Fiscal Year 2008 Annual Report of The Comptroller on Capital Debt and Obligations

The City of New York
Office of the Comptroller
William C. Thompson, Jr., Comptroller

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Executive Summary

Debt is issued by the City of New York (the "City"), or on behalf of the City, through a number of different mechanisms. This report assesses the debt condition of the City of New York in accordance with Section 232 of the City Charter. The Charter requires the Comptroller to report the amount of debt the City may incur for capital projects during the current fiscal year and each of the three succeeding fiscal years.

New York City's general debt limit, as provided in the New York State Constitution, is 10 percent of the five-year rolling average of the full value of taxable City real property. The City's FY 2008 general debt-incurring power of $60.10 billion is projected to rise to $67.35 billion in FY 2009, $73.66 billion in FY 2010, and $79.48 billion in FY 2011.

The City's General Obligation (GO) debt was $33.78 billion at the beginning of FY 2008. After including contract and other liability and adjusting for appropriations, the City's indebtedness that is counted toward the debt limit totaled $39.5 billion at the beginning of FY 2008, as shown in the Debt-Incurring Power table on page vi. As a result, this indebtedness is expected to grow to $57.96 billion by the beginning of FY 2011. The City was below its general debt limit by $20.6 billion on July 1, 2007 and is projected to have remaining debt-incurring capacity of $20.44 billion on July 1, 2008, $19.98 billion on July 1, 2009, and $21.52 billion on July 1, 2010. In addition to these obligations, the City is responsible for the interest on Hudson Yard Infrastructure Corporation (HYIC) debt but not its related principal of $2 billion.

New York City has the largest population of any city in the U.S., and it is obligated to maintain a complex and aging infrastructure. The City bears responsibilities for more school buildings, firehouses, health facilities, community colleges, roads, bridges, libraries, and police precincts than any other municipality in the country. Capital bond proceeds are used for the construction and rehabilitation of these facilities. Bond proceeds are also used for financing shorter-lived capital items such as comprehensive computer systems.

In addition to GO bonds, the City maintains several additional credits, including bonds issued by the New York City Transitional Finance Authority (NYCTFA) and TSASC, Inc. The debt-incurring capacities of NYCTFA and TSASC total $17.3 billion of which $14.8 billion has been utilized to finance the City's capital program. Also included in the $17.3 billion capacity is $2.0 billion of recovery bonds issued for general fund expenses in the aftermath of the World Trade Center disaster. As the Debt-Incurring Power table shows, the NYCTFA has exhausted its general debt-incurring power as of July 1, 2007. Debt per capita, which amounted to $2,490 in FY 1990, grew to $7,096 by FY 2007, an increase of 185 percent. Over the same period, the cumulative growth rate in debt per capita exceeded the rate of inflation by 118 percentage points and the growth rate of City tax revenues by 27 percentage points. Based on an analysis of financial statements released by other jurisdictions, New York City leads a sample of large U.S. cities in debt burden per capita by a margin of more than two to one.

Despite turmoil in the capital markets, the City continues to have good access to the public credit markets. The City's GO credit ratings were upgraded by all three agencies in 2007, and are rated AA by Standard & Poor's, Aa3 by Moody's Investor Service, and AA- by Fitch Ratings.

NYC Debt-Incurring Power

($ in millions)

	July 1, 2007	July 1, 2008 [a]	July 1, 2009	July 1, 2010
Gross Statutory Debt-Incurring Power	**$60,102**	**$67,353**	**$73,655**	**$79,477**
Actual Bonds Outstanding as of June 30 (net) [b]	33,776	32,389	30,539	29,000
Plus New Capital Commitments				
FY 2008 [c]		8,647	8,647	8,647
FY 2009			8,600	8,600
FY 2010				6,057
Less: Appropriation	(1,713)	(1,561)	(1,551)	(1,784)
Subtotal: Net Funded Debt Against the Limit	**32,063**	**39,475**	**46,235**	**50,520**
Plus: Contract and Other Liability	7,441	7,441	7,441	7,441
Subtotal: Total Indebtedness Against the Limit	**39,504**	**46,916**	**53,676**	**57,961**
Remaining Debt-Incurring Power within the General Debt Limit	**20,598**	**20,437**	**19,979**	**21,516**
Total Authorized TFA Debt-Incurring Power	13,500	13,500	13,500	13,500
Less: TFA Bonds Issued to Date for Contract Liability	13,500	13,500	13,500	13,500
Remaining Authorized TFA Debt Incurring Power[d]	**0**	**0**	**0**	**0**
Remaining TSASC Debt-Incurring Power[e]	**0**	**0**	**0**	**0**
Remaining Debt-Incurring Power within General Limit, TFA Capacity, and TSASC Capacity[f]	**$20,598**	**$20,437**	**$19,979**	**$21,516**

[a] FY 2009 debt limit figure is based on the NY State Office of Real Property Service's estimated special equalization ratio. FYs 2010 and 2011 are based on the NYC Comptroller's Office forecast of full market value by property class.

[b] Net adjusted for Original Issue Discount, Capital Appreciation Bonds, GO bonds issued for the water and sewer system, and Business Improvement District debt. $34.506 billion from Table 1 minus $730 million of the aforementioned adjustments equals $33.776 billion.

[c] Reflects Capital Commitments as of the FY 2008 Adopted Budget Commitment Plan (issued in October 2007) and includes cost of issuance and certain Inter-Fund Agreements.

[d] Reflects NYCTFA's general debt-incurring capacity, but does not include $9.4 billion of education Building Aid Revenue Bonds authorization in April 2006.

[e] TSASC debt is not limited by statute. However, at this time, TSASC does not intend to issue any additional debt.

[f] The Debt Affordability Statement released by the City in April, 2007 presents data for the last day of each fiscal year, June 30, instead of the first day of each fiscal year, July 1, as reflected in this table. The City's Debt Affordability Statement forecasts that indebtedness will be below the General debt limit by $7.68 billion *at the end of* FY 2007.

SOURCE: NYC Comptroller's Office and the NYC Office of Management & Budget.

I. Profile of New York City Debt

Debt is issued by New York City, or on behalf of New York City, through a number of different mechanisms. This debt (Gross NYC Debt) is used to finance the City's capital projects. Gross NYC Debt rose by 5.3 percent from FY 2006 to FY 2007.[1] In the 1980s, Gross NYC Debt grew at an average annual rate of 4.5 percent. During the 1990s, Gross NYC Debt increased by 6.4 percent annually. The substantial increase during the 1990s resulted mainly from the rehabilitation of facilities that were neglected during the 1970s fiscal crisis. Gross debt outstanding grew at a rate of 5.7 percent per year from FY 2000 to FY 2007. The FY 2007 Adopted Budget and Financial Plan projects that over the next four years, Gross NYC Debt will increase by 5.9 percent annually, reflecting the growth in the education capital program.[2]

A. COMPOSITION OF DEBT

Debt used by the City to finance its capital program can be divided into five categories with General Obligation (GO) bonds accounting for 59.3 percent of the total, as shown in Table 1. Except for debt issued by TSASC, the City's debt is comprised of both tax-exempt and taxable bonds.

