Fiscal Year 2004
Annual Report of the Comptroller on Capital Debt and Obligations

The City of New York
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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 on the amount of debt the City may legally 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 ten percent of the five-year rolling average of the full value of taxable real property. The City's FY 2004 general debt-incurring power of $39.99 billion is projected to rise to $42.44 billion in FY 2005, $44.38 billion in FY 2006, and $45.77 billion in FY 2007.

The City's indebtedness was $32.4 billion at the beginning of FY 2004. The City's indebtedness is expected to grow to $37.7 billion at the beginning of FY 2007. The City was below its general debt limit by $7.57 billion on July 1, 2003. The City is projected to be below the limit by $8.48 billion on July 1, 2004, by $7.67 billion on July 1, 2005, and by $8.03 billion by July 1, 2006.

In addition to General Obligation debt, the City maintains several additional credits, including the New York City Transitional Finance Authority (NYCTFA) and TSASC, Inc. The debt-incurring capacity of NYCTFA and TSASC totals $14 billion and has already provided approximately $13.2 billion in resources to finance the City's capital program. After adjusting for the benefit of the NYCTFA and TSASC debt-incurring power, the City will be able to incur additional debt of approximately $8.9 billion through FY 2007.

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.

Debt per capita, which amounted to $2,490 in FY 1990, had grown to $5,645 by FY 2003, an increase of 127 percent. Over the same period, the cumulative growth in debt per capita exceeded both the rate of inflation by 82 percent and the growth in City tax revenues by 71 percent. New York City leads a sample of large U.S. cities in the size of debt burden per capita by a margin of 2.2 to one.

Because of the significant curtailment in planned capital commitments beginning in January 2003, future growth in debt outstanding is projected to average about 0.7 percent below the assumed rate of inflation. However, this cautious optimism is offset by projected debt-service costs rising to 17.5 percent of local tax revenues in FY 2007 from 15.5 percent in FY 2004. Fortunately, the City continues to have good access to the public credit markets. The City's credit ratings are A2 by Moody's Investor Service, A by Standard & Poors', and A+ by Fitch Ratings.

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 is used to finance the City's capital projects (Gross NYC Debt). Gross NYC Debt rose by 6.6 percent between FY 2002 and FY 2003.[1] In the 1980s, Gross NYC Debt grew at an average annual rate of 4.5 percent.[2] In the 1990s, this growth rate increased by 6.4 percent annually. The robust increase in the 1990s resulted mainly from the catch-up in the rehabilitation of facilities that were neglected during the 1970s fiscal crisis. The FY 2004 Adopted Budget and Financial Plan projects that over the next four years, Gross NYC Debt will increase by about two percent annually. This comparatively lower increase is due in part as a result of no further issuance of Municipal Assistance Corporation (MAC) debt, the continued repayment of the City's outstanding obligations, and reductions to the capital program.[3]

A. COMPOSITION OF DEBT

Debt utilized by the City to finance its capital program can be divided into five categories as shown on Table 1. The City's debt, with General Obligation (GO) bonds accounting for 60.9 percent of the total, is comprised of both tax-exempt and taxable bonds, as well as capital lease obligations. Tax-exempt debt is issued to finance projects defined as having a public purpose. Taxable debt is also 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.

Table 1. Gross NYC Debt Outstanding as of June 30, 2003

(in $ millions)

	General Obligation Bonds	Municipal Assistance Corp.	Transitional Finance Authority	TSASC	Capital Lease Obligation [a]	Gross Debt Outstanding
Tax-Exempt						
Fixed Rate	$25,087	$2,525	$8,594	$1,258	$2,779	$40,243
Variable Rate	3,273	-	2,904 [c]	-	-	6,177
Derivatives[b]	205	-	-	-	-	205
Subtotal	$28,565	$2,525	$11,498	$1,258	$2,779	$46,625
Taxable						
Fixed Rate	$443	$-	$331	$-	$465	$1,239
Variable Rate	671	-	195	-	-	866
Subtotal	$1,114	$-	$526	$-	$465	$2,105
Total	**$29,679**	**$2,525**	**$12,024**	**$1,258**	**$3,244**	**$48,730**
Percent of Total	**60.9%**	**5.2%**	**24.7%**	**2.6%**	**6.6%**	**100.0%**

[a] This figure includes $526 million in Jay Street Development Corporation debt.
[b] Derivatives are financial instruments whose value is derived from the value of an underlying asset, reference rate, or index.
[c] The New York City Transitional Finance Authority (NYCTFA) figure includes $2.0 billion of Recovery Bonds.
Source: *Comprehensive Annual Financial Report of the Comptroller, FY 2003*, p.270. June 30th Condition used for MAC in this table.

