FISCAL YEAR 2002 ANNUAL REPORT OF THE COMPTROLLER ON CAPITAL DEBT AND OBLIGATIONS

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EXECUTIVE SUMMARY

This report assesses the debt condition of the City of New York ("the City") in accordance with Section 232 of the City Charter. The Charter requires the Comptroller to report on the amount of debt the City may soundly incur for capital projects during the current fiscal year and each of the three succeeding fiscal years.

- Prior to the World Trade Center (WTC) attack, the City had enough debt-incurring power to implement its capital plan through July 1, 2004. Although the City has exhausted its debt-incurring power within its general limit in FY 98, the Transitional Finance Authority (TFA) and the Tobacco Settlement Asset Securitization Corporation (TSASC) have provided the City with an additional $13.9 billion of debt-incurring power. With these two additional sources of debt-incurring power, the Comptroller's Office projects that the City on July 1 of each year will be below its cumulative debt limit by $6.7 billion in 2001, $5.3 billion in 2002, $4.1 billion in 2003, and $3.3 billion in 2004.

- The Comptroller's Office estimates, however, that the City's debt-incurring power could drop by $820 million to $39.2 billion by July 1, 2004 as a result of a decline in assessed property values caused by the WTC attack.

- The City faces a large and growing debt burden, as debt per capita has reached $4,500. The City's debt per capita is higher than 14 other large municipalities surveyed for this report, by a factor of 2.3 to one.

- Prior to the WTC attack, the City's capital spending, in accordance with its capital program, was projected to grow by 75 percent over the next five years. This sharp increase implied debt-service levels not experienced since the City emerged from its fiscal crisis of the mid-1970s. Debt service as a percent of City tax revenues was projected to be 19 percent by FY 03, up from 11 percent in FY 90.

- The City's debt burden is likely to become even higher following the WTC attack. Even prior to September 11, the City's economy was showing signs of weakness. The September 11 shock to the economy, above all to consumer confidence, certainly contributed to deepening the City's and nation's recession. If the recession is deep and prolonged, it will significantly reduce projections of tax revenue. Debt service could therefore consume as much as 21 cents of every tax dollar by FY 05, exerting pressure on the City's operating budget, as services would have to be cut or taxes increased to provide the necessary resources to pay for debt obligations.

- New York City (NYC) already ranks high based on two other debt-burden measures: (1) NYC's debt outstanding as a percent of its full value of real property in FY 00 is approximately 11 percent, almost 156 percent above the average of 4.3 percent for 14 other sample cities. Only Philadelphia and Detroit exceed NYC, both with ratios of 11.5 percent. Major cities such as Chicago and Los Angeles have ratios of 6.7 percent and 3 percent. (2) NYC's debt per capita as a percent of personal income per capita in FY 99 was 12.5 percent, or 2.2 times, higher than the sample-cities average of 5.6 percent. Only Philadelphia exceeds

NYC, with a ratio of 12.7 percent, with Las Vegas being the next highest at 8 percent, and San Francisco the lowest at 2.3 percent.

In the face of this bleak outlook, what options does the City have to avoid an overwhelmingly higher debt burden? Five seem to be the most promising:

- The City must prioritize its capital plan and stretch the implementation of its five-year capital plan over a longer period. Given the intensity of the effort to restore and remediate the lower Manhattan area following the WTC attack, the high demand for the limited resources of the construction industry may force a delay in other City capital projects, or raise their costs, or both.

- The City must use all of its influence to press the Federal government to follow through on its commitments to reimburse the City's costs for cleaning, securing and stabilizing the WTC area. Otherwise the City will be forced to pay for these expenditures from its operating budget against tax levy resources.

- The City should continue to issue notes and rollover notes against Federal reimbursement, rather than issuing long-term debt.

- Although future budgets will be tight, the City should finance at least a small portion of its capital program on a pay-as-you-go basis.

- As a long-term mechanism to remove agency bias toward capital debt, charge debt service on agency specific capital projects to respective agency budgets.

INTRODUCTION

In recent years, the Comptroller's Office has called for restraint or curtailment of the City's capital program because of the increasing debt-service burden on its operating budget. The local and national recession and the impact of the shock to the economy from the attack on the World Trade Center (WTC) now make restraint in capital spending essential. The recession reduces the resources available to the City to service its debt obligations and to provide the necessary level of services to the public. The City's debt problem could have been best handled in the last four prosperous years when a portion of the budget surpluses could have been used as part of a pay-as-you-go capital program or a debt-retirement program. But debt problems must be dealt with even when the external economic climate is poor.

Since no down payment was made during years of record budget surpluses, the City’s growing debt creates continuing and growing pressures on its operating budget. As the City's economy weathers a recession, the growth in tax revenues is likely to contract, and vital services such as education and public safety may have to be cut to pay for debt-service obligations.

This report is mandated under Section 232 of the City Charter, which requires that the Comptroller report to the Mayor, the City Council, and City Planning Commission the maximum amount of debt the City may soundly incur in the current fiscal year and the succeeding three fiscal years. The report finds that the City has enough debt-incurring power to implement its capital plan through June 30, 2005.

Section I of this report profiles New York City (NYC) debt. Section II provides a forecast of the City’s debt limit for FY 02 and each of three succeeding fiscal years, which is required under Section 232 of the City Charter. Section III analyzes the City’s debt affordability, and Section IV contains recommendations.

I. PROFILE OF NYC DEBT

This section analyzes the composition of, and the use of, debt issued by or on behalf of NYC to finance its capital projects. Gross NYC debt rose by 1.9 percent between FY 00 and FY 01 to $40.8 billion. In the 1990s, gross NYC debt grew at an average annual rate of 6.4 percent, up from an average annual rate of 4.5 percent in the 1980s. The increase in the 1990s resulted mainly from the need for a catch-up program to rehabilitate facilities neglected following the fiscal crisis of the 1970s. Over the next decade, gross NYC debt is projected to increase by approximately 4 percent annually, as a result of an ambitious capital program that is front-loaded during the FY 01-05 period.

A. Composition of Debt

NYC debt can be divided into six categories, with general obligation bonds accounting for 65.7 percent of the total. The other five categories are Municipal Assistance Corporation bonds, Transitional Finance Authority (TFA) bonds, Tobacco Settlement Asset Securitization Corporation (TSASC) bonds, capital lease obligations, and Samurai bonds. (See Table 1.)

Table 1. *Gross City Debt Outstanding as of June 30, 2001, $ millions*

	General Obligation Bonds	**Municipal Assistance Corp.**	**Transitional Finance Authority**	**TSASC**	**Capital Lease Obligation***	**Samurai Funding Corp.**	**Gross Debt Outstanding**
Tax-Exempt							
Fixed Rate	$23,457	$3,217	$6,033	$704	$2,116	$0	$35,527
Variable Rate	2,183	0	1,050	0	0	0	3,233
Derivatives**	205	0	0	0	0	0	205
Subtotal	$25,845	$3,217	$7,083	$704	$2,116	$0	$38,965
Taxable							
Fixed Rate	$385	$0	$303	$0	$501	$0	$1,189
Variable Rate	606	0	0	0	0	80	686
Subtotal	$991	$0	$303	$0	$501	$80	$1,875
Total	**$26,836**	**$3,217**	**$7,386**	**$704**	**$2,617**	**$80**	**$40,840**
Percent of Total	**65.7%**	**7.9%**	**18.1%**	**1.7%**	**6.4%**	**0.2%**	**100.0%**

* This figure includes $270 million of Jay Street Development Corporation debt issued in May, 2001.

** Derivative bonds derive their interest rate from an underlying financial instrument that is composed of an indexed formula.

Source: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report*, FY 2001.

City debt is comprised of tax-exempt and taxable bonds. Tax-exempt bonds are issued to finance projects defined as having a public purpose. Taxable bonds are issued for projects that have a public purpose, but contain a private-sector component that makes them ineligible for a Federal, State, or City tax exemption.