Table 1. Gross NYC Debt Outstanding as of June 30, 2007

($ in millions)

	GO Bonds	NYCTFA	TSASC	STAR Corporation	Capital Lease Obligations & Other[a]	Gross Debt Outstanding
Tax-Exempt						
Fixed Rate	$26,801	$9,833[c]	$1,317	$1,869	$3,520	$43,340
Variable Rate[b]	6,041	4,304[c]	0	0	576	10,921
Subtotal	$32,842	$14,137	$1,317	1,869	$4,096	$54,261
Taxable						
Fixed Rate	$1,055	$293	$0	$499	$1,305	$3,152
Variable Rate[b]	609	177	0	0	0	786
Subtotal	$1,664	$470	$0	$499	$1,305	$3,938
Total	**$34,506**	**$14,607**	**$1,317**	**$2,368**	**$5,401**	**$58,199**
Percent of Total	**59.3%**	**25.1%**	**2.3%**	**4.1%**	**9.2%**	**100.0%**

[a] This figure includes $709 million in Jay Street Development Corporation debt FASB 13 capital leases of $596 million, and $2.1 billion of Hudson Yards Infrastructure Debt.
[b] Variable rate debt varies in term from two to 30 years with interest-payment terms that are reset on a daily, weekly, or other periodic basis.
[c] The New York City Transitional Finance Authority (NYCTFA) fixed-rate figure includes $1.3 billion for NYCTFA Builiding Aid Revenue Bonds (BARBs). The variable-rate figure contains $1.765 billion of Recovery Bonds.
SOURCE: Comprehensive Annual Financial Report of the Comptroller, FY 2007, p.298.

[1] This information is presented on p. 298 of the Office of the NYC Comptroller's *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007* that was released on October 31, 2007.
[2] GO, TSASC, and NYCTFA debt are used as a proxy for estimated growth rate, due to the unavailability of data about future lease-purchase debt issuance.

Tax-exempt debt is issued to finance projects that have a public purpose, while taxable debt is issued for projects that have a public purpose but are ineligible for Federal, State or City tax exemptions, such as housing loan programs that benefit from Federal tax credits.

Tax-exempt debt accounted for 93 percent of the total value of debt outstanding at the end of FY 2007. Fixed-rate tax-exempt debt accounted for 79.9 percent of tax-exempt debt and coincidentally, tax-exempt and taxable fixed-rate debt comprises 79.9 percent of total debt. Both tax-exempt and taxable variable rate debt combined comprised 20.9 percent of gross debt outstanding.

Elements of Outstanding Gross NYC Debt

1. *General Obligation (GO)* debt, which is backed by the full faith and credit of the City, totaled $34.51 billion as of June 30, 2007 and accounted for 59.3 percent of total debt outstanding. Compared with FY 2006, GO debt decreased $1.3 billion, or 3.7 percent.[3] Debt service for GO bonds is paid from the proceeds of real property taxes which are deposited with and retained by the State Comptroller under a statutory formula for the payment of debt service. This "lock-box" mechanism assures that debt-service obligations are satisfied before property taxes are released to the City's general fund. This feature is viewed positively by the investor community.

2. *New York City Transitional Finance Authority (NYCTFA)* debt totaled $14.607 billion at the end of FY 2007, including $1.3 billion of NYCTFA Building Aid Revenue Bonds (BARBs). This is an 8.8 percent increase, or a $2.37 billion change from FY 2006. The NYCTFA's share of Gross NYC Debt outstanding increased to 25.1 percent in FY 2007 from 22.1 percent in FY 2006.

   The NYCTFA was created as a State authority. Therefore, its debt is not included in debt outstanding charged against the City's general debt limit.[4] In July 2006, the State Legislature increased NYCTFA debt capacity by $2 billion to $13.5 billion for general capital purposes. The NYCTFA issued general purpose bonds and notes in the amount of $2 billion during the course of FY 2007, fully utilizing its current debt capacity.

   Building Aid Revenue Bonds (BARBs) In April 2006, the State legislature authorized the NYCTFA to issue up to $9.4 billion of debt to fund a portion of the City's five-year educational facilities capital plan. This debt is supported by State Education aid for building aid purposes and is outside the $13.5 billion regular NYCTFA debt limit. In addition to this NYCTFA authorized portion, $1.8 billion of bonds for education purposes, backed by State personal income tax revenues, were authorized to be issued by the Dormitory Authority of the State of New York (DASNY). During the course of FY 2007, $1.3 billion of BARBs and $757 million of DASNY Expanding our Children's Excellence in Learning (EXCEL) bonds were issued.

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[3] FY 2006 figure is from the *FY 2006 Annual Report of the Comptroller on Capital Debt and Obligations*, December 2006.
[4] The debt limit is discussed in further detail in Section II.

3. *TSASC, Inc. (TSASC)* debt totaled $1.32 billion as of June 30, 2007. This represents a modest decrease of $17 million from FY 2006. TSASC is a local development corporation organized under Not-for-Profit Corporation Law of the New York State. TSASC bonds are secured by tobacco settlement revenues as described in the Master Settlement Agreement among 46 states, six jurisdictions, and the major tobacco companies. In February 2006, TSASC refinanced all bonds issued under its original indenture.[5] The new refunding bond structure allows the tobacco settlement revenues (TSR) to flow to both TSASC and the City. Approximately 40 percent of the TSRs are pledged to TSASC bondholders and the remainder goes to the City's general fund. This new indenture provides TSR revenues directly to the general fund after the satisfaction of debt service requirements.

4. *STAR Corporation (Sales Tax Asset Receivable Corporation)* debt totaled $2.368 billion at the end of FY 2007. The proceeds of its bonds are earmarked to pay off the remaining debt of the Municipal Assistance Corporation. There are no plans to issue any additional debt for this credit. The STAR Corporation is a local development corporation organized under the Not-for-Profit Corporation Law of the State of New York. It is separate and apart from the City of New York but is an instrumentality of the City.

5. *Capital Lease Obligations* totaled $5.40 billion as of June 30, 2007, an increase of $2.03 billion, or 60 percent, from FY 2006 due to the issuance of Hudson Yards Infrastructure Corporation (HYIC) debt. The City plans 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. These agreements are known as "leaseback" transactions. These leaseback obligations are included in the gross debt outstanding, but are excluded in the calculation of the City's indebtedness under the general debt limit. Capital lease obligations include debt issued by the Dormitory Authority of the State of New York for the New York City Courts Capital Program ($615 million), the City University Construction Fund ($244 million), the Educational Construction Fund ($123 million), the Primary Care Development Corporation ($47 million), the Health and Hospitals Corporation ($781 million), the Housing Finance Agency ($46 million), the Urban Development Corporation ($38 million), the Industrial Development Agency ($103 million), the Jay Street Development corporation ($709 million), as well as general lease obligations ($596 million).[6]

   The Hudson Yards Infrastructure Corporation is a not-for-profit local development corporation formed in July 2004 to issue debt to finance development in the Hudson Yards district of Manhattan. This entity is expected to issue a total of $3 billion in debt over the next few years to finance the extension of the #7 subway line and various site and structural improvements. The first bond sale in the amount of $2 billion took place in December 2006. In addition to bonds, there are $100 million of HYIC notes outstanding. The City is obligated

[5] The former TSASC indenture called for all tobacco revenues to flow first to TSASC and then to the City's general fund.

[6] Although for reporting purposes $781 million of Health and Hospitals Corporation (HHC) debt is included in the category of *Capital Lease Obligations*, the debt of HHC is not guaranteed by New York City. Jay Street Development Corporation's figure reflects the present value of its future capital lease payments and does not equal its principal outstanding. General lease obligations refer to the GASB-13 calculation of the present value of certain long-term leases which are considered capital leases.

to pay interest on HYIC bonds, subject to appropriation, until such future time at which revenues of the Hudson Yard District are sufficient to cover this expense. The City is not obligated to pay the principal of this debt. There is no planned HYIC borrowing in FY 2008.