[1] This information is presented on p. 270 of the *NYC Comptroller's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003* that was released on October 31, 2003.
[2] This information is presented on p. 266 of the *NYC Comptroller's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003* that was released on October 31, 2003.
[3] On July 1, 2008, MAC will repay the last of its principal maturities and has not incurred any new debt on behalf of the City since the late 1980s.

Table 1 shows that tax-exempt debt accounted for 95.7 percent of the total value of debt outstanding at the end of FY 2003. Fixed-rate tax-exempt debt accounted for 86.3 percent of tax-exempt debt and 85.1 percent of total debt. Tax-exempt debt with variable rates mature any time from two to 30 years with interest-payment terms that are reset on a daily, weekly, or other periodic basis, and comprise about 13 percent of outstanding debt.

Elements of Outstanding Gross NYC Debt

1. *General Obligation (GO)* debt, which has the full faith and credit of the City, totaled $29.679 billion as of June 30, 2003 and accounted for 60.9 percent of total debt outstanding. Compared with FY 2002, GO debt increased $1.21 billion, or 4.3 percent.[4] Debt service for GO bonds is paid from the proceeds of real property taxes which are retained by the State Comptroller one to two months prior to the date debt service is due. This "lock-box" mechanism assures that debt-service obligations are satisfied before property taxes are released to the City's general fund.

2. *Municipal Assistance Corporation for the City of New York (MAC)* debt totaled $2.525 billion at the end of FY 2003. This was $355 million, or 12.3 percent lower than in FY 2002. MAC's share of Gross NYC debt outstanding has decreased to 5.2 percent in FY 2003 from 6.3 percent in FY 2002. MAC debt service is funded from the City's sales-tax revenue collections. MAC, a creation of the State during the fiscal crisis of the 1970s, is being phased out and its debt is steadily declining. The final maturity of MAC debt is scheduled for July 1, 2008. The constitutionality of State legislation authorizing the creation of a local development corporation to issue bonds, the proceeds of which would pay off MAC's remaining debt, is still in litigation.

3. *New York City Transitional Finance Authority (NYCTFA)* debt totaled $12.024 billion at the end of FY 2003. This is a 14.6 percent increase, or $1.53 billion, over FY 2002. The NYCTFA's share of Gross NYC Debt outstanding increased to 24.7 percent in FY 2003 from 23 percent in FY 2002. This increase is due primarily to the issuance of $2 billion of NYCTFA Recovery Bonds during the course of FY 2003.

   The NYCTFA was created as a State authority separate from the financial operations of the City. Therefore, its debt is not included in debt outstanding charged against the City's general debt limit.[5] In June of 2000, the State Legislature increased the NYCTFA's debt-incurring capacity to $11.5 billion from $7.5 billion.

   In July 2003, the NYCTFA issued $145 million in NYCTFA Bonds for use in the City's capital program. This issue brought the NYCTFA to its statutory limit of $11.5 billion. The only remaining NYCTFA debt capacity is $470 million under the special $2.5 billion Recovery Bond authorization.

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[4] FY 2002 figure is from the *FY 2002 Annual Report of the Comptroller on Capital Debt and Obligations*, December 2002.
[5] The debt limit is discussed in further detail in Section II.

4. *TSASC Inc. (TSASC)* debt totaled $1.26 billion as of June 30, 2003. TSASC is a local development corporation organized under the not-for-profit corporation law of the State. The proceeds of TSASC bonds are used to finance New York City capital projects. The 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 September 2003, TSASC announced that it does not intend to issue any additional bonds under its current indenture, and that it is reviewing restructuring alternatives for its outstanding bonds. This action is taken due to the downgrade of the major participating tobacco manufacturers, which causes the retention of additional revenues that would ordinarily flow to the City.

   In December 2001, TSASC entered into a loan agreement with the U.S. Department of Transportation (USDOT) pursuant to the Transportation Infrastructure Finance and Innovation Act. The loan is for up to $159.2 million and is secured by tobacco revenues. Under this agreement the City can issues bonds, on parity with outstanding debt, to be purchased by the USDOT. In FYs 2002 and 2003 combined, TSASC issued approximately $77 million of bonds to USDOT under the above-described loan agreement. The proceeds of this loan will be used to fund the reconstruction and rehabilitation of ferry terminals in lower Manhattan and Staten Island.