Tax-exempt bonds account for 95.4 percent of the total at the end of FY 01. Fixed-rate bonds account for 91.2 percent of tax-exempt bonds and 87 percent of total debt. Tax-exempt bonds with variable rates have principal maturities anywhere from two to 30 years and interest-payment terms that are reset on a daily, weekly, or monthly basis.

1. General Obligation (G.O.) Bonds

G.O. bonds, which are backed by the full faith and credit of the City, total $26.836 billion as of June 30, 2001 and account for just under two-thirds of all City debt outstanding. G.O. debt is down marginally from FY 00, by $56 million, or 0.2 percent. However, G.O. bonds grew at a rate of 7.1 percent annually in the 1980s and at a rate of 8.2 percent in the 1990s. In FY 98, the City borrowed the maximum under its general debt limit, which has curtailed the growth of G.O. debt outstanding over the past three years. In order for the City to continue its capital program, it had to create two alternative financing mechanisms, namely TFA and TSASC.

2. Municipal Assistance Corporation

The Municipal Assistance Corporation (MAC) was created by the State in the aftermath of the mid-1970s fiscal crisis to issue debt on behalf of the City. Its important financing role is being phased out as its remaining debt outstanding is steadily declining until its final maturity on July 1, 2008. MAC debt totaled $3.217 billion at the end of FY 01. This was $315 million, or 8.9 percent, lower than in FY 00. MAC's share of City debt outstanding has decreased to 7.9 percent in FY 01 from 8.8 percent in FY 00. MAC debt service is retained from the City's sales-tax revenue collections.

3. Transitional Finance Authority

One mechanism for the City to continue its capital-spending program despite its G.O. debt limit is the Transitional Finance Authority (TFA). In FY 01, TFA debt issuance outpaced G.O. debt by 1.24 to one. Therefore, the TFA is likely to account for a larger share of overall debt used to finance the City's capital program through FY 05.

The TFA was created by the State as a public benefit corporation separate and apart from the financial operations of the City. Although the TFA indenture provides for a total debt-issuance program of up to $12 billion, the State legislature has so far authorized $11.5 billion in debt-incurring power. TFA debt is not included in debt outstanding charged against the City's general debt limit. In June 2000, the State increased the TFA's debt-incurring capacity to $11.5 billion from $7.5 billion, which was the original amount authorized when TFA was created in 1997. Standard & Poor's raised the TFA's credit rating to AA plus from AA in October 2000. TFA debt totaled $7.386 billion at the end of FY 01. This is a 24.7 percent increase, or $1.463 billion, over the FY 00 level. The TFA's share of gross city debt outstanding increased to 18.1 percent in FY 01 from 16.1 percent in FY 00.

Following the WTC attack, the State provided the City with an additional $2.5 billion in TFA debt-incurring capacity. The $2.5 billion authorization is in addition to the TFA's previous $11.5 billion authorization for the issuance of debt to finance the City's capital program. The City expects to receive Federal aid for the costs associated with the clean-up and remediation of the financial district that resulted from the WTC attack. The initial costs are being funded by the proceeds of $1 billion of Recovery Notes issued on October 4, 2001 (the TFA Recovery Notes – Fiscal 2002 Series A are due October 2, 2002). The transaction was over-subscribed by about three to one, buoyed by intensive media coverage and apparent pro-NYC sentiment.[1] The note pricing produced competitive rates of 2.13 percent with an all-expense true-interest cost of 2.22 percent.

The TFA may subsequently issue long-term Recovery Bonds on a subordinated basis to pay for the principal and interest due on the notes.

4. Tobacco Settlement Asset Securitization Corporation

The Tobacco Settlement Asset Securitization Corporation (TSASC) is a local development corporation organized under the not-for-profit corporation law of the State. The bonds issued by this entity are entitled Tobacco Flexible Amortization Bonds (TFABs). The proceeds of the TFAB bonds are used to finance NYC capital projects. The TFAB bonds are secured by tobacco-settlement revenues as described in the Master Settlement Agreement among 46 states, six jurisdictions, and the major tobacco companies. TSASC provides the City with $2.4 billion in debt-incurring power. TSASC debt totaled $704 million as of June 30, 2001.

The City intends to issue TSASC bonds to pay for costs from the City expense budget related to the closure of Fresh Kills landfill. If the City utilizes $150 million of the TSASC debt-incurring capacity, it will be diverting resources that would have otherwise been used to finance its capital program. A negative feature of TSASC debt is that it is the most expensive type of financing used by the City, exceeding G.O and TFA interest costs by 25 to 50 basis points, i.e., up to ½ of a percentage point, or $10 million per year on $2 billion of debt.

5. Capital Lease Obligation

The City is required to make annual appropriations from its general fund for agreements with other entities that issue debt to build or maintain facilities on behalf of the City. Typically these agreements are known as “leaseback” transactions. These leaseback obligations are included in the City’s gross debt outstanding, but are excluded from the calculation of the City’s indebtedness under the general debt limit. Capital lease obligations totaled $2.617 billion as of June 30, 2001, an increase of $243 million, or 10.2 percent from FY 00. Capital lease obligations cover such varied issuers as the Dormitory Authority of the State of NY for the NYC Courts Capital Program ($681 million), the Jay Street Development Corporation ($270 million), the City University Construction Fund ($409 million), the Education Construction Fund ($134 million), the Primary Care Development Corporation ($55 million), the Health and Hospitals Corporation ($295 million), the Housing Finance Agency ($220 million), the Urban Development Corporation ($52 million), and general lease obligations ($501 million).

In addition to the financing facilities cited above, a number of independent authorities in the City issue bonds to finance numerous projects in the NYC metropolitan area. Among the most prominent are the NYC Municipal Water Finance Authority (NYCMWFA) and the Metropolitan Transportation Authority (MTA). Dedicated revenues from user fees secure the bonds of these authorities, and they are therefore not considered debt of the City. Nonetheless,

[1] Over-subscription occurs when the demand for the notes exceeds its supply. The TFA received orders of $3.132 billion for $1 billion of offered notes.

this debt pays for the services provided to City residents. In turn, City residents pay the user fees that secure, in large part, the debt of these two authorities. (See Table 2.)

Table 2. *Debt Outstanding of Independent Authorities in NYC, as of June 30, 2001, $ millions*

	Water Finance Authority	**Metropolitan Transit Authority**
Tax-Exempt		
Fixed Rate	$9,229	$14,863
Variable Rate	1,393	750
Subtotal	$10,622	$15,613
Taxable		
Fixed Rate	$0	$0
Variable Rate	0	17
Subtotal	$0	$17
Total	**$10,622**	**$15,630**

Sources: The NYC Water Finance Authority and the Metropolitan Transportation Authority.
Note: these figures do not contain any estimates for the reconstruction of the WTC complex for which additional resources will be needed.

The NYCMWFA had $10.622 billion in debt outstanding as of June 30, 2001, an increase of $845 million or 8.6 percent over FY 00. Created under a 1984 State law, the NYCMWFA is responsible for funding capital projects administered by the City's Department of Environmental Protection and other City agencies for sewers, water mains, and water pollution control plants. These authorities issue debt supported by user fees and certain other revenues.

The MTA is composed of four major agencies providing commuter transportation throughout the metropolitan area: (1) The NYC Transit Authority maintains 656 miles of mainline subway track and a fleet of approximately 4,000 buses and serves the public within the City's five boroughs. (2)The Long Island Railroad provides commuter train service to destinations in Queens, Nassau, and Suffolk counties from Midtown Manhattan and Downtown Brooklyn. (3) The Metro-North Railroad serves commuters in Westchester, Putnam and Dutchess counties and portions of southern Connecticut. (4) The Bridges and Tunnels Authority operates all intra-State tunnels and bridges throughout NYC's five boroughs. The MTA has $15.630 billion of debt outstanding as of June 30, 2001, an increase of $1.44 billion, or 10.1 percent, over June 30, 2000.