Other Issuing Authorities

In addition to the financing mechanisms cited above, a number of independent authorities in the City issue bonds to finance projects in the NYC metropolitan area. Among the most prominent are the New York City Municipal Water Finance Authority (NYW) and the Metropolitan Transportation Authority (MTA), as shown in Table 2.

Table 2. NYW and MTA Debt Outstanding as of June 30, 2007

($ in millions)

	Water Finance Authority	**Metropolitan Transportation Authority**
Tax Exempt		
Fixed Rate	$15,183	$17,143
Variable Rate	2,888[a]	7,826
Total	**$18,071**	**$24,969**

[a] Includes $800 million of commercial paper.

SOURCES: The NYC Municipal Water Finance Authority and the Metropolitan Transportation Authority.

NYW and MTA bonds are secured by dedicated revenues. As such, they are not considered debt of the City. Nevertheless, proceeds of these bonds are used to support services provided to City residents. In turn, City residents pay user fees and fares that secure, in large part, the $43 billion of debt of these two authorities.

As of June 30, 2007, the NYW had $18.071 billion in debt outstanding, an increase of $1.786 billion, or 11 percent from FY 2006. Debt issued by the NYW is supported by user fees and certain other revenues. Created by State law in 1984, the NYW is responsible for funding water and sewer related capital projects administered by the City's Department of Environmental Protection (DEP) such as sewers, water mains, and water pollution control plants. Filtration avoidance of upstate watersheds continues to be a high priority for the DEP capital program. Land acquisition strategies and measured local development help the goals of continued water quality. With DEP's $19.5 billion capital program over the next ten years, debt outstanding and its related debt service will continue to place upward pressure on water and sewer rates over the financial plan period.

The MTA, composed of six major agencies providing commuter transportation throughout the metropolitan area, had $24.969 billion of debt outstanding as of June 30, 2007. This is an increase of $1.83 billion, or 7.9 percent, from June 30, 2006. This continuously increasing debt burden is straining the MTA's operating budget and driving a large portion of the agency's projected future operating deficits.

The New York City Transit Authority and MTA Bus maintain 656 miles of mainline subway track and a fleet of more than 4,500 buses for its services within the five boroughs of New York City. The Long Island Railroad provides commuter train service to destinations in

Queens, Nassau, and Suffolk counties from Midtown Manhattan and Downtown Brooklyn. Long Island Bus provides bus service to numerous destinations in Nassau, Queens, and Suffolk counties. The Metro-North Railroad serves commuters in the Bronx, Westchester, Putnam and Dutchess counties and portions of southern Connecticut. The Bridges and Tunnels Authority operate all intra-State toll tunnels and bridges throughout the five boroughs of New York City.

B. ANALYSIS OF PRINCIPAL AND INTEREST AMONG THE MAJOR NYC ISSUERS

The three major issuers that either have financed and/or continue to finance capital projects are: 1) NYC General Obligation, 2) NYCTFA, and 3) TSASC. There is no additional planned debt issuance for TSASC and NYCTFA general purpose debt. There is no additional capacity for NYCTFA general purpose debt. All new debt issuances will likely come from GO debt and NYCTFA BARBs. The average annual growth rate in debt outstanding is expected to slow to 3.6 percent from FY 2007 to FY 2017 relative to the average annual growth rate of 5.1 percent from FY 1999 to FY 2007.[7] Estimated debt growth from FYs 2007 to 2011 is high, however, averaging 5.9 percent per year, as inferred in Table 3.

Table 3. NYC Projected Bonds Outstanding, Three Major Issuers, FYs 2007-2017

($ in millions)

End of Fiscal Year	Debt Outstanding for GO, NYCTFA, & TSASC	Percent Change
2007	$52,596	1.4 %
2008	54,412	3.5%
2009	57,413	5.5%
2010	62,168	8.3%
2011	66,097	6.3%
2012	68,724	4.0%
2013	70,827	3.1%
2014	72,464	2.3%
2015	73,595	1.6%
2016	74,378	1.1%
2017	74,888	0.7%

SOURCE: City of New York, Office of the Comptroller, Comprehensive Annual Financial Report, October 31, 2007, and the Office of Management and Budget, June 2007 Financial Plan. Above figures include STAR debt.

The principal and interest composition for the three major issuers combined is reflected in Table 4. Principal repayments are estimated to be $2.19 billion in FY 2008, $2.45 billion in FY 2009, $2.51 billion in FY 2010, and $2.38 billion in FY 2011. Thus, principal is estimated to

[7] *FY 2007 Comprehensive Annual Financial Report*, page 298, used as source for FY 1999 to FY 2007 rate of growth, excluding $2.1 billion of HYIC bonds and notes.

comprise 45.9 percent of debt service in FY 2008, 48.2 percent in FY 2009, 45.8 percent in FY 2010 and 40.3 percent in FY 2011.[8]

Table 4. Principal and Interest Estimated Payments, GO, NYCTFA, TSASC

($ in millions)

Fiscal Year	Estimated Principal Amount	Estimated Interest	Estimated Total Debt Service	Principal as Percent of Total
2008	$2,192	$2,583	$4,775	45.9%
2009	$2,447	$2,627	$5,074	48.2%
2010	$2,511	$2,969	$5,480	45.8%
2011	$2,379	$3,527	$5,906	40.3%

SOURCE: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report*, October 31, 2007 and the Office of Management and Budget, June 2007 Financial Plan.
NOTE: Adjusted for prepayments and includes debt service for GO, NYCTFA PIT bonds, and TSASC only.

During FY 2007, the City issued $1.95 billion of GO debt of which approximately $1.13 billion was used to refund certain outstanding bonds and the remainder was new debt for capital purposes. The refundings produced a modest $97,000 in debt-service savings in FY 2007, $37.7 million in FY 2008, and $12 million in FY 2009. At the end of FY 2007, GO debt totaled $34.51 billion of which $17.28 billion, or 50.1 percent, will come due in the next ten years, as extrapolated from Table 5 below.

Table 5. Amortization of Principal of the Three Major Issuers

($ in millions)

Fiscal Years	GO	NYCTFA[a]	TSASC	Total	Percent of Total
2008-2017	$17,281	$5,385	$325	$22,991	45.6%
2018-2027	$13,297	$7,006	$820	$21,123	41.9%
2028 and After	$ 3,927	$2,216	$172	$ 6,315	12.5%
Total	**$34,505**	**$14,607**	**$1,317**	**$50,429**	**100.0%**

[a] Includes $1.84 billion of Recovery Bonds and $1.3 billion of TFA BARBs.

In FY 2007, the NYCTFA issued $2 billion of new money bonds and notes. NYCTFA debt outstanding was $14.61 billion at the end of FY 2007. Of the $14.61 billion of NYCTFA general purpose and BARB bonds outstanding, $5.39 billion, or 36.9 percent, will come due over the next ten years as extrapolated from Table 5 above.

C. INSTITUTIONAL USE OF CAPITAL 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,

[8] Debt service excludes lease-purchase debt, interest on short-term notes, and debt service on MAC and STAR debt as of the FY 2008 Adopted Budget and Financial Plan, June 2007. MAC is excluded from the principal and interest analysis because its debt service is being paid by the STAR Corporation whose debt service is being paid by State revenues.

sanitation garages, parks and cultural facilities, public buildings, and housing and urban development initiatives. Over the past several years, capital expenditures for schools have significantly outpaced capital spending for other purposes due primarily to deteriorating facilities, pressures to reduce overcrowding, and a commitment to renovating existing facilities.