5. *Capital Lease Obligations* totaled $3.24 billion as of June 30, 2003, an increase of $155 million, or five percent from FY 2002. 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. Typically these agreements are known as "leaseback" transactions. These leaseback obligations are included in the debt outstanding, but are excluded in the calculation of the City's indebtedness under the general debt limit. Capital lease obligations cover such varied issuers as the Dormitory Authority of the State of New York for the New York City Courts Capital Program ($643 million), the Jay Street Development Corporation ($526 million), the City University Construction Fund ($389 million), the Educational Construction Fund ($117 million), the Primary Care Development Corporation ($53 million), the Health and Hospitals Corporation ($838 million), the Housing Finance Agency ($169 million), the Urban Development Corporation ($44 million), as well as general lease obligations ($465 million).[6]

Other Issuing Authorities

In addition to the financing mechanisms 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 New York City Municipal Water Finance Authority (NYWFA) and the Metropolitan Transportation Authority (MTA). These authorities' bonds are secured by dedicated revenues. As such, they are not considered debt of the City.[7] Nonetheless, this debt

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[6] Although for reporting purposes $838 million of HHC debt is included in the category of *Capital Lease Obligations,* the debt of HHC is not guaranteed by New York City.
[7] The $621 million of debt issued for water and sewer purposes prior to June 30, 1985 is included in Gross NYC Debt.

pays for the services provided to City residents. In turn, City residents pay the user fees that secure, in large part, the $31.1 billion of debt of these two authorities as shown in Table 2.

Table 2. Independent Authorities in the New York City Metropolitan Area, Debt Outstanding as of June 30, 2003

($ in millions)

	Water Finance Authority	Metropolitan Transportation Authority
Tax Exempt		
Fixed Rate	$11,163	$16,898
Variable	2,320	750
Total	**$13,483**	**$17,648**

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

The NYWFA had $13.483 billion in debt outstanding as of June 30, 2003, an increase of $1.37 billion or 11 percent over FY 2002. Created by State law in 1984, the NYWFA is responsible for funding capital projects administered by the City's Department of Environmental Protection for sewers, water mains, and water pollution control plants. These authorities issue debt supported by user fees and certain other revenues.

The MTA, composed of four major agencies providing commuter transportation throughout the metropolitan area, had $17.648 billion of debt outstanding as of June 30, 2003. This is an increase of $1.023 billion, or 6.1 percent, over June 30, 2002. The New York City Transit Authority maintains 656 miles of mainline subway track and a fleet of approximately 4,000 buses and serves the public 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. The Metro-North Railroad serves commuters in the Bronx, Westchester, Putnam and Dutchess counties and portions of southern Connecticut. The Bridges and Tunnels Authority operates all intra-State tunnels and bridges throughout the five boroughs of New York City.

Beginning in May 2002, the MTA embarked on a debt-restructuring program and issued $13.5 billion of refunding bonds through November 2002. The initiative involved refunding and defeasing about $13.5 billion of outstanding debt among 13 different credits and consolidating them into four primary credits. The transactions have generated approximately $1 billion in additional resources for the MTA's capital plan by releasing debt-service reserves and restructuring debt. As prescribed in its restructuring program, an additional $3.4 billion of issuance capacity was generated and will be issued during the course of CY 2003 and 2004 to match its allowable maximum annual debt service of about $1.2 billion per annum. Overall, the program has provided $4.5 billion of resources to the MTA's calendar year 2000-2004 capital budget.

The City Continues to Have Good Access to Capital Markets

The City continued to access the credit markets through its two major borrowing vehicles, GO and NYCTFA bonds. In Fiscal Year 2003, Moody's, Standard & Poor's (S & P), and Fitch Ratings maintained GO ratings at A2, A, and A+ respectively. In Fiscal Year 2003, Moody's Investors Service Inc. (Moody's), Standard & Poor's (S & P), and Fitch Ratings maintained NYCTFA ratings at Aa2, AA+, and AA+ respectively.

During FY 2003, the City issued $4.87 billion of GO debt of which approximately $2.72 billion was issued to refund certain outstanding bonds and $2.15 billion were new money bonds for capital purposes. The refundings produced $232 million in debt-service savings in FY 2003 and $53 million of savings in FY 2004. At the end of FY 2003, GO debt totaled $29.68 billion of which $14.9 billion, or 50 percent is coming due in the next ten years as shown in Table A1 of the Appendix.

In FY 2003, the NYCTFA issued $3.74 billion of bonds for capital purposes, BAN refinancings and bond refundings, as well as $1.1 billion of Bond Anticipation Notes (BANs). In addition to these issues, the NYCTFA sold $2.03 billion of Recovery Bonds during the course of FY 2003. NYCTFA debt totaled $12.024 billion at the end of FY 2003. Of the $12.024 billion of NYCTFA bonds outstanding, $3.83 billion, or 32 percent, are coming due in the next ten years as shown in Table A1 of the Appendix.

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

As discussed earlier, the four major issuers that either have financed and/or continue to finance capital projects are: 1) NYC General Obligation, 2) NYCTFA, 3) TSASC, and 4) MAC.