The MTA's proposed capital plan and debt restructuring are still pending before the Capital Program Review Board in Albany. The proposal involves refunding and "defeasing" (paying off) $13 billion of outstanding debt presently distributed among approximately 13 different credits and consolidating those credits into four. The intent is to generate approximately $3.0 billion in additional resources to help finance the MTA's $18.1 billion capital plan, but the debt-restructuring program will mean increased debt-service costs compared with debt service on the MTA's existing outstanding debt. The restructured program is expected to increase the average life of outstanding debt by extending much of the principal due in the near term to future years.

B. Institutional Use of Debt

The City uses capital-bond proceeds for numerous long-term projects, including the construction and rehabilitation of schools, roads and bridges, correctional and court facilities, sanitation garages, parks and cultural facilities, public buildings, and housing and urban development initiatives.

Following the trend of the past several years, capital expenditures for schools have consumed the largest share of G.O. bond proceeds. As of June 30, 2001, G.O. debt issued to finance capital projects for education purposes experienced significant growth and comprised 28.6 percent of G.O. debt outstanding, up from 9.8 percent in FY 91. Deteriorating facilities and pressures to reduce class size have contributed significantly to the growing share of G.O. debt outstanding for education.

Housing and urban development also grew, but remained relatively constant as a percentage of the total G.O. debt outstanding — from $1.87 billion in FY 91, or 11.1 percent of G.O. debt, to $3.13 billion or 11.6 percent of G.O. debt. With the exception of housing and education, spending on most functions declined in relative terms. Spending on bridges and highways have increased by $882 million in absolute terms, but has declined in relative terms, to 9.1 percent in FY 01 from 9.4 percent in FY 91. Other categories that have also posted absolute growth, but relative decline, include public safety, sanitation, health services, off-street parking, airports, and ferries.

The category of water pollution control, water mains and sewers ("water and sewer") has experienced an artificial decline. Since 1986, the NYWA has financed virtually all capital expenditures of the water system, thereby decreasing the outstanding portion of the G.O. bonds used for the rehabilitation and maintenance of the water and sewer system. Water and sewer debt totaled $1.56 billion in FY 91, or 9.3 percent of G.O. debt outstanding; this debt has since declined to $750 million, or 2.8 percent of the total as of June 30, 2001. (See Table 3.)

Table 3. *G.O. Debt Outstanding, NYC, by Use, FY 01 and FY 91, $ millions and percent*

Categories	**Debt Outstanding June 30, 2001** ($ millions)**	**Percent of Total**	**Debt Outstanding June 30, 1991 ($ millions)**	**Percent of Total**
Education (Schools)	$7,694	28.6%	$1,640	9.8%
Housing and Urban Development	3,129	11.6	1,872	11.1
Mass Transit	2,539	9.4	1,993	11.9
Bridges, Tunnels, Highways, and Streets	2,454	9.1	1,572	9.4
Public Safety, Correction, and Courts	2,144	8.0	1,504	8.9
Sanitation	1,442	5.4	1,063	6.3
Parks, Recreation and Cultural	1,284	4.8	905	5.4
Water Pollution Control, Water Mains, Sewers*	750	2.8	1,556	9.3
Health Services	713	2.6	700	4.2
Public Buildings	790	2.9	393	2.3
Social Services	409	1.5	240	1.4
Off-Street Parking, Airports, Ferries, Markets	277	1.0	239	1.4
Undistributed and Other	3,291	12.3	3,135	18.6
Total	**$26,916**	**100.0%**	**$16,812**	**100.0%**

* This represents debt issued for water and sewer purposes prior to June 30, 1985.
** This includes $80 million of Samurai Funding Corporation Bonds and excludes MAC, TFA, TSASC, and Capital Lease obligations. Over the past four years the TFA and TSASC have supplanted much of G.O. borrowing and have issued $8.1 billion of bonds and notes in the past four years. It does not include debt issued by the TFA or TSASC.
Sources: City of NY, Office of the Comptroller, *Comprehensive Annual Financial Report*, 2001, and the Office of Management and Budget, Adopted Budget Debt Service Statement II, FY 2002 and FY 1992. Figures in table may not add due to rounding.

II. DEBT LIMIT

This section describes the calculation of the City's debt limit, forecasts the amount of debt the City may soundly incur over the current and next three succeeding fiscal years, and discusses possible implications on the City's debt-incurring power as a result of the attack on the WTC.

A. The City's Debt-Incurring Power

NYC's general debt limit, as stipulated in the NYS Constitution, is 10 percent of the five-year average of the full value of taxable real property. The City's annual debt limit established as follows:

- No later than February 15, the City's Department of Finance issues a preliminary estimate of the assessed valuation of taxable real property for the ensuing fiscal year. Assessed value is traditionally less than the market value of properties.

- The general debt limit is based on the taxable market (full) value of real property and not on assessed value. To derive a taxable market value, the State Office of Real Property Services (SORPS) develops a special equalization ratio that expresses the relationship between assessed value and market value. SORPS uses the most recent market survey and a projection of market values based on recent surveys to obtain the full value. Special equalization ratios are then calculated as the ratio of the assessed valuation of taxable real property for the ensuing and four prior fiscal years over the full value of taxable real property for those years. These equalization ratios are used to establish the City's debt-incurring power (debt limit) for the ensuing fiscal year.

- The State Constitution provides that, with certain exceptions, the City's general debt limit cannot be greater than 10 percent of the average full value of taxable real property in the City over the most recent five years. Full values are established using the new equalization ratios and the assessed values of taxable real property for the five years. The City's debt limit for the ensuing fiscal year is then calculated by averaging the estimated full values of real property over the five years.

- On or about June 5, when it adopts the budget for the year, the City Council fixes the property tax rates for the ensuing fiscal year.

- The debt limit is effective at the start of each fiscal year, July 1.

The City's general debt limit for FY 02 is calculated as follows. First, the full valuation of taxable real property is estimated by dividing the assessed valuation of taxable real estate for FYs 98-02 by special SORPS equalization ratios. Full values for a five-year period are totaled and then averaged to produce the $328.7 billion or the five-year average of taxable real property over that period. The debt limit is then calculated by multiplying the five-year average of $328.7

billion by 10 percent, which yields the debt limit of approximately $32.9 billion for FY 02. (See Table 4.)

Table 4. *Calculation of Full Valuation of NYC Real Property and the General Debt Limit, FY 02*

Fiscal Year	**Billable Assessed Valuation Taxable Real Estate**	**Special Equalization Ratio (for market value)**	**Full Valuation**
1998	$76,188,390,641	0.2604	$292,582,145,319
1999	$78,239,325,754	0.2566	$304,907,738,714
2000	$80,885,286,485	0.2466	$328,001,972,770
2001	$84,319,741,571	0.2468	$341,652,113,335
2002	$89,539,563,218	0.2380	$376,216,652,176
		5 – Year Average	$328,672,124,463
		10 Percent of the 5 – Year Average	$32,867,212,446

Source: City of NY, *Tax Fixing Resolution for FY 2002*.

The City’s general debt-incurring power (not counting the added TFA and TSASC facilities) is projected to rise to $35.5 billion in FY 03, $37.8 billion in FY 04, and $40.0 billion in FY 05. The City's gross statutory debt-incurring power or general debt limit is then offset by a number of forms of indebtedness, such as bonds outstanding, new capital commitments, and contract liability, to arrive at the remaining debt-incurring power within the general limit. The City’s indebtedness against the general limit is projected to grow from $40 billion at the beginning of FY 02 to $50.6 billion at the beginning of FY 05. Consequently, the City exceeded its general debt limit by $7.2 billion on July 1, 2001, and is expected to exceed it by $8.6 billion on July 1, 2002, by $9.8 billion on July 1, 2003, and by $10.6 billion on July 1, 2004. (See Table 5.)