Including NYCTFA and TSASC, the share of total bonds outstanding used for education capital projects rose from 13.4 percent in FY 1992 to 37.1 on June 30, 2007. This reflects an increase from $2.4 billion in FY 1992, to $18.1 billion in FY 2007, including $1.3 billion of BARB bonds.[9]

Spending on housing and economic development has increased by $1.5 billion in absolute terms, but has declined in relative terms to 8.3 percent in FY 2007 from 14 percent of debt outstanding in FY 1992. Other categories that have posted absolute growth but relative decline include public safety, mass transit, sanitation, social services, off-street parking, airports, and ferries.

Since FY 1986, the NYW has financed virtually all capital expenditures of the DEP, thereby decreasing the outstanding portion of GO bonds used for the rehabilitation and maintenance of the water and sewer system. Water and sewer debt has declined to $671 million, or 1.4 percent of the total as of June 30, 2007, from a level of $1.5 billion in FY 1992, or 8.4 percent of debt outstanding as shown in Table 6.

Table 6. Use of GO, NYCTFA, and TSASC Debt, FY 2007 and FY 1992

($ in millions)

Categories	Debt Outstanding as of June 30, 2007	Percent of Total	Debt Outstanding as of June 30, 1992	Percent of Total
Education (DOE & CUNY)	$18,070	37.1%	$2,382	13.4%
Housing and Urban Development	4,025	8.3	2,502	14.0
Mass Transit	3,769	7.7	2,365	13.3
Bridges, Tunnels, Highways and Streets	5,738	11.8	1,658	9.3
Public Safety, Correction and Courts	3,767	7.7	1,729	9.7
Sanitation	2,165	4.5	1,141	6.4
Parks, Recreational and Culturals	3,272	6.7	996	5.6
Water Pollution Control, Water Mains and Sewers[a]	671	1.4	1,502	8.4
Health Services	1,347	2.8	863	4.8
Public Buildings	3,281	6.7	429	2.4
Social Services	654	1.4	283	1.6
Off-Street Parking, Airports, Ferries and Markets	649	1.3	267	1.5
Undistributed and Other	1,256	2.6	1,694	9.6
Total [b]	**$48,664**	**100.0%**	**$17,811**	**100.0%**

[a] Represents debt issued for water and sewer purposes prior to June 30, 1985.
[b] This includes GO debt, NYCTFA, and TSASC. Over the past ten years the NYCTFA and TSASC have supplanted some of GO borrowing and have issued over $16 billion of bonds and notes.
SOURCE: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report, FY 2007,* and the Office of Management and Budget, *Adopted Budget Debt Service Statement II*, FY 2008 and FY 1993.

[9] FY 1992 was chosen as base comparison year to provide a fixed reference point to prior Capital Debt and Obligation Reports.

City-Funded Capital Commitments

As shown in Table 7, the capital commitment portion for education projects in the September FY 2008 Capital Plan for FYs 2008-2011 is projected to be $5.35 billion or 18 percent of the total excluding DEP projects. Other GO and NYCTFA supported programs include capital projects for bridges, tunnels, streets, and highways at $4.31 billion, housing and urban renewal at $3.91 billion, public safety at $4.49 billion, and parks, libraries, and cultural affairs at $3.94 billion.

Water pollution control, water mains and sewers and other projects related to DEP, which are funded by NYW bonds, will comprise $11.28 billion of estimated City-funded commitments. This represents 27.5 percent of estimated total City capital commitments between FYs 2008-2011. Total City-funded commitments, including DEP and less the reserve for unattained commitments, will average about $10.25 billion per year, the largest City-funded four-year capital plan on record.

Table 7. October 2007 Capital Commitment Plan by Category, City Funds, FYs 2008 – 2011

($ in millions)

Categories	Projected FY 2008-2011 Commitments	Percent of Total	Percent of Total without Water & Sewer
Water Pollution Control, Water Mains and Sewers (DEP)[a]	$11,280	27.5%	0.0%
Bridges, Tunnels, Highways and Streets	4,309	10.5	14.5
Education (DOE & CUNY)	5,345	13.0	18.0
Housing and Urban Development	3,913	9.5	13.2
Public Safety, Correction and Courts	4,491	11.0	15.0
Parks, Libraries and Culturals	3,937	9.6	13.2
Sanitation	1,726	4.2	5.8
Mass Transit	354	0.9	1.2
Health Services	1,242	3.0	4.2
Public Buildings, Equipment, & Computers	3,765	9.2	12.7
Off-Street Parking, Airports, Ferries and Markets	148	0.4	0.5
Social Services	492	1.2	1.7
Total Before Reserve	**$41,002**	**100.0%**	**100.0%**
Reserve for Unattained Commitments	($3,961)	(N/A)	(N/A)
Total [b]	**$37,041**	**100.0%**	**100.0%**

[a] Will be nearly 100 percent funded with NYW bonds.
[b] This represents City-funded capital commitments as of the *FY 2008 Adopted Capital Commitment Plan* and includes a $3.96 billion reserve for unattained commitments.

II. Debt Limit

A. THE CITY'S DEBT-INCURRING POWER

NYC's general debt limit, as provided in the New York State Constitution, is 10 percent of the five-year rolling average of the full value of taxable real property. The process by which the City's annual debt limit is established involves a number of different elements:

- No later than February 15th, 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 statutorily less than the market value of properties.

- The general debt limit is based on the full market value of taxable real property and not on assessed value. To derive a market value of taxable properties, the State Office of Real Property Services (ORPS) develops special equalization ratios that express the relationship between assessed value and market value. ORPS uses the most recent market survey and a projection of market values based on recent surveys to obtain the full market value for the ensuing fiscal year. The special equalization ratio is then expressed as the ratio of the assessed valuation of taxable real property over the full market value of taxable real property. ORPS calculates equalization ratios for the ensuing fiscal year and the four fiscal years preceding it. 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 equalization ratios and the assessed values of taxable real property for the relevant five-year period. 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-year period.

- On or about June 5th, the City Council adopts the City's yearly budget and fixes the property tax rates for the ensuing fiscal year. The resolution fixing the property tax contains the five-year average of the full value of real property that is used to derive the debt limit.

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

Table 8 illustrates the calculation of the FY 2008 debt limit. The FY 2008 general debt limit was calculated using the assessed valuation of taxable real estate for FYs 2004 through 2008 divided by special equalization ratios provided by ORPS. The resulting figures provide an estimate of the full valuation of taxable real property over that period. These full values are totaled and then averaged to calculate the five-year average value of taxable real property, which is $601.024 billion. The debt limit is then calculated by multiplying the five-year average value by 10 percent, which yields the debt limit of approximately $60.102 billion for FY 2008.

Table 8. Calculation of Full Valuation of Real Property in New York City and the General Debt Limit, FY 2008

Fiscal Year	Billable Assessed Valuation of Taxable Real Estate	Special Equalization Ratio (for Market Value)	Full Valuation
2004	$99,854,097,559	0.2056	$485,671,680,734
2005	$103,676,971,611	0.1855	$558,905,507,337
2006	$111,397,956,330	0.1818	$612,750,034,818
2007	$116,477,764,261	0.1828	$637,186,894,207
2008	$125,777,268,853	0.1770	$710,606,038,718
5 - Year Average Value			$601,024,031,163
10 Percent of the 5-Year Average			$60,102,403,116

SOURCE: The City of New York, City Council Tax Fixing Resolution for FY 2008.