Beginning in FY 2004, the growth in debt outstanding among these issuers will be greatly curtailed. Between FY 1999 and 2003, for example, the average annual growth rate was 6.1 percent. This contrasts with a projected annual average growth rate of 1.7 percent between FY 2003 and FY 2007 and 1.5 percent between FY 2003 and FY 2013 as shown in Table 3.

Table 3. NYC Bonds Outstanding, Four Major Issuers, FYs 2003-2013

($ in millions)

End of Fiscal Year	Debt Outstanding for GO, NYCTFA, MAC & TSASC	Percent Change
2003	$45,486	-
2004	46,570	2.4%
2005	47,378	1.7
2006	48,061	1.4
2007	48,699	1.3
2008	49,309	1.3
2009	49,725	0.8
2010	50,495	1.5
2011	51,253	1.5
2012	52,139	1.7
2013	52,998	1.6

SOURCE:: NYC Office of Comptroller, Annual Financial Report, October 31, 2003, and the Office of Management and Budget, June 2003 Financial Plan.

The principal and interest composition for three of the four issuers combined is depicted in Table 4. Principal repayments, excluding MAC, are estimated to be $1.67 billion in FY 2004, $1.92 billion in FY 2005, $1.94 billion in FY 2006, and $2.03 billion in FY 2007. Thus, principal is estimated to comprise 43.1 percent of debt service in FY 2004, 43.4 percent in FY 2005, 42.5 percent in FY 2006, and 43 percent in FY 2007.[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
2004	$1,669	$2,204	$3,873	43.1%
2005	1,924	2,512	4,437	43.4
2006	1,942	2,622	4,564	42.5
2007	2,032	2,692	4,724	43.0

SOURCE: NYC Office of Comptroller, Annual Financial Report, October 31, 2003, and the Office of Management and Budget, June 2003 Financial Plan and adjusted for prepayments and includes debt service for GO, NYCTFA, TSASC only.

C. INSTITUTIONAL USE OF GO 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. Over the past several years, capital expenditures for schools has significantly outpaced capital spending for other purposes. Deteriorating facilities and pressures to reduce class size have significantly increased the outstanding share of GO debt for education.

[8] Debt service excludes lease-purchase debt, interest on short-term notes, and MAC as of the FY 2004 Adopted Budget and Financial Plan, June 2003. MAC is excluded from the principal and interest analysis because its debt service is excluded from the June 2003 Financial Plan.

The share of total GO bonds outstanding used for education capital projects has more than doubled from 13.4 percent in FY 1992 to 30 percent as of June 30, 2003 even as GO debt outstanding grew from $17.8 billion to $29.7 billion over the same period. As a result, the part of total debt outstanding used for financing other areas of capital spending has declined even as the level of capital expenditure for most of these program areas have grown. With the exception of education, spending on the share of most other functions declined.

Spending on bridges and highways has increased by $1 billion in absolute terms, but has declined in relative terms to nine percent in FY 2003 from 9.3 percent of debt outstanding in FY 1992. Other categories that have posted absolute growth but relative decline include housing, public safety, mass transit, sanitation, social services, and off-street parking, airports, and ferries.

Institutional debt associated with the category of water pollution control, water mains and sewers has experienced an artificial decline. Since FY 1986, the NYWFA has financed virtually all capital expenditures of the water system, thereby decreasing the outstanding portion of the GO bonds used for the rehabilitation and maintenance of the water and sewer system. From a level of $1.5 billion in FY 1992, or 8.4 percent of GO debt outstanding, water and sewer debt has declined to $621 million, or 2.1 percent of the total as of June 30, 2003 as shown in Table 5.

Thus, excluding DEP, the education portion of the September 2003 Capital Plan over FYs 2004-2007 is projected to decline considerably to 19 percent as shown in Table 6. This might be due in part to exceptionally high city-funded capital commitments for education over FYs 1999-2002 of over $1.5 billion per year compared with the current capital plan's education capital commitment average of approximately $800 million per year.

Table 5. Use of GO Debt, NYC, FY 2003 & FY 1992

($ in millions)

Categories	**Debt Outstanding as of June 30, 2003**	**Percent of Total**	**Debt Outstanding as of June 30, 1992**	**Percent of Total**
Education (Schools)	$8,910	30.0%	2,382	13.4%
Housing and Urban Development	2,932	9.9	2,502	14.0
Mass Transit	2,626	8.9	2,365	13.3
Bridges, Tunnels, Highways and Streets	2,664	9.0	1,658	9.3
Public Safety, Correction and Courts	2,155	7.3	1,729	9.7
Sanitation	1,533	5.1	1,141	6.4
Parks, Recreational and Culturals	1,512	5.1	996	5.6
Water Pollution Control, Water Mains and Sewers[a]	621	2.1	1,502	8.4
Health Services	669	2.3	863	4.8
Public Buildings	899	3.0	429	2.4
Social Services	469	1.6	283	1.6
Off-Street Parking, Airports, Ferries and Markets	311	1.0	267	1.5
Undistributed and Other	4,377	14.7	1,694	9.6
Total [b]	**$29,679**	**100.0%**	**$17,811**	**100.0%**

[a] Represents debt issued for water and sewer purposes prior to June 30, 1985.