In FY 98, the City exhausted its debt capacity. To enable the City to finance its capital program, the State enacted legislation to create the TFA. TFA debt is not subject to the general debt limit. Initially, the TFA was authorized to borrow up to $7.5 billion. The City fully utilized the TFA’s initial debt capacity of $7.5 billion in 2000, at which time the City was again faced with the exhaustion of its debt-incurring power. With the creation of TSASC in November 1999 and its $2.4 billion of debt-incurring power, the City was able to continue its capital program through FY 00. In FY 01, the City was faced with the exhaustion of the combined debt capacity of the TFA, TSASC, and general debt limit. At that time it sought and obtained from the State the authorization to borrow an additional $4 billion through the TFA. The combined debt-incurring power of the TFA and TSASC adds $13.9 billion in debt capacity to allow the City to finance its capital projects.

The additional TFA and TSASC’s debt-incurring capacity provides the City with the resources to finance its capital program through FY 05. After adjusting for the TFA and TSASC debt-incurring power, the City’s remaining debt-incurring power is $6.7 billion in FY 02, $5.3 billion in FY 03, $4.1 billion in FY 04, and $3.3 billion in FY 05. (See Table 5.)

Table 5. *NYC Debt-Incurring Power, FYs 02-05, $ millions*

	July 1, 2001	July 1, 2002	July 1, 2003	July 1, 2004
Gross Statutory Debt-Incurring Power*	$32,867	$35,491	$37,785	$40,020
Actual Bonds Outstanding as of June 30, (net) **	$26,010	$24,752	$23,377	$22,010
Plus: New Capital Commitments				
FY 2002***		5,461	5,461	5,461
FY 2003***			4,868	4,868
FY 2004***				4,460
Less: Appropriations	(1,263)	(1,379)	(1,374)	(1,378)
Subtotal: Net Funded Debt Against the Limit	$24,747	$28,834	$32,332	$35,421
Plus: Contract and Other Liability #	15,324	15,251	15,237	15,227
Subtotal: Total Indebtedness Against the Limit	$40,071	$44,085	$47,569	$50,648
Exceeded Debt-Incurring Power within the General Debt Limit	$(7,204)	$(8,594)	$(9,784)	$(10,628)
Plus: Total Authorized TFA Debt-Incurring Power	11,500	11,500	11,500	11,500
Remaining Debt-Incurring Power within General Limit and TFA Capacity	$4,296	$2,906	$1,716	$872
Plus: Total Authorized TSASC Debt-Incurring Power	2,400	2,400	2,400	2,400
Remaining Debt-Incurring Power within General Limit, TFA Capacity, and TSASC Capacity ##	$6,696	$5,306	$4,116	$3,272

* Forecasts are based on preliminary data from the State Office of Real Property Services.

** Net adjusted for original issue discount, capital appreciation bonds, G.O. bonds issued for the water and sewer system, and Business Improvement District debt.

*** Reflects capital commitments as of the FY 02 Adopted Budget Commitment Plan and includes cost of issuance and Inter-fund Agreements.

#Contract liability is increased by $8.1 billion financed by TFA and TSASC debt.

The Debt Affordability Statement released by the City in April, 2001 presents data on the last day of each fiscal year, June 30, in lieu of the first day of each fiscal year, July 1, as reflected in this table. The Debt Affordability Statement does not incorporate TFA and TSASC debt-incurring power. In FY 02, for example, the City's Debt Affordability Statement forecasts that indebtedness would be over the general debt limit by $11.7 billion at the end of the fiscal year.

Source: NYC Comptroller's Office.

The City will require an additional $3 billion in debt-incurring power or other financing capacity to complete its Ten-Year Capital Strategy for FYs 2002-2011. To reach this goal, it will either seek an amendment to the State Constitution, or seek some other financing mechanism to obtain the additional $3 billion.[2] As a result of the WTC attack, the assessed value of real

[2] Official Statement, General Obligation Bonds, Fiscal 2002 Series A, p.54.

property is likely to decline in subsequent years, as certain real property was damaged or destroyed. The decline in real property values will create pressure on the City's general debt limit. This would make the full implementation of the City's current capital program less viable. The City may need to stretch out its capital program over a longer-time horizon.

The TFA and TSASC provide only temporary relief to the City's debt limit problem. To implement its Ten-Year Capital Strategy, the City will need additional legislative relief.[3] The City had proposed a new constitutional amendment as a measure to increase the City's ability to incur debt. This amendment would add a percentage of NYC personal income to the City's debt-incurring power, which is currently based solely on a percentage of the average full value of real property. This proposal would almost double the City's statutory general debt-incurring power, to approximately $61 billion. For the proposal to become effective, it requires approval by the State Legislature in two consecutive legislative sessions and by State voters in a referendum. As a result, a constitutional amendment could not be enacted until some time in calendar year 2003.

B. The Implication of the WTC Attack for the City's Debt and Debt Limit

1. Recent Developments

The WTC attack has created the need for the City to incur unexpected expenditures of up to $11.4 billion. To help the City finance part of the costs the State Legislature authorized an additional $2.5 billion in TFA debt-incurring capacity to be secured by the City's personal income tax collections. Language in the statutory authorization gave the City wide latitude for paying for operating expenditures related to the attack on the WTC.[4] The City will use the proceeds from TFA debt issuance as revenue in the operating budget to fund these expenditures. The State also authorized the City to issue TFA debt, without limit, which is secured solely by Federal and State aid related to the attack on the WTC.[5]

On October 4, 2001, the TFA successfully issued $1 billion in NYC Recovery Notes (Fiscal 2002 Series A due October 2, 2002). These notes are subordinate to the initial $11.5 billion in authorized TFA debt. The proceeds from the Notes provide the first resources to the City for emergency construction contracts for demolition, debris removal, stabilization and remediation of the WTC site. The TFA will subsequently issue long-term Recovery Bonds or Notes on a subordinated basis that will pay for the principal and interest due on the FY 2002 Series A notes.

Another development is the creation by the Governor of the "Lower Manhattan Redevelopment Corporation" (LMRC). The Corporation will approve projects and issue debt to rebuild and restore the financial district. The Corporation will be a subsidiary of the Empire State Development Corporation (ESDC). A nine-member Board of Directors controls the ESDC, with six of its members appointed by the Governor and three appointed by the Mayor. The Corporation will have condemnation authority through ESDC to implement the timely

[3] Official Statement, General Obligation Bonds, Fiscal 2002 Series A, p. 54.
[4] Section 2799-ss of Chapter 297 of the Public Authorities Law.
[5] *Ibid.*

redevelopment of Lower Manhattan. Federal funds may be pledged to secure the debt of the LMRC.

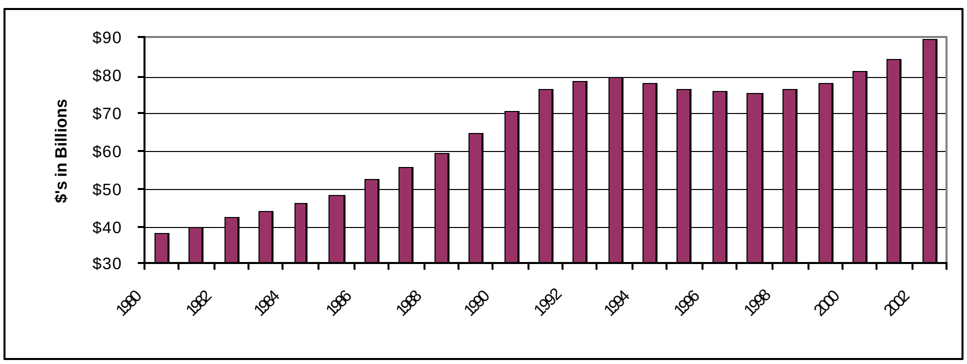
2. Impact of WTC on Property Values and Debt-Incurring Power

The WTC attack has had and will continue to have a significant impact on the City and its economy. The City's economy was already showing signs of weakness prior to the WTC attack. The shock to the economy increases the risk of a recession, as reduced economic activity lowers corporate profits, intensifies job losses, lowers consumer spending, and depresses real property values.

