the new accrued liability calculated under the revised assumptions and methods and the new actuarial value of assets (which will be equal to the market value). The Chief Actuary is expected to recommend that these changes be implemented for calculating FY00 employer pension contributions.

The Chief Actuary's intended recommendations are still not final. Possibly there will be changes before they are finalized and formally presented to the Boards of Trustees. Some changes in assumptions have to be approved by the system's Board of Trustees. Some changes in assumptions, such as the interest rate assumption, and some methods, like the amortization of the unfunded liabilities, have to be reflected in new State Laws.

Among the controversial changes expected to be recommended by the Chief Actuary are: (1) reducing the inflation assumption from the current 3.5 percent per year to 2.5 percent per year which would reduce the current investment return assumption from 8.75 to 8.00 percent (since he also intends to propose increasing the real rate of return on investments by 0.25 percent); and (2) incorporating expected future mortality improvements in the mortality assumptions. The City, to date, has not incorporated either of these changes in its Financial Plan.

A reduction in the inflation assumption would reduce both the investment-return assumption (which would increase City contributions) and the salary-increase assumption (which would partly offset the cost increase resulting from the reduction of the investment-return assumption).

A reduction in the investment-return assumption may be viewed as inappropriate because the inflation outlook is higher now than it has been in recent years, and 2.5 percent is not a realistic expectation by historical standards. Wyatt's Experience Study reports that inflation averaged 3.1 percent over the last 72 years, 4.1 percent over the last 45 years, 5.5 percent over the last 25 years, and 3.4 percent over the last 10 years.

The current actuarial investment return assumption seems reasonable by historical standards. Average investment returns – for a hypothetical portfolio that closely replicates the pension funds' current investment allocation – for all rolling fifteen-year periods since 1944 exceeded 8.75 percent by an average of 4.3 percentage points, except for the three fifteen-year periods ending 1973, 1974 and 1975, when investment returns averaged 8.3 percent, 6.3 percent and 8.5 percent, respectively.

Further, after experiencing investment returns of 17.0 percent FY 96, 21.8 percent in FY 97, 20.4 percent in FY 98, and 13.1 percent in FY 99, about $15 billion of the investment gains have not yet been recognized in the actuarial value of assets used to calculate employer pension costs. This $15 billion, which is scheduled to be phased into the actuarial asset value over the next five years, will also provide a cushion in case future investment returns fall below expectations.

Incorporating expected future mortality improvements may also be viewed as premature because of evidence that female mortality improvements have started to slow down. Further, because the Chief Actuary is expected to continue to use static mortality tables, application of the same improvement over all ages would be unrealistic because it would overstate liabilities for older groups. The City also contends that this has not become accepted actuarial practice for municipalities.

Another related issue concerns the interest rate paid on Tier I and II employee contributions. Until FY 91, the retirement systems paid interest on Tier I and II employee pension contributions and Increased-Take-Home-Pay (ITHP) at the same rate as the actuarial investment return assumption. In FY 91, the retirement systems raised the actuarial investment return assumption to 9.0 percent but left the interest payable to Tier I and II employee contributions and ITHP at 8.25 percent. If the investment return assumption is reduced to 8.0 percent, the interest payable on employee contributions and ITHP will be greater than the expected return on assets (as implied by the actuarial investment return assumptions).

Judgment and Claims Judgment and Claims (J&C) expenditures for July and August were $34 million, 33 percent more than the same period in FY 99 and 18 percent more than FY 98. J&C expenditures are driven mainly by the increase in the number and the average cost of personal injury and property (tort) claims being resolved. During the first two months of FY 00, the City settled 1,410 tort claims, 10 percent more than the same period in FY 99. (See Table 4.) Of the amount settled, 1,021 were personal injury claims.

The increase in the number of claims being resolved results mainly from initiatives to settle claims at a faster rate. Settling claims early increases costs in the short run, but results in lower J&C expenses in future years. For example, although the number of personal injury claims settled year-to-date is 30 percent more than the 785 cases in FY 99, the average cost of these cases was slightly lower at $30,903 in FY 00 compared with $31,041 in FY 99.

On the other hand, the average cost of property damage claims settled during the first two months of FY 00 increased to $4,955 from $1,642 in FY 99. This resulted mainly from the settlement of three cases for approximately $1.3 million. These cases resulted from damages caused by water main breaks and a sewer overflow. Excluding these cases, the average cost of property damage claims would be $1,625 in FY 99 compared with $1,642 in FY 98.

Table 4. *NYC, Tort-Claims Cases and Expenditures, FYs 98-00*

	FY 00	**FY 99**	**FY 98**
First Two Months of FY 00 Tort-Claims Expenditures ($ millions)	$33.5	$25.2	$28.5
First Two Months of FY 00 Cases Settled	1,410	1,280	1,349
Personal Injury Cases Settled	1,021	785	668
Property Damage Cases Settled	389	495	681
Average Cost per Claim	$23,744	$19,672	$21,126
Fiscal Year Total Cases Settled*	N/A	10,910	10,812

*The number of cases resolved in FY 99 is preliminary.

Sources: City of New York, Office of the Comptroller, Bureau of Claims and Adjudications; and Office of Management and Budget.

Debt Service A number of financing activities took place in the months of October and November. First, the Transitional Finance Authority (TFA) issued $600 million in Series 2000 A bonds and $600 million in a Bond Anticipation Note (BAN) due June 1999. Second, to meet its short-term obligations, the City issued a $750 million Revenue Anticipation Note (RAN) due in April 2000. This RAN is more than the $500 million in borrowing anticipated in the FY 00 Adopted Budget. Third, the Tobacco Settlement Asset Securitization Corporation (TSASC) issued $709 million of bonds to finance capital projects such as the construction and rehabilitation of schools. Compared with the FY 00 Adopted Budget, the City will experience approximately $2.4 million in increased debt-service costs related to these transactions.