[b] This includes $29.679 billion of GO debt and excludes MAC, TFA, TSASC, and capital lease obligations. Over the past five years the TFA and TSASC have supplanted some of GO borrowing and have issued $13.4 billion of bonds and notes. The Table above does not include debt issued by the TFA or TSASC.

SOURCES: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report, FY 2003,* and the Office of Management and Budget, *Adopted Budget Debt Service Statement II*, FY 2003 and FY 1993.

Although funded by Water Finance Authority bonds, water pollution control, water mains and sewers and other projects related to the DEP will comprise $8.05 billion of estimated City-funded commitments, or 32 percent of estimated capital commitments between FYs 2004-2007. Significantly funded GO funded program areas include bridges, tunnels, streets, and highways at $4.41 billion, education at $3.26 billion, housing and urban renewal at $2.46 billion, public safety at $2.14 billion, and parks, libraries, and cultural affairs at $1.44 billion as shown in Table 6.

Table 6. September Capital Commitment Plan by Category, City Funds, FYs 2004 - 2007

($ in millions)

Categories	**Projected FY 2004-2007 Commitments**	**Percent of Total**	**Percent of Total without Water & Sewer**
Water Pollution Control, Water Mains and Sewers[a]	$8,045	31.6%	-
Bridges, Tunnels, Highways and Streets	4,405	17.3	25.2%
Education (Schools)	3,257	12.8	18.7
Housing and Urban Development	2,458	9.6	14.1
Public Safety, Correction and Courts	2,138	8.4	12.3
Parks, Libraries and Culturals	1,439	5.6	8.2
Sanitation	1,213	4.8	7.0
Mass Transit	347	1.4	2.0
Health Services	809	3.2	4.6
Public Buildings	941	3.7	5.4
Off-Street Parking, Airports, Ferries and Markets	124	0.5	0.7
Social Services	318	1.1	1.8
Total Before Reserve	**$25,494**	**100.0%**	**100.0%**
Reserve for Unattained Commitments	($2,512)	(N/A)	(N/A)
Total [b]	**$22,982**	**100.0%**	**100.0%**

[a] Will be nearly 100 percent funded with NYC Water Finance Authority bonds.
[b] This represents City-funded capital commitments as of the September 2003 Commitment Plan and includes a $2.5 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 ten 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 is as follows:

- 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 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 the 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 ten 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-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 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 and the tax-fixing resolution 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 at the start of each fiscal year, July 1st.

The FY 2003 general debt limit was calculated using the assessed valuation of taxable real estate for fiscal years 2000 through 2004 divided by special equalization ratios provided by SORPS. 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 produce the $399.9 billion or the five-year average of taxable real property. The debt limit is then calculated by multiplying the five-year average of $399.9 billion by ten percent, which yields the debt limit of approximately $39.99 billion for FY 2003 as shown in Table 7.

Table 7. Calculation of Full Valuation of Real Property in New York City and the General Debt Limit, FY 2004

Fiscal Year	Billable Assessed Valuation of Taxable Real Estate	Special Equalization Ratio (for Market Value)	Full Valuation
2000	$80,885,286,485	0.2466	$328,001,972,770
2001	84,319,741,571	0.2340	360,340,775,944
2002	89,539,563,218	0.2283	392,201,328,156
2003	94,506,250,871	0.2204	428,794,241,701
2004	99,854,097,559	0.2037	490,201,755,322
		5 - Year Average	$399,908,014,779
	10 Percent of the 5-Year Average		$ 39,990,801,478

SOURCE: The City of New York, City Council Tax Fixing Resolution for FY 2004.

Table 8 shows that the City's FY 2004 general debt-incurring power of $39.99 billion is projected to rise to $42.44 billion in FY 2005, $44.38 billion in FY 2006, and $45.77 billion in FY 2007. The City's indebtedness is projected to grow from $32.42 billion at the beginning of FY 2004 to $37.7 billion at the beginning of FY 2007. Consequently, the City was under its general debt limit by $7.6 billion on July 1, 2003. The City is projected to be under the general limit by $8.5 billion on July 1, 2004, by $7.7 billion on July 1, 2005, and by $8 billion by July 1, 2006 as shown in the table.