The shock to the City's economy may be severe enough to drive the City into a long and protracted recession similar to the one in the early 1990s, when tax revenues stagnated and real property values dropped. If this scenario replays itself, the City's already high debt load will exert pressure on the City's operating budget, as services will need to be cut or taxes increased to pay for debt obligations.

The growth in assessed real property values over the last 22 years may provide some guidance in projecting the future (Chart 1). Following the onset of the recession of the early 1990s, assessed real property values plunged to $75.7 billion in FY 97 from $79.4 billion in FY 93, a decline of 4.7 percent. During the period, the City's assessed property values have declined by no more than 2.8 percent in any one year. The greatest one-year decline in assessed value was approximately $2.2 billion, or 2.8 percent, between FY 94 and FY 95. Moreover, over the same period, the greatest consecutive-year declines in assessed property values were 4.7 percent, or $3.7 billion, between FY 93 and FY 97. If assessed property values over the next three years experienced the same percentage decline, they could fall by 4.2 percent, or $3.8 billion, and reduce the City's general debt limit by an estimated $820 million, or by 2 percent, by July 1, 2004.

Chart 1. *Assessed Valuation of Taxable Real Estate, NYC, 1980-2002*



Source: NYC, G.O. Official Statements, 1982-2002.

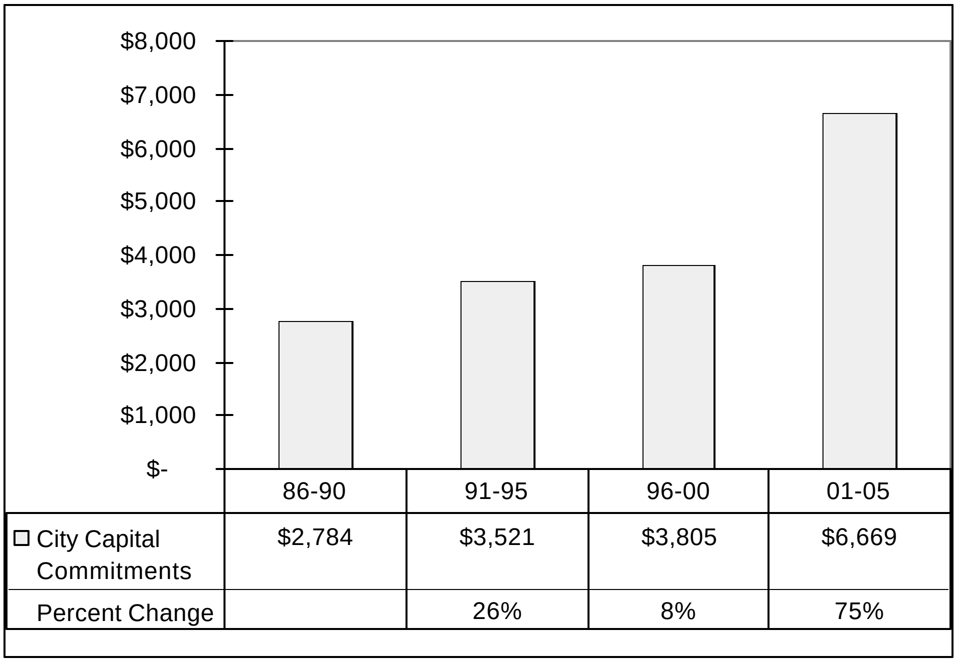
III. AFFORDABILITY OF CITY DEBT

The City's infrastructure was greatly neglected in the two decades following the fiscal crisis of the mid-1970s. Deferred maintenance led to dilapidated roads, bridges, and schools in dire need of repair. The City implemented a series of capital plans to restore its infrastructure to a state of good repair beginning in the early 1990s. This program has continued with the City's Capital Plan through FY 00. The City committed resources averaging $2.8 billion per year during FYs 86-90, $3.5 billion per year during FYs 91 - 95, and $3.8 billion during FYs 96-00. In FY 01, the City chose to execute a historically ambitious capital program, with City-funded capital commitments of $6 billion, 61 percent over FY 00. Between FY 01 and FY 05, projected City-funded commitments will average $6.7 billion per year, approximately 75 percent more than the average of $3.8 billion between FY 96 and FY 00. (See Chart 2.)

The City's ambitious capital program is funded exclusively by borrowing, which will grow from $2.8 billion in FY 01 to $4.3 billion in FY 05, and is expected to average $4.1 billion over FYs 01-05.[6] The increase in long-term borrowing to facilitate the City's capital program has resulted in a large increase in annual debt service. City debt-service payments are expected to grow by approximately 5.9 percent annually between FY 01 and FY 10, rising to $5.55 billion in FY 10 from $3.32 billion in FY 01.[7] (See Chart 3.)

[6] This represents bond proceeds for G.O., TFA, and TSASC bonds that are included in the City's June 2001 Financial Plan.
[7] *Ibid*.

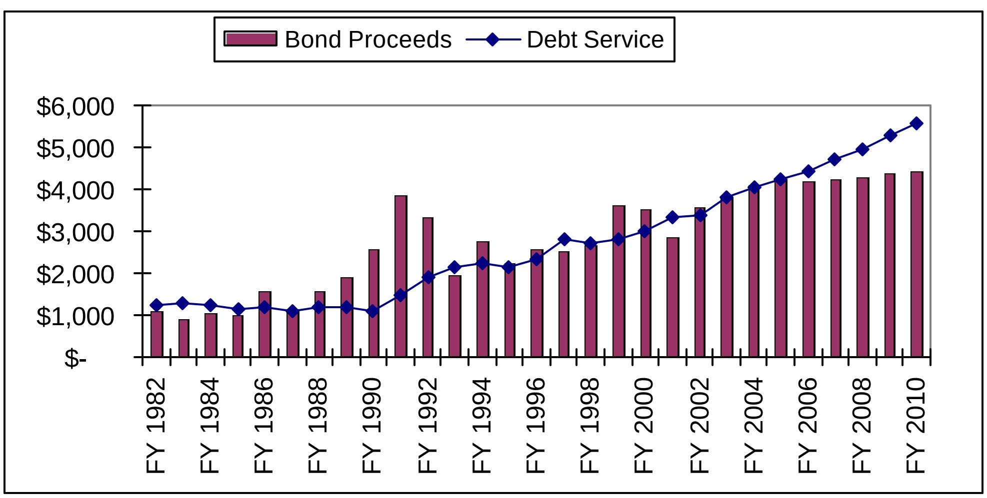
Chart 2. *Actual and Historical Capital Commitment Averages, City Funds, FYs 86 - 05*



	86-90	91-95	96-00	01-05
City Capital Commitments	$2,784	$3,521	$3,805	$6,669
Percent Change		26%	8%	75%

Source: Mayor's Messages FYs 89-00 and FY 02 Adopted Capital Commitment Plan.

Chart 3. *Bond Proceeds and Debt Service, FYs 1982-2010*



Sources: City of NY, Office of the Comptroller, *Comprehensive Annual Financial Reports*, 1982-2001 and Office of Management and Budget, *Financial Plan*, June 2001. Debt-service payments exclude interest on short-term notes and budget surpluses prepaid to the debt-service fund.

A. Debt Burden

Even after adjusting for the effect of population change and tax revenue, since FY 90 the City's debt has expanded rapidly in the 1990s. Debt per capita, which amounted to $2,490 in FY 90, has grown to $4,628 in FY 01, an increase of 86 percent. Over the same period, the growth in debt per capita exceeds the rate of inflation by 48 percentage points and the growth in tax revenues by 32 percentage points. The debt per capita figure does not include the debt of the NYWFA and the NYC Transit Authority, both of which greatly affect user fees paid by City residents. If the debt of these two authorities were included, it would raise the City's debt per capita to approximately $7,900.