Table 9 shows that the City's FY 2008 general debt-incurring power of $60.102 billion is projected to rise to $67.353 billion in FY 2009, $73.655 billion in FY 2010, and $79.477 billion in FY 2011. The City's indebtedness is projected to grow from $39.50 billion at the beginning of FY 2008 to $57.96 billion at the beginning of FY 2011. The City was below its general debt limit by $20.60 billion on July 1, 2007 and is projected to be below the general limit by $20.437 billion on July 1, 2008, by $19.979 billion on July 1, 2009, and by $21.516 billion by July 1, 2010. NYCTFA and TSASC together have provided resources totaling $14.8 billion through FY 2007.[10] At the time of this writing, the NYCTFA has no remaining borrowing capacity for general capital purposes. The impact of these capital costs is discussed in "Affordability Measures" beginning on page 19.

[10] Excludes the total amount of $2 billion of NYCTFA recovery bonds and $1.3 billion of BARB bonds.

Table 9. NYC Debt-Incurring Power

($ in millions)

	July 1, 2007	July 1, 2008 [a]	July 1, 2009	July 1, 2010
Gross Statutory Debt-Incurring Power	**$60,102**	**$67,353**	**$73,655**	**$79,477**
Actual Bonds Outstanding as of June 30 (net) [b]	33,776	32,389	30,539	29,000
Plus New Capital Commitments				
FY 2008 [c]		8,647	8,647	8,647
FY 2009			8,600	8,600
FY 2010				6,057
Less: Appropriation	(1,713)	(1,561)	(1,551)	(1,784)
Subtotal: Net Funded Debt Against the Limit	**32,063**	**39,475**	**46,235**	**50,520**
Plus: Contract and Other Liability	7,441	7,441	7,441	7,441
Subtotal: Total Indebtedness Against the Limit	**39,504**	**46,916**	**53,676**	**57,961**
Remaining Debt-Incurring Power within the General Debt Limit	**20,598**	**20,437**	**19,979**	**21,516**
Total Authorized TFA Debt-Incurring Power	13,500	13,500	13,500	13,500
Less: TFA Bonds Issued to Date for Contract Liability	13,500	13,500	13,500	13,500
Remaining Authorized TFA Debt Incurring Power[d]	**0**	**0**	**0**	**0**
Remaining TSASC Debt-Incurring Power[f]	**0**	**0**	**0**	**0**
Remaining Debt-Incurring Power within General Limit, TFA Capacity, and TSASC Capacity[e]	**$20,598**	**$20,437**	**$19,979**	**$21,516**

[a] FY 2009 debt limit figure is based on the NY State Office of Real Property Service's estimated special equalization ratio. FYs 2010 and 2011 are based on the NYC Comptroller's Office forecast of full market value by property class.

[b] Net adjusted for Original Issue Discount, Capital Appreciation Bonds, GO bonds issued for the water and sewer system, and Business Improvement District debt. $34.506 billion from Table 1 minus $730 million of the aforementioned adjustments equals $33.776 billion.

[c] Reflects Capital Commitments as of the FY 2008 Adopted Budget Commitment Plan (issued in October 2007) and includes cost of issuance and certain Inter-Fund Agreements.

[d] Reflects NYCTFA's general debt-incurring capacity, but does not include $9.4 billion of education Building Aid Revenue Bonds authorization in April 2006.

[e] TSASC debt is not limited by statute. However, at this time, TSASC does not intend to issue any additional debt.

[f] The Debt Affordability Statement released by the City in April, 2007 presents data for the last day of each fiscal year, June 30, instead of the first day of each fiscal year, July 1, as reflected in this table. The City's Debt Affordability Statement forecasts that indebtedness will be below the General debt limit by $7.68 billion *at the end of* FY 2007.

SOURCE: NYC Comptroller's Office and the NYC Office of Management & Budget.

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III. Debt Burden and Affordability of City Debt

After reviewing the City's historical and future capital commitments and debt service costs, this section will present statistics assessing the size of the City's debt burden and its affordability. The proper measure of the affordability is subject to debate since there are alternative bases that can be used to measure a locality's available resources. This report provides measures of debt per capita, debt as a percent of value of real property, debt as a percent of personal income, and debt as a percent of local tax revenues.[11] For several of these measures, comparisons with other jurisdictions are presented. New York City has the highest debt among the largest cities in the nation when measured on a per capita basis or as a percent of personal income.

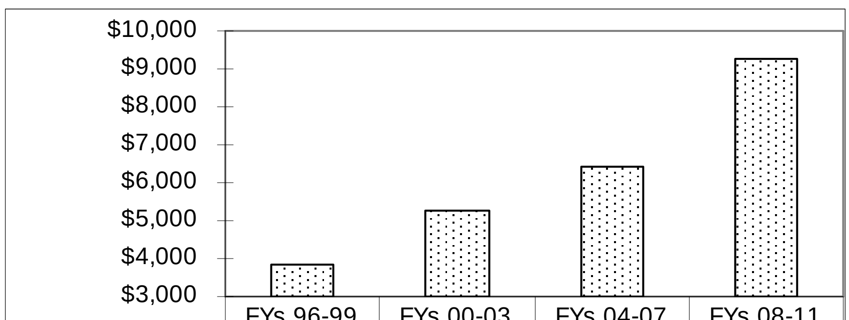
A. BACKGROUND

The City's infrastructure was greatly neglected during the fiscal crisis of the 1970s. Deferred maintenance led to dilapidated roads, bridges, and schools. Following that difficult period, the City embarked on a series of ambitious capital plans to repair and maintain its infrastructure. This trend began in the early 1990s and has continued through FY 2007. The City committed resources averaging $3.83 billion per year during FYs 1996-1999, $5.26 billion per year during FYs 2000-2003, and $6.40 billion per year during FYs 2004-2007.

In FY 2001, the City embarked on what was then a historically high capital commitment program, with City-funded capital commitments of $6.1 billion, an increase of 63.8 percent over FY 2000.

Chart 1. Actual and Projected Capital Commitment Averages, City Funds

($ in millions)



	FYs 96-99	FYs 00-03	FYs 04-07	FYs 08-11
City Capital Commitments	$3,826	$5,259	$6,399	$9,260
Percent Change		37%	22%	45%

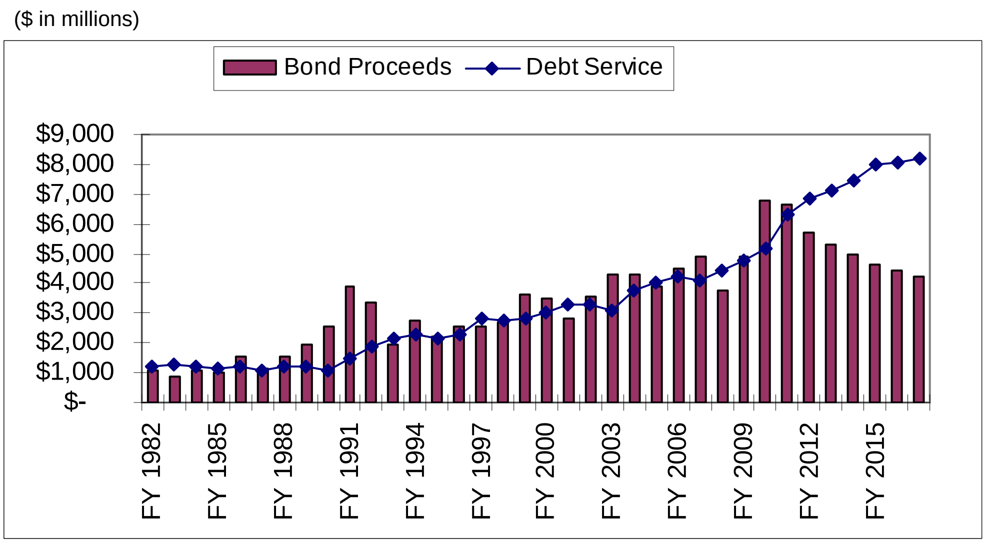
SOURCE: *Message of the Mayor*, various FYs 1991-2003, and *FY 2008 Adopted Capital Commitment Plan*.