The NYCTFA and TSASC's debt-incurring capacity of approximately $14 billion provide the City with additional resources to finance its capital program through FY 2007. NYCTFA and TSASC have already provided resources in the amount of $13.2 billion through FY 2003. The remaining $145 million of NYCTFA capacity was utilized in July, 2003 and TSASC is in the process of reviewing alternatives for the utilization of its remaining $1.26 billion of bond issuance capacity. Nonetheless, after adjusting for the additional, yet unused, benefit of the NYCTFA and TSASC debt-incurring power, the City will be able to incur additional debt of approximately $8.9 billion through FY 2007. The impact of these capital costs is discussed in Section III. D. "Affordability Measures" beginning on page 18.

Table 8. NYC Debt-Incurring Power

($ in millions)

	July 1, 2003	July 1, 2004 [a]	July 1, 2005	July 1, 2006
Gross Statutory Debt-Incurring Power	**$39,991**	**$42,442**	**$44,376**	**$45,775**
Actual Bonds Outstanding as of June 30 (net) [b]	28,629	27,209	26,528	24,257
Plus New Capital Commitments				
FY 2004 [c]		3,219	3,219	3,219
FY 2005 [c]			3,390	3,390
FY 2006 [c]				3,320
Less: Appropriation	(1,389)	(1,508)	(1,471)	(1,477)
Subtotal: Net Funded Debt Against the Limit	**27,240**	**28,920**	**31,666**	**32,709**
Plus: Contract and Other Liability	5,179	5,034	5,034	5,034
Subtotal: Total Indebtedness Against the Limit	**32,419**	**33,954**	**36,700**	**37,743**
Remaining Debt-Incurring Power within the Debt General Debt Limit	**7,572**	**8,488**	**7,676**	**8,032**
Total Authorized TFA Debt-Incurring Power	11,500	11,500	11,500	11,500
Less: TFA Bonds Issued to Date for Contract Liability	11,355	11,500	11,500	11,500
Remaining Authorized TFA Debt-Incurring Power	**145**			
Remaining Debt-Incurring Power within General Limit and TFA Capacity	**7,717**	**8,488**	**7,676**	**8,032**
Remaining Authorized TSASC Debt-Incurring Power	1,259	1,259	1,259	1,259
Remaining Debt-Incurring Power within General Limit, TFA Capacity, and TSASC Capacity[d]	**$8,976**	**$9,747**	**$8,935**	**$9,291**

[a] Based on preliminary data from the State Office of Real Property Services. The estimates for FY 2004, which begins on July 1, 2003, through FY 2007 are developed by using the July 1, 2003 actual and averaging the prior years' special equalization ratios provided by SORPS for the ensuing three fiscal years.

[b] Net adjusted for Original Issue Discount, Capital Appreciation Bonds, GO bonds issued for the water and sewer system, and Business Improvement District debt. $29.679 billion from Table 1 minus $1.05 billion of the afore-mentioned adjustments equals $28.629 billion.

[c] Reflects Capital Commitments as of the FY 2003 Adopted Budget Commitment Plan (issued in September 2003) and includes cost of issuance and certain Inter-fund Agreements.

[d] The Debt Affordability Statement released by the City in May, 2003 presents data on 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 Debt Affordability Statement does not incorporate TFA and TSASC debt-incurring power. In FY 2003, for example, the City's Debt Affordability Statement forecasts that indebtedness would be over the General debt limit by $10.5 billion at the end of the fiscal year. In addition, the City has decided not to use the remaining debt-incurring power of TSASC.
Source: NYC Comptroller's Office.

III. Affordability of City Debt

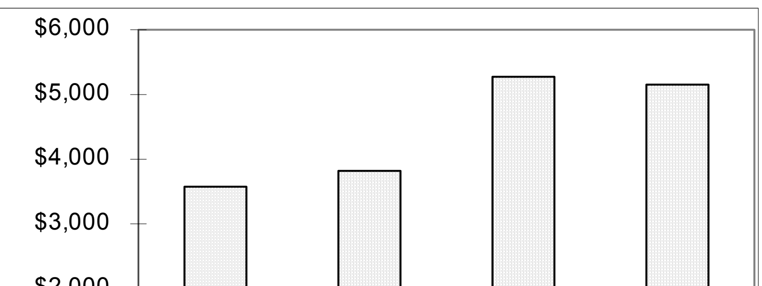
The proper measure of the affordability of City debt is always subject to debate. New York City's debt per capita of $5,645 is the highest among the sampled cities. Encouragingly, because of recent reductions to the capital program, the projected growth of the City's outstanding debt is 0.7 % less than the projected rate of inflation over the next four years. An historically accurate measure that has been used to capture the fundamental impact of incurring debt is debt service as a percent of local tax revenues. This measure will be discussed in Section D.