B. Comparison with Selected Municipalities

NYC's debt burden per capita exceeds the average of a sample of 14 other large U.S. cities by a margin of 2.3 to one. At $4,502 per capita in FY 00, NYC also exceeds the next highest city, Philadelphia, by 1.4 to 1, or by $1,261 per capita. (See Table 6.)

Table 6. *Debt Per Capita, NYC and 14 Other Selected Cities, 2000*

City	**Population**	**Direct and Overlapping Debt Outstanding ($ 000)**	**Debt Per Capita**
Philadelphia	1,417,601	$4,595,000	$3,241
Chicago	2,896,016	8,292,193	2,863
Minneapolis	382,618	1,012,516	2,646
Houston	1,919,390	4,196,958	2,187
Las Vegas	483,000	971,080	2,011
Detroit	951,270	1,862,768	1,958
San Antonio	1,207,500	2,329,535	1,929
Seattle	563,374	954,130	1,694
Los Angeles	3,823,000	5,597,193	1,464
Phoenix	1,289,125	1,847,037	1,433
San Diego	1,277,168	1,801,428	1,410
Boston	555,000	763,789	1,376
Dallas	1,083,500	1,379,751	1,273
San Francisco	800,606	911,625	1,139
Average of 14 Other Cities	**1,332,083**	**$2,608,221**	**$1,958**
NYC	**8,008,278**	**$36,054,000**	**$4,502**

Note: This table is based on data from each city's Comprehensive Annual Financial Report. While care was taken to render comparable results, the Comptroller's Office cannot guarantee, in every case, that the data are complete.
Sources: Comprehensive Annual Financial Reports of listed cities.

NYC has the largest population of all the cities in the U.S., and it is called upon to maintain the most complex and aging infrastructure in the nation. Given its population size, it has more school buildings, firehouses, health facilities, community colleges, roads, bridges, libraries, and police precincts than any other municipality in the country. Moreover, the City has responsibilities that are distributed in other cities more broadly among states, counties, unified school districts, and public authorities. When comparing levels of debt with other jurisdictions, because of the differences in population, area, and the size of infrastructure to be maintained, data should be adjusted to establish a relative measure among jurisdictions.

Moreover, many of the cities dedicate specific revenues to finance a portion of their capital program, using mechanisms as diverse as school finance authorities, park districts, hospital districts, community college districts, parking authorities, street and highway user revenue bonds, airport revenue bonds, stadium authorities, sanitation districts and library districts. The other cities also make use of enterprise funds or special revenue funds. Enterprise funds are defined as those used to account for operations that are financed and operated in a manner similar to private business enterprises. Hence, the Comptroller's Office derives debt per capita statistics by using the Direct and Overlapping Debt Table from each city's Comprehensive Annual Financial Report (with the exception of Minneapolis and Philadelphia) as the source of each city's debt, and dividing this figure by each city's population[8]

Although its debt per capita is the highest of the large U.S. cities surveyed, NYC's net debt per capita has not grown as fast as eight other cities between FY 2000 and FY 1988. It also is 33 percentage points below the average increase of the cities surveyed over that period. For example, between FY 1988 and FY 2000, the debt per capita figures for San Diego and Las Vegas have grown significantly faster, by 653 percent and 593 percent respectively compared with NYC at 120.6 percent. (See Table 7.)

Table 7. *Debt Per Capita, NYC and 14 Other Selected Cities, 1988 and 2000*

City	Debt per Capita in 1988	Debt per Capita in 2000	Percent Change 1988-2000
San Diego	$187	$1,410	652.9 %
Las Vegas	290	2,011	592.7
Philadelphia	851	3,241	280.7
Los Angeles	435	1,464	236.6
San Francisco	344	1,139	231.5
Minneapolis	825	2,646	220.7
Chicago	953	2,863	200.4
Phoenix	594	1,433	141.3
San Antonio	887	1,929	117.5
Boston	701	1,376	96.2
Houston	1,189	2,187	83.9
Seattle	986	1,694	71.8
Detroit	1,156	1,958	69.4
Dallas	1,213	1,273	5.0
Average of 14 Other Cities*	**$774**	**$1,958**	**153.1%**
NYC	**$2,041**	**$4,502**	**120.6%**

*Table 6 represents a simple average of the average debt outstanding divided by the average population.

Note: This table is based on data from each city's comprehensive annual financial report. While diligence was used to render comparable results, the Comptroller's Office cannot guarantee, in every case, that the data are complete.

Sources: NYC Comptroller's Office, based on comprehensive annual reports and/or official statements of various cities.

[8] The debt outstanding for Minneapolis is provided from its official statement dated July 21, 2001, Table H, p. 24. Debt outstanding for Philadelphia is provided by the Office of the Director of Finance.

NYC's debt per capita also exceeds the sampled cities across the NYS. Within the State, the average debt per capita of the cities and counties surveyed is $1,709, which is close to one-third that of NYC. Even the affluent counties of Westchester and Nassau have debt per capita statistics of 60 and 34 percent less than that of NYC. (See Table 8.)

Table 8. *Debt Per Capita, NYC and 11 Selected NYS Cities and Counties, 2000 or Recent Year*

City or County	Debt per Capita	Date of Observation
City of White Plains	$1,412	6/30/00
Westchester County	1,804	12/31/00
Nassau County	2,954	12/31/99
Suffolk County	958	12/31/98
City of Albany	1,529	8/31/00
City of Syracuse	1,853	4/16/01
Onondaga County	1,931	12/31/00
City of Buffalo	1,408	12/31/00
Erie County	1,214	12/31/00
City of Rochester	1,891	6/30/01
Monroe County	1,423	12/31/00
Average of 11 Selected NYS Cities and Counties*	$1,709	-
NYC, 00	**$4,502**	**6/30/00**
NYC, 01	**$4,628**	**6/30/01**

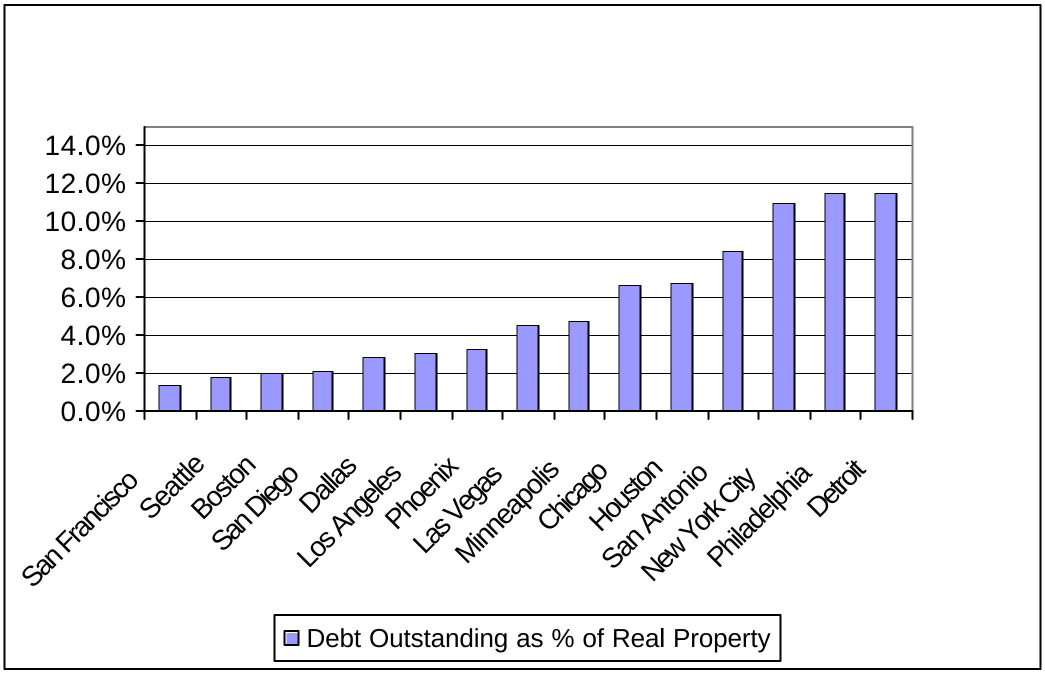
*Represents a simple average of the average debt outstanding for all counties and cities divided by the average population for all counties and cities.
Source: Annual financial reports of selected cities and counties.