Pursuant to a national Master Settlement Agreement (MSA) with the tobacco industry to reimburse States for costs incurred providing health care services for smoking-related illnesses, the City expects to receive an estimated average of $284 million annually over 30-years and continue in perpetuity subject to various adjustments one of which is a minimum inflation factor of three percent. The City will use the bulk of this revenue stream over a maximum 40-year period to back bonds issued by the TSASC. However, TSASC bonds and payment of its resulting debt service are not the responsibility of the City. Residual monies from payments made by the tobacco companies under the MSA – that is, funds left over after payment of TSASC debt service – are expected to flow to the City. The amount of this residual flow to the City will be reduced by $10.7 million versus budget resulting from a combination of TSASC's amortization and debt service retention schedules.

The City is the first municipality to issue a bond securitized by revenues from the tobacco settlement. In its inaugural issue, priced on November 4, 1999, the TSASC sold $709 million in principal maturities ranging from FY 03 to FY 39. The true interest cost (TIC) of the transaction was 6.40 percent and the yield of its 30-year maturity was 33 basis points above the 30-year Treasury bond. Since this is the first bond issue secured by future tobacco company settlement payments, it is difficult to draw a meaningful conclusion from the pricing results. That said, the TSASC's uninsured tax-exempt 20-year maturity traded 40 basis points above the City's General Obligation (G.O.) bond, and 50 basis points above a comparable TFA bond. The TSASC has split ratings from two of the three major rating agencies. Moody's Investors Service rates bonds due from 2003 to 2021 at Aa1, the 2027 term bond at Aa1, the 2034 term bond at Aa2, and the 2039 term bond at Aa3. Standard & Poors rates the maturities 2003 to 2005 AA- minus, the maturities from 2006 through 2010 at A-plus, and maturities from 2011 to 2039 at A. Fitch IBCA rates the entire issue A-plus.

Unlike the G.O. amortization pattern assumed in the budget, in which debt amortizes 24 months after issuance, TSASC principal begins to amortize at the first coupon date. In addition, the budget did not anticipate that though the first two TSASC debt-service payments are scheduled for July 15, 2000 and January 15, 2001, retention for both occurs in FY 00. Thus net total FY 00 TSASC debt service is $27.2 million. With FY 00 TSASC debt service originally projected at $16.5 million, residual flow to the City may be reduced by $10.7 million.

The TFA Series 2000 A bond sale was priced in October and included $560 million in tax-exempt bonds and $40 million in taxable bonds. The tax-exempt debt had a range of maturities from FY 03 to FY 2029 and the taxable debt ranged from FY 01 to FY 04. The tax-exempt bond TIC was 5.80 percent and the taxable bond TIC was 6.72 percent. The combined TIC was 5.81 percent with a combined average maturity life of 16.7 years. Also in November, a BAN was issued by the TFA to take advantage of lower short-term interest rates. In lieu of an interest cost of approximately 5.8 percent for the first coupon interest payment due in FY 00 if a bond were issued, the interest cost of the BAN was 3.8 percent, resulting in an estimated savings of $6 million in FY 00. Because the TFA BAN interest cost will be paid through the issuance of a subsequent FY00 TFA bond issue, the two transactions will produce net debt service of $27.9 million in FY 00. In combination with other TFA transactions, the anticipated debt service in FY 00 from borrowing activity in the fourth quarter of FY 1999 and the first three quarters of FY 00 will be $62 million compared with $70.5 million provided in the FY 00 Adopted Budget. Thus, savings of $8.5 million are projected in FY 00.

In November, the City issued a RAN in the amount of $750 million at a TIC of 3.67 percent due April 14, 2000. The coupon rate for the RAN, however, was 6.50 percent, or 2.83 percent above the TIC. This results in gross interest costs of $20.854 million, which was offset by a premium above par value of $8.4 million, resulting in a net interest cost of $12.418 million. The FY 00 Adopted Budget assumed a RAN borrowing of $500 million at an interest rate of 3.65 percent for a term of 240 days. These budgeted assumptions produced projected interest costs of $12.166 million. Thus, despite the increased borrowing of $250 million, there are still modest costs of $252,000 resulting from the premium's offset to interest costs and a shorter term of issuance versus budget. Anticipated state-education aid to be paid by March 31, 2000 will fund the repayment of these notes.

The City increased the size of the RAN for several reasons, the most prominent of which were: (1) increased spending at the Board of Education from greater-than-anticipated State aid, (2) unplanned managerial salary increases, (3) an increase in work force above the level of June 1998, and (4) small growth in tax revenue collections.

PREPARED BY: AMITABHA BASU, ROSA CHARLES, PETER FLYNN, CARL HEASTIE, FARID HEYDARPOUR, URVASHI KAUL, MANNY KWAN, HOPE LENDZIAN, KAREN McNEILL, MICHAEL ZHANG

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ALAN G. HEVESI, COMPTROLLER
STEVE NEWMAN, FIRST DEPUTY COMPTROLLER
JACQUES JIHA, DEPUTY COMPTROLLER FOR BUDGET
JOHN TEPPER MARLIN, CHIEF ECONOMIST MICHAEL LEINWAND, BUDGET CHIEF

FOR MORE INFORMATION, CALL (212) 669-2507