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 in dire need of repair. Following that difficult period, the City embarked on a series of ambitious capital plans to maintain its infrastructure. This trend began in earnest in the early 1990s and continued with the City's Capital Plan through FY 2004. The City committed resources averaging $3.6 billion between FYs 1992-1995, $3.8 billion between FYs 1996-1999, and $5.3 billion between FYs 2000-2003. In FY 2001, the City chose to embark on an historically high capital commitment program, with City-funded capital commitments of $6.1 billion, an increase of 63.8 percent over FY 2000. In FY 2002, City-funded commitments retreated slightly to $5.83 billion. Between FYs 2004-2007, City-funded commitments are forecast to average $5.16 billion, two percent less than the average of $5.3 billion between FYs 2000 and 2003 as shown in Chart 1. This is the first time a four-year commitment plan average has declined since the late 1970's, albeit modestly at minus two percent.

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

($ in millions)

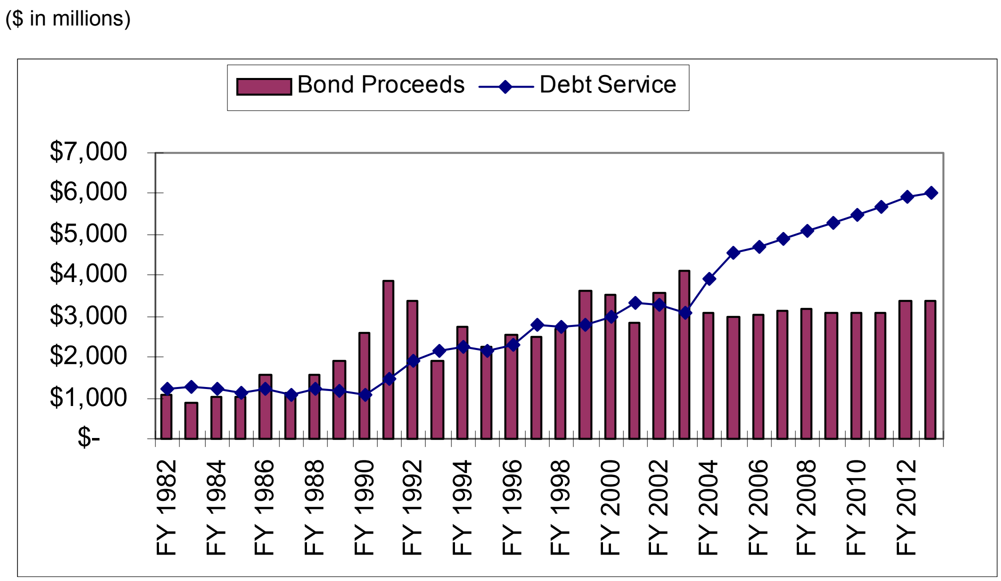


	92-95	96-99	00-03	04-07
City Capital Commitments	$3,588	$3,826	$5,264	$5,155
Percent Change		7%	38%	-2%

SOURCE: *Message of the Mayor*, various FYs 1989-2000 and FY 04 September 2003 Capital Plan.

The City's capital program relies almost exclusively on borrowing.[9] As a result, the City's borrowing grew from $1.6 billion in FY 1986 to $4.3 billion in FY 2003. The City's borrowing is expected to decline and average $3.1 billion annually between FYs 2004-07.[10] The decline in long-term borrowing has resulted in a decrease in annual debt service. The annual average growth rate of City debt-service payments was 5.7 percent per year between FY 1986 and FY 2003, rising to $3.1 billion in FY 2003 from $1.2 billion in FY 1986. Debt service is expected to rise by 4.9 percent per year from $3.9 billion in FY 2004 to $6 billion by FY 2013 as illustrated in Chart 2.

Chart 2. Bond Proceeds and Debt Service, FYs 1982-2013



Sources: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports*, 1982-2003 and Office of Management and Budget, *Financial Plan*, June 2003. 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, since FY 1990 NYC debt expanded at a significant rate. Debt per capita, which amounted to $2,490 in FY 1990, has grown to $5,645 in FY 2003, an increase of 127 percent. Over the same period, the cumulative growth in debt per capita exceeds both the rate of inflation by 82 percent and the growth in City tax revenues by 71 percent. The debt per capita figure does not include the debt of the New York Municipal Water Finance Authority and the MTA, both of which greatly affect user fees paid by City residents. If these debts were included in the calculation, the debt per capita figure would increase to approximately $9,500.

[9] The November Financial Plan contains an assumed $200 million per year in Pay-As-You-Go capital for education.
[10] This includes bond proceeds for GO, the Samurai Funding Corporation, TFA, and TSASC bonds only.