Another way to examine the debt burden of a municipality is to measure its debt relative to its wealth. Two traditional measures of that relationship are debt outstanding divided by the full value of real property, and per capita debt divided by personal income per capita. The Standard & Poor's rating agency considers values of these ratios above six percent to be high.[9] The rationale behind the use of the full value of real property is that the property tax base provides a major revenue source for debt payment; and that some reasonable limit can be established for the amount of debt that can be borrowed against the property tax base. The use of personal income is another relative measure of a locality's wealth. The wealthier a community, the greater its capacity to pay taxes, and therefore sustain local government debt and operations. However, taxation is always a balancing act as heavy taxation levels can lead to the flight of tax-paying citizenry.

Among the cities surveyed in this report, NYC is among the highest in both of these measures of debt burden and is well above the averages of the sample cities and counties. NYC's debt outstanding as a percent of its full value of real property in FY 00 is approximately 11 percent. This is almost 156 percent above the sample-city average of 4.3 percent. Only Philadelphia and Detroit exceed NYC, both with ratios of 11.5 percent. The city with the next-highest ratio after NYC is San Antonio with a ratio of 8.4 percent. Chicago has a ratio of 6.7 percent and Los Angeles has a ratio of 3 percent, both considerably lower than NYC. (See Chart 4.)

[9] Standard & Poor's Public Finance Criteria 2000, p.29.

Chart 4. *Debt Outstanding as Percent of the Full Value of Real Property, FY 00*

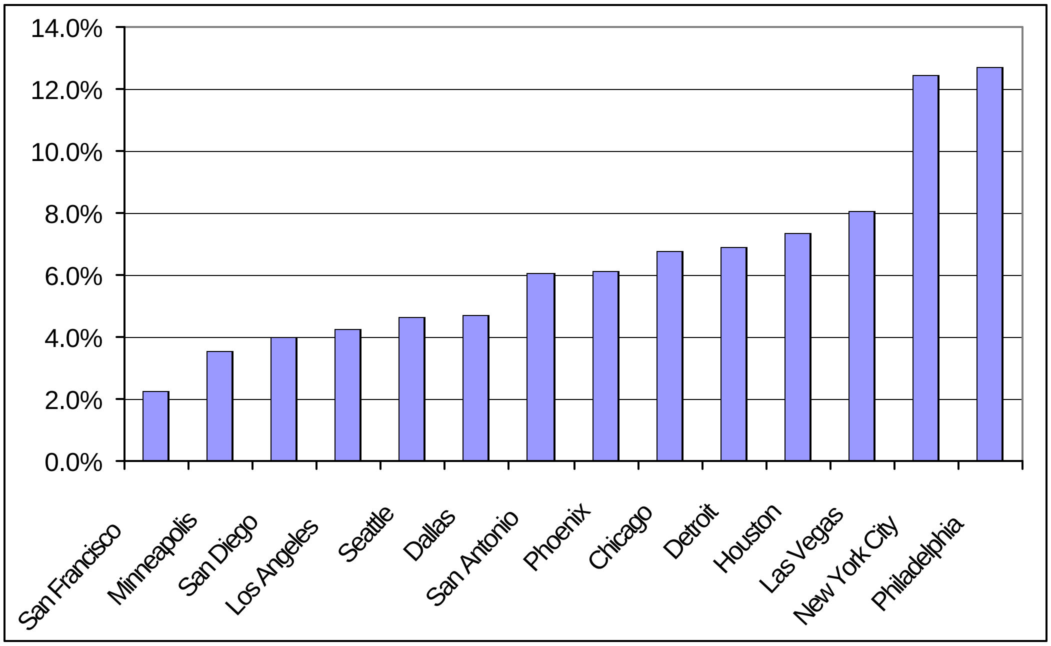


Source: Each city's annual financial report, FY 00.

NYC's FY 99 debt per capita as a percent of personal income per capita was 12.5 percent or 2.2 times higher than the average of the sample cities of 5.6 percent.[10] Only Philadelphia exceeds NYC with a ratio of 12.7 percent, with Las Vegas the next highest at 8 percent, and San Francisco the lowest at 2.3 percent. (See Chart 5.)

[10] Since the Bureau of Economic Analysis (BEA) provides personal income figures by county, this analysis uses annual financial reports of the county in which each city is located. At the time this report was prepared, the latest available BEA data for personal income was for 1999. The City and County of San Francisco and the City and County of Philadelphia are considered single geographic entities. The other cities in the sample, apart from NYC itself, are entirely included within larger counties.

Chart 5. *Debt per Capita as Percent of Personal Income per Capita, 1999*



Source: Annual financial reports for 1999 of sample counties for debt per capita, and the Bureau of Economic Analysis for 1999 personal income data.

C. Affordability Measures

The level of NYC's debt is rising and consuming a larger portion of the value of its real property. Based on historical averages, NYC's debt is becoming unaffordable. As a percentage of the assessed value of real property, NYC debt rose to 41 percent in FY 01 from 26 percent in FY 90, indicating that resources available to meet outstanding obligations are being exhausted more rapidly. (See Chart 6.)

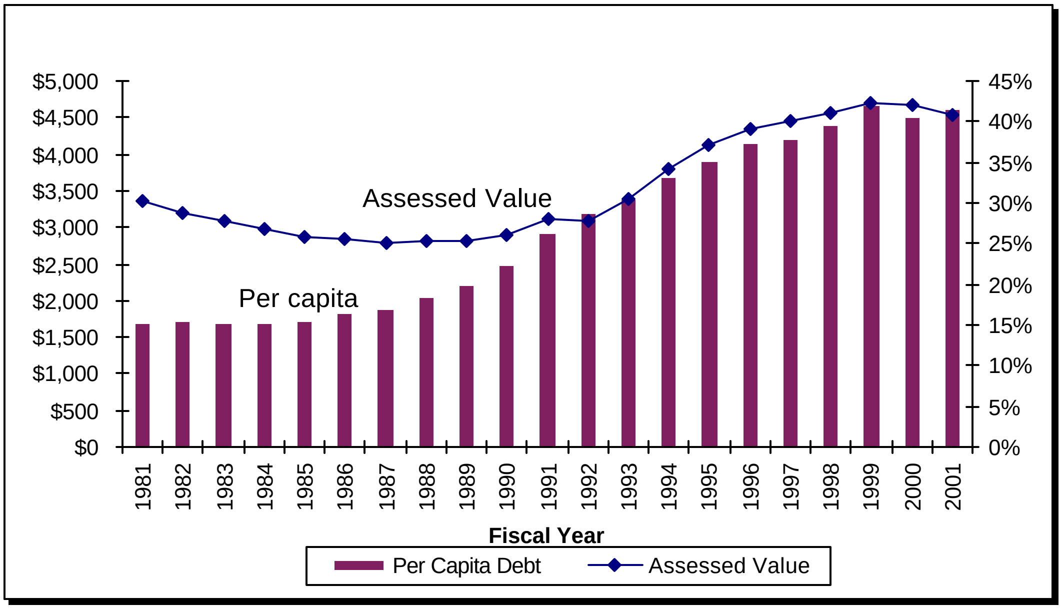
As the City's annual amount of debt grows so does its debt service. Another measure of debt affordability is the ratio of annual debt service to annual tax revenues.[11] This measure shows the pressure that debt service exerts on a municipality's annual operating budget. In the case of NYC, debt service consumed 16.2 percent of tax revenues in FY 01, up from 11.6 percent in FY 90. By FY 05, annual debt service will consume 19 percent of tax revenues. This is a level not experienced since the early 1980s, following the debt restructuring that occurred as a result of the mid-1970s fiscal crisis. (See Chart 7.)