[11] New York City FY 2006 debt per capita is used for comparison because the available data for the other sample cities are from either fiscal year or calendar year 2006.

City-funded commitments declined slightly to $5.83 billion in FY 2002, to $5.39 billion in FY 2003 and $4.54 billion in FY 2004, before rising again to $7.29 billion in FY 2005, $5.89 billion in FY 2006, and reached a historical high of $7.86 billion of City commitments in FY 2007. During FYs 2008-2011, City-funded commitments are projected to average $9.26 billion, 45 percent more than the average of $6.40 billion during FYs 2004 to 2007, as shown in Chart 1 on page 13.

The City's capital program relies almost exclusively on the issuance of bonds. The City's annual borrowing grew from $1.08 billion in FY 1982 to $4.88 billion in FY 2007. The City's borrowing is expected to average $5.35 billion annually between FYs 2008-11.[12] The annual average growth rate of City debt-service payments was 5.3 percent per year from FY 1982 to FY 2007, rising from $1.23 billion in FY 1982 to $4.6 billion in FY 2007. Debt service is expected to rise by 5.9 percent per year from $4.6 billion in FY 2007 to $8.2 billion by FY 2017, as illustrated in Chart 2.

Chart 2. Bond Proceeds and Debt Service, FYs 1982-2017



Sources: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports*, 1982-2007 and Office of Management and Budget, *FY 2008 Adopted Financial Plan*, June 2007. Debt-service payments exclude interest on short-term notes, MAC debt, lease-purchase debt, and budget surpluses prepaid to the debt-service fund.

B. DEBT BURDEN

Even after adjusting for the effects of population change and tax revenue, City debt has expanded at a significant rate since FY 1990. Debt per capita, which amounted to $2,490 in FY 1990, grew to $7,096 in FY 2007, an increase of 185 percent. This is an increase of $354 from FY 2006, largely due to the issuance of HYIC debt. Over the same period, the cumulative growth rate in debt per capita exceeded the rate of inflation by 118 percentage points, and the growth rate in City tax revenues by 27 percentage points.[13] The debt per capita figure does not

[12] This includes bond proceeds for GO bonds only.

[13] FY 2007 debt per capita of $7,096 used for this section's analytical purpose; however, FY 2006 debt per capita

include the debt of the NYW and the MTA, both of which greatly affect user fees paid by City residents. If this debt were included in the calculation, the debt per capita figure would increase to more than $12,000.

Use of Pay-as-You-Go Capital

Since FY 2006, the City has accomplished true pay-as-you-go capital (Pay-Go) by dedicating general fund resources to the funding of capital expenditures that normally would have been financed with bonds. Beginning in FY 2006, the City used $200 million of current resources for Pay-Go. Pay-Go increased to $300 million in FY 2007 due to the acceleration of $100 million in Pay-Go from FY 2008 to FY 2007. The current financial plan includes $100 million of Pay-Go in FY 2008, followed by $200 million in each of FYs 2009-2011. While the savings of Pay-Go are modest in the beginning, the cumulative impact of a consistently pursued Pay-Go program results in significant savings in future years. For example, a Pay-Go program of $200 million per year for ten years would result in avoided debt issuance of $2 billion with total avoided debt service of approximately $4 billion over a 40 year period. Thus, Pay-Go is an important element in the City's capital funding mix to mitigate the growth of outstanding debt.

C. COMPARISON WITH SELECTED MUNICIPALITIES

New York City has the largest population of all the cities in the U.S. and is required to maintain a complex, varied, and aging infrastructure. It has more school buildings, firehouses, health facilities, community colleges, roads, bridges, libraries, and police precincts than any other city in the country. Moreover, the City has responsibilities that in other cities are distributed more broadly among states, counties, unified school districts, and public authorities. Due to the differences in population, land mass, and the size of infrastructure to be maintained, it is important to adjust the data to establish a comparable measure among and between jurisdictions when comparing levels of debt with other jurisdictions. Using debt per capita data to compare debt burden among municipalities provides such an adjustment.

In FY 2006, NYC's $6,742 debt per capita was more than twice the average of a sample of large US cities, and 1.55 times the per capita debt of Philadelphia which had the next highest debt burden of $4,353, as inferred from Table 10 on page 16.[14]

Although its debt per capita is the largest of the cities surveyed, New York City's debt per capita did not grow as rapidly as seven other cities from FY 1988 to FY 2006. It also is 61 percentage points below the average increase of the cities surveyed over that period. For example, from FY 1988 to FY 2006, the debt per capita of San Francisco, Los Angeles, and Philadelphia has grown by 523 percent, 467 percent, and 411 percent, respectively, significantly higher than New York City's growth of 230 percent, as shown in Table 11 on page 16.

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figure of $6,742 used when comparing other municipalities, due to data limitations.
[14] Consist mostly of the highest population cities in the U.S.

Table 10. Debt Per Capita Measures for Selected Cities, 2006

City	Population	Direct and Overlapping Debt Outstanding ($ 000)	Debt Per Capita[a]
Philadelphia	1,463,281	$6,370,200	$4,353
Chicago	2,896,016	$12,488,289	$4,312
Houston	2,076,189	7,364,409	3,547
San Jose	954,000	2,656,281	2,784
Seattle	578,700	1,286,074	2,222
San Antonio	1,322,900	5,105,010	3,859
Los Angeles	3,976,071	9,798,291	2,464
Phoenix	1,560,380	2,497,640	1,601
Boston	569,165	839,125	1,474
Dallas	1,260,950	5,100,861	4,045
San Francisco	798,680	1,710,414	2,142
Average of Sample Cities	*1,533,967*	*$4,883,570*	*$3,184*
New York City	**8,214,426**	**$55,381,000**	**$6,742**

[a] Table 10 above is based on data extracted from each city's "Direct and Overlapping Debt Outstanding" exhibit included in that city's Comprehensive Annual Financial Report. While the individual exhibits are similar in format, there is no assurance that the components of the data published in those exhibits are comparable.

Table 11. Debt Per Capita Comparisons for Selected Cities – 1988 and 2006

City	Debt per Capita in 1988	Debt per Capita in 2006	Percent Change 1988-2006
Philadelphia	$851	$4,353	411%
Los Angeles	435	2,464	467
San Francisco	344	2,142	523
Chicago	953	4,312	352
San Antonio	887	3,859	335
San Jose	663	2,784	320
Phoenix	594	1,601	170
Seattle	986	2,222	125
Boston	701	1,474	110
Houston	1,189	3,547	198
Dallas	1,213	4,045	233
Average of All Other Cities[a]	*$814*	*$3,184*	*291%*
National CPI	**116.8**	**200.6**	**72%**
New York City	**$2,041**	**$6,742**	**230%**

SOURCES: NYC Comptroller's Office, based on Comprehensive Annual Financial Reports and/or official statements of various cities.

NOTE: Table 11 above is based on data extracted from each city's " Direct and Overlapping Debt Outstanding" exhibit included in that city's Comprehensive Annual Financial Report. While the individual exhibits are similar in format, there is no assurance that the components of the data published in those exhibits are comparable.

[a] From Table 10, a simple average of the average of debt outstanding divided by the average population.

NYC's debt per capita also exceeds that in sampled cities across the State of New York. Within the State, the average debt per capita of the cities and counties surveyed, excluding NYC, is $3,253, which is less than half of New York City's debt per capita in FY 2006, as shown on Table 12.[15]

Table 12. Debt Per Capita Comparisons for Selected N.Y. Cities and Counties

City or County	Debt per Capita	Date of Observation
City of White Plains	$2,473	6/30/06
Westchester County	$3,633	12/31/06
Nassau County	$4,267	12/31/05
City of Albany	$2,095	6/13/07
City of Syracuse	$2,461	8/2/07
Onandaga County	$2,838	12/31/06
City of Buffalo	$1,594	6/30/05
City of Rochester	$2,002	6/30/06
Monroe County	$2,526	12/31/06
Average of Above N.Y. Cities and Counties[a]	**$3,253**	
New York City	$7,096	6/30/07
New York City	$6,742	6/30/06

SOURCE: Comprehensive Annual Financial Reports of various cities and counties.
[a] This amount reflects a weighted average of total debt outstanding for all counties or cities divided by the total population for all the respective counties and cities.

Another way to examine the debt burden of a municipality or city is to measure its debt relative to its wealth. Two traditional measures of that relationship are outstanding debt divided by the full value of real property and debt divided by personal income. 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 there is generally some reasonable limit on the amount of debt that can be borrowed against the property tax base. The Standard & Poor's rating agency considers values above 6.0 percent to be high.[16]

The rationale behind using personal income is that it is another relative measure of a locality's wealth. The wealthier a community, the greater its capacity to pay taxes, and to sustain local government debt and operations. Standard & Poor's considers per capita debt more than 6.0 percent of per capita income to be high.[17]

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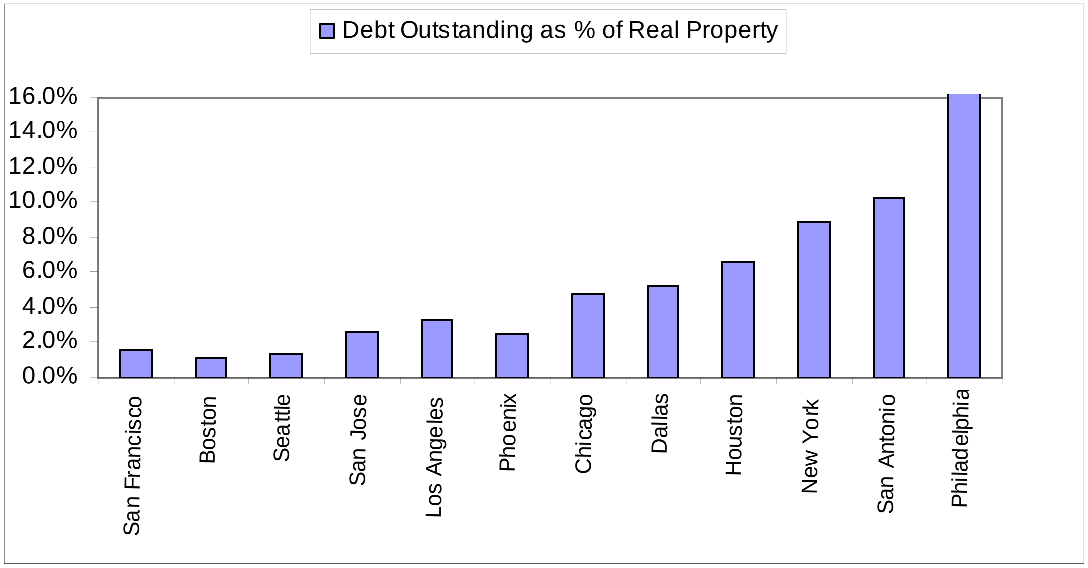
[15] However, Nassau and Westchester counties do not have some of NYC's significant infrastructure such as subways, major bridges, and a complex system of highways.
[16] Standard & Poor's Public Finance Criteria 2000, p. 29.
[17] Ibid.

Chart 3. Debt Outstanding as a Percent of the Full Value of Real Property, FY 2006



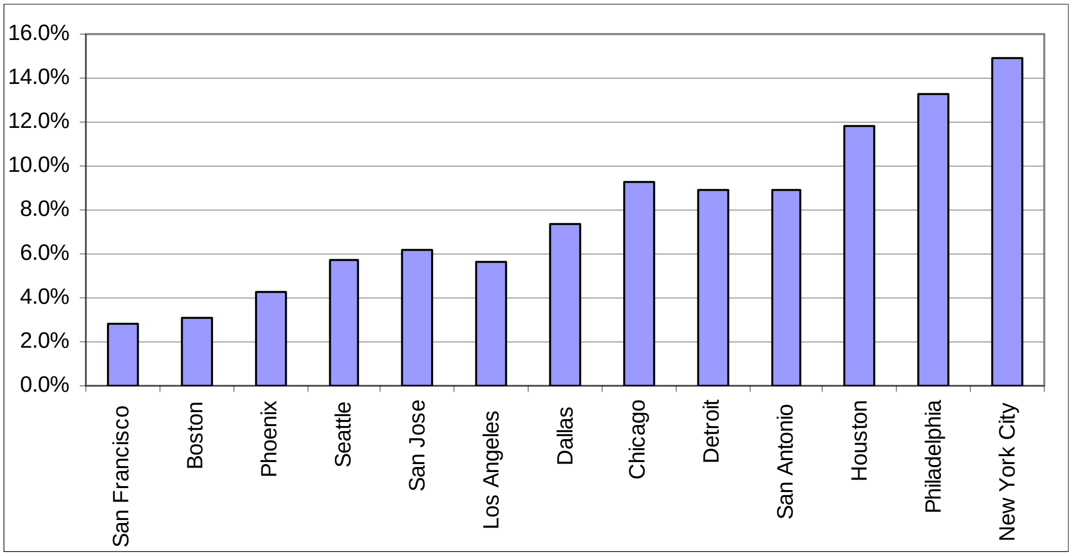
SOURCE: Each city's Comprehensive Annual Financial Report for FY 2006.
NOTE: Debt per capita is based on data extracted from each city's Direct and Overlapping Debt Outstanding exhibit included in that city's Comprehensive Annual Financial Report. While the individual exhibits are similar in format, there is no assurance that the components of the data published in those exhibits are comparable.

Among the cities surveyed in this report, New York City ranks among the highest in both measures of debt burden and is well above the averages of the sample cities and counties. New York City's outstanding debt as a percentage of full value of real property in FY 2006 is 8.9 percent. This is almost five percentage points above the sample city average of 4.1 percent. Philadelphia at 16.5 percent and San Antonio at 10.2 percent both exceed New York City's ratio. Other major cities have considerably less debt relative to full market value compared to New York City. For example, Chicago's debt is 4.8 percent of full market value and Los Angeles is 3.3 percent, as shown in Chart 3.