In the aftermath of the WTC attack, tax revenues and the assessed value of real property may decline in future years. If the City were to face an economic downturn similar to the one

[11] The Citizens Budget Commission developed a new approach to debt affordability which focuses on the effect of the debt on a jurisdiction's economic competitiveness. This approach produces a danger zone in which the burden of debt becomes relatively far out of line with other places. According to this approach NYC's debt was $2.2 billion below the danger zone. See "An Affordable Debt Policy for NY State and New York City," October 2000.

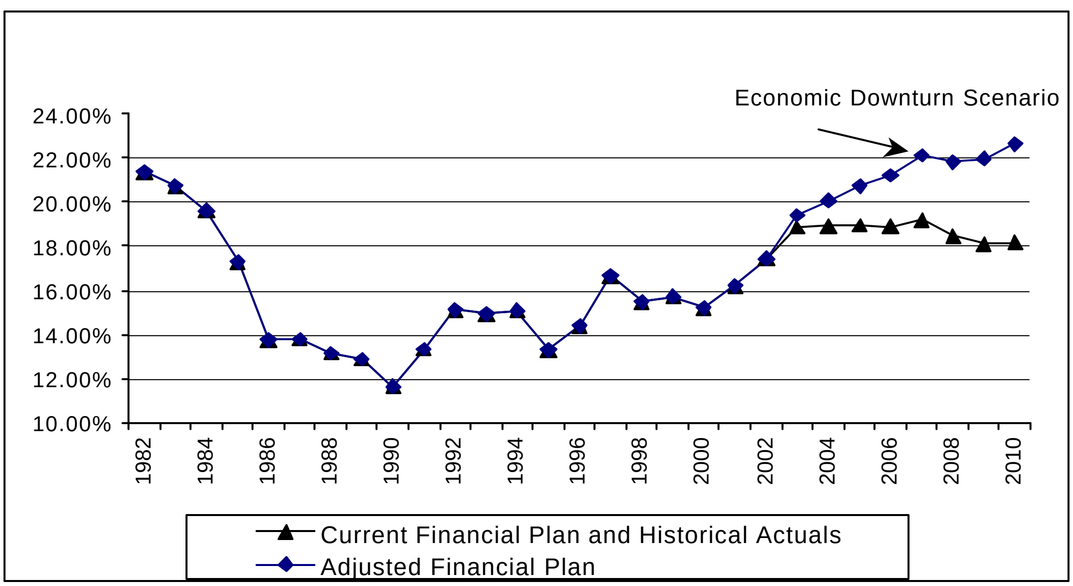
experienced in the early 1990s, tax revenues would be substantially lower than projected in the June Plan. In that case, debt service would consume an even larger portion of tax revenues over the June Plan period than is currently projected.

Chart 6. *Debt Per Capita and Debt as a Percentage of Assessed Value of Taxable Real Property*



Source: NYC, Office of the Comptroller, *Comprehensive Annual Financial Report*, FYs 1981-2001.

Chart 7. *Debt Service as a Percent of Tax Revenues*



Source: NYC, Office of the Comptroller, *Comprehensive Annual Financial Reports*, and 1982-2001, Office of Management and Budget, *Financial Plan*, June 2001.

IV. RECOMMENDATIONS

Since FY 97, the City's capital program has been constrained by the State constitutional limit on the City's debt-incurring capacity. To finance its capital program, the City created alternative financing mechanisms such as TFA and TSASC, and entered into leaseback agreements with institutions such as the NYS Dormitory Authority. With these facilities, the City has been and will be able to finance its capital program in the short term. The long-term outlook is less certain, as the City may need $3 billion in additional debt-incurring power to implement its ten-year capital program fully. The City so far is relying on the ratification of a constitutional amendment for relief. This solution is unlikely to materialize, given the past reluctance of the State's citizens to approve changes that authorize increases in debt-incurring power. So the first order of business for the City is to find new solutions to the problem of the constraints on its borrowing. The following five solutions may be the most realistic.

A. Lobby the Federal Government for Full Reimbursement of WTC Costs

The City must use its influence in Washington to press the Federal Government to follow through on its commitments to reimburse the City for the costs of cleaning, securing and stabilizing the WTC site. The money should be made available to the City in a timely manner to avoid putting unnecessary pressures on the City’s budget.

B. Continue to Issue Notes Against Federal Reimbursement

The City should continue to issue Notes and Rollover Notes until Federal reimbursement is received to avoid unnecessary debt-service costs in the long term.

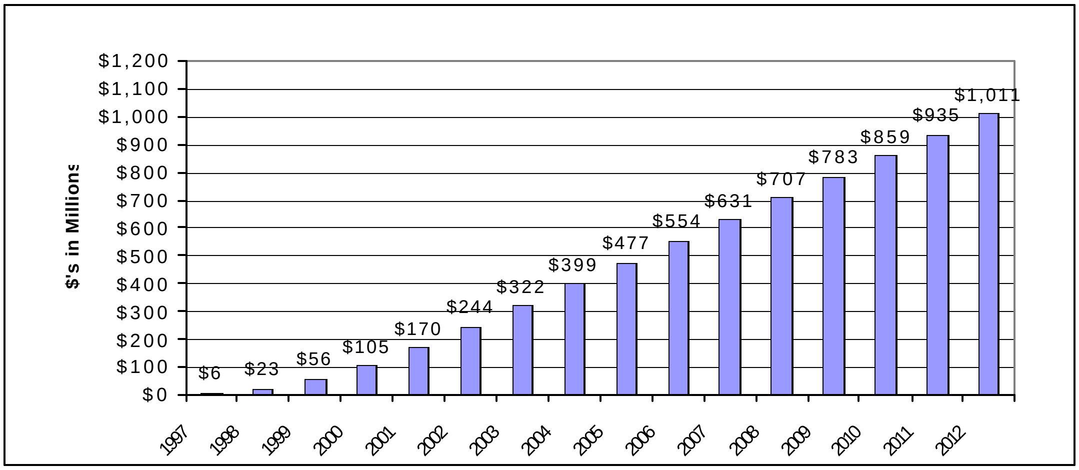
C. Charge Debt Service to Agencies

As a long-term plan to reduce a possible agency bias toward capital debt, charge the service costs of the related debt to agency budgets. Under current practice, debt service is appropriated from a central account in the General Fund, and debt-service costs for a particular agency’s capital projects are charged to that central account. This procedure at times encourages agency heads, faced with competing demands for resources, to defer maintenance of capital assets. Deferred maintenance has resulted in the deterioration of these assets. Their eventual replacement or rehabilitation costs the City much more than regular maintenance. Charging debt service directly to City agency budgets might encourage them to provide adequate funding for maintenance, thereby reducing the incidence of unnecessary capital expenditures.

D. Adopt Pay-As-You-Go Financing

Some of the City's debt load could have been abated if a small portion of its capital program was financed on a pay-as-you-go basis. The City achieved record budget surpluses in each of FYs 97-01, which averaged $2.44 billion. By financing a small portion of its capital program in FYs 97-01 with a $200 million a year pay-as-you-go program from its budget surpluses, the City could have reduced its debt by $1 billion by FY 02 and saved $1 billion in cumulative debt-service costs by FY 2012. (See Chart 8.)

Chart 8. *Cumulative Debt-Service Savings of $200 Million a Year, Pay-As-You-Go Program, 1997-2001*



Source: NYC, Office of Comptroller, October 2001.

E. Prioritize and Stretch the Capital Plan over a Longer Period

In anticipation of a shortage of debt-incurring capacity, the City should prioritize its capital program. Based on priorities, the City can implement its five-year capital plan over a longer period, thereby lessening its debt burden and the resultant debt service. Given the intensity of the effort to repair and stabilize the lower Manhattan area following the WTC attack, the high demand for the limited resources of the construction industry may force a delay in other City capital projects and ultimately increase their costs. Since the City has increased its capital plan by 75 percent over the next five years, it may not be able to complete a sizable portion of its capital plan within the five-year period.