New York City's debt as a percentage of personal income in FY 2005 was the highest at 14.9 percent, more than two times higher than the 6.9 percent average of the other sample cities.[18] Philadelphia and Houston were the next highest ranked cities at 13.3 percent and 11.8 percent, respectively, with San Francisco the lowest at 2.8 percent, as shown in Chart 4 on page 19.

[18] Since the Department of Commerce's Bureau of Economic Analysis (BEA) provides personal income figures by county, the analysis in Chart 4 uses annual financial reports of the *county* in which each city is located. The latest available BEA data for personal income is 2005. The City and County of San Francisco are coterminous geographic entities.

Chart 4. Debt as a Percent of Personal Income, FY 2005

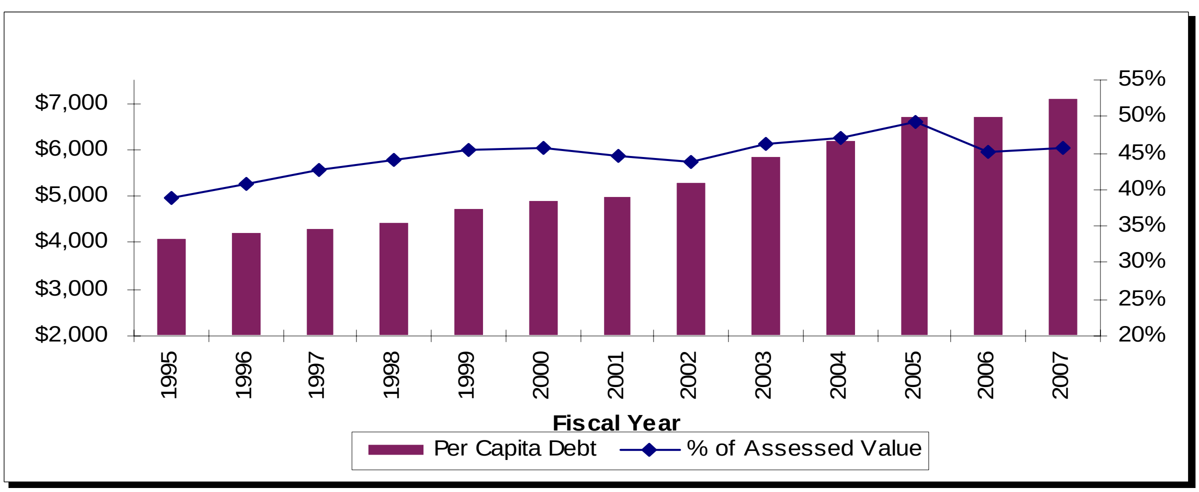


SOURCE: FY 2005 Comprehensive Annual Financial Reports of Sample Counties as proxies for the above cities and the U.S. Department of Commerce – Bureau of Economic Analysis – 2005 personal income data.
NOTE: Debt per capita is based on data extracted from each city's Direct and Overlapping Debt Outstanding exhibit included in that city's Comprehensive Annual Financial Report. While the individual exhibits are similar in form, there is no assurance that the components of the data published in those exhibits are comparable.

D. AFFORDABILITY MEASURES

The level of NYC's debt is rising and consuming a larger portion of the assessed value of taxable real property. As a percentage of the assessed value of real property, NYC debt rose to 45.7 percent in FY 2007 from 39 percent in FY 1995 as shown in Chart 5.

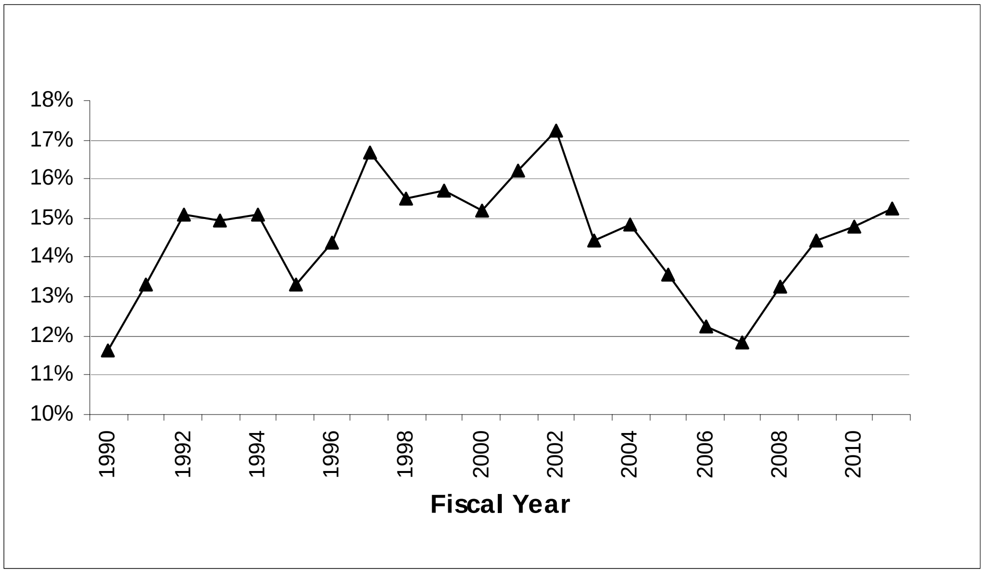
Chart 5. Debt Per Capita and Debt as a Percentage of the Assessed Value of Taxable Real Property



SOURCE: City of New York, Office of the Comptroller, Comprehensive Annual Financial Reports, FYs 1995-2007.

Another measure of debt affordability is the annual debt service expressed as a percent of annual tax revenues. This measure shows the pressure that debt service exerts on a municipality's operating budget. Rating agencies indicate that when debt service costs are in the 15 percent to 20 percent range of general fund revenues, the ratio is considered high. Debt service exceeded 15 percent of tax revenues in eight of the eleven years from FY 1992 to FY 2002.[19] Subsequently, this ratio fell to a low of 11.8 percent in FY 2007 as shown in Chart 6. The relatively low percentage in FY 2007 is attributable to a low interest rate environment for borrowing, refunding savings, and savings on variable rate debt along with higher than expected tax revenues. However, debt service as a percentage of tax revenues is projected to rise to 15.2 percent by FY 2011.[20]

Chart 6. Debt Service as a Percent of Tax Revenues



SOURCE: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports*, 1982-2007, and OMB, FY 2008 Adopted Financial Plan, June 2007.

[19] Aside from the recent one-year aberration in FY 2002 related to the World Trade Center disaster, the ratio of 15.2 percent is more comparable to the early 1980's and early & mid 1990's when the City was emerging from recessionary periods.
[20] From the City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports*, 1982-2006, and OMB, *Adopted Financial Plan*, June 2007.

Glossary of Acronyms

BAN	Bond Anticipation Notes
BEA	Bureau of Economic Analysis
CAFR	Comprehensive Annual Financial Report
CPI	Consumer Price Index
CY	Calendar Year
DASNY	Dormitory Authority of the State of New York
FY	Fiscal Year
GO Debt	General Obligation Debt
MAC	Municipal Assistance Corporation
MTA	Metropolitan Transportation Authority
N.Y.	New York
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
NYW	New York City Municipal Water Finance Authority
OMB	Office of Management and Budget
ORPS	State Office of Real Property Services

S&P Standard & Poor's

STAR Sales Tax Asset Receivable Corporation

TSASC Tobacco Settlement Asset Securitization Corporation

U.S. United States

USDOT United States Department of Transportation

WTC World Trade Center