C. COMPARISON WITH SELECTED MUNICIPALITIES

The debt burden of NYC exceeds the average per capita debt burden of a sample of large U.S. cities by a margin of 2.2 to one. At $5,083 per capita in FY 2002, New York City exceeds the city with the next highest debt burden (Minneapolis), by 1.29 to 1, or by $1,151 per capita, as shown in Table 9.

Table 9. Debt Per Capita Measures for Selected Cities, 2002

City	Population	Direct and Overlapping Debt Outstanding ($ 000)	Debt Per Capita[a]
Minneapolis	382,618	$1,504,366	$3,932
Chicago	2,896,016	10,380,792	3,585
Philadelphia	1,491,812	5,182,637	3,474
Houston	1,953,631	4,481,299	2,294
San Antonio	1,241,100	2,808,774	2,263
Seattle	570,800	1,339,175	2,346
Las Vegas	520,000	1,043,051	2,006
Detroit	951,270	1,879,356	1,976
San Diego	1,255,742	2,354,039	1,875
Los Angeles	3,807,400	6,366,909	1,672
Phoenix	1,375,906	2,090,259	1,519
Boston	589,000	829,465	1,408
Dallas	1,208,300	1,887,253	1,562
San Francisco	793,600	917,220	1,156
Average of Sample Cities	1,359,800	$3,076,043	$2,262
New York City	8,019,033	$40,760,744	$5,083

[a] Table 9 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.

New York City has the largest population of all the cities in the U.S., and is required to maintain a complex and aging infrastructure. 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 in other cities are distributed more broadly among states, counties, unified school districts, and public authorities. When comparing levels of debt with other jurisdictions, and because of the differences in population, landmass, and the size of infrastructure to be maintained, it is important to adjust the data to establish a relative measure among and between jurisdictions. Thus, with the exception of Minneapolis and Philadelphia, 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 (CAFR) as the source of each city's debt, and dividing this figure by each respective city's population.[11]

[11] The debt outstanding for Minneapolis is calculated from data in an Official Statement dated June 16, 2003, Tables U and V, pgs. 39-40 and its 2002 CAFR. The Office of the Director of Finance provides debt outstanding for Philadelphia.

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. In addition, the other cities 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.

Although its debt per capita is the highest of the cities surveyed, New York's debt per capita has not grown as rapidly as nine other cities between FY 1988 and FY 2002. It also is 43 percentage points below the average increase of the cities surveyed over that period. For example, between FY 1988 and FY 2002, the debt per capita of San Diego and Las Vegas have grown significantly faster, by 900 percent and 591 percent, respectively, compared with New York City at 149 percent as shown in Table 10.

Table 10. Debt Per Capita Comparisons for Selected Cities – 1988 and 2002

City[a]	Debt per Capita in 1988	Debt per Capita in 2002	Percent Change 1988-2002
San Diego	$187	$1,875	900 %
Las Vegas	290	2,006	591
Minneapolis	825	3,932	377
Philadelphia	851	3,474	308
Los Angeles	435	1,672	285
San Francisco	344	1,156	236
Chicago	953	3,585	276
San Antonio	887	2,263	155
Phoenix	594	1,519	156
Seattle	986	2,346	138
Boston	701	1,408	101
Houston	1,189	2,294	93
Detroit	1,156	1,976	71
Dallas	1,213	1,562	29
Average of All Other Cities[b]	$774	$2,262	192%
New York City	$2,041	$5,083	149%

[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.

[b] From Table 9, a simple average of the average of debt outstanding divided by the average population.
SOURCES: NYC Comptroller's Office, based on Comprehensive Annual Financial Reports and/or official statements of various cities.

NYC's debt per capita also exceeds the 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 $1,843, which is 36 percent that of New York City in FY 2002. Even the affluent counties of Nassau and Westchester have debt per capita statistics that are $2,908 and $2,176 less than that of New York City as shown in Table 11.

Table 11. Debt Per Capita Comparisons for Selected N.Y. Cities and Counties

City or County	Debt per Capita	Date of Observation
City of White Plains	$1,823	6/30/02
Westchester County	2,175	12/31/02
Nassau County	2,907	12/31/01
Suffolk County	1,162	12/31/00
City of Albany	1,427	7/1/03
City of Syracuse	1,829	7/1/03
Onandaga County	1,727	12/31/02
City of Buffalo	1,557	12/31/02
Erie County	1,428	12/31/02
City of Rochester	1,841	6/30/02
Monroe County	1,578	12/31/02
Average of Above N.Y. Cities and Counties[a]	**1,843**	
New York City	$5,645	6/30/03
New York City	$5,083	6/30/02

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

Another way to examine debt burden of a municipality 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 per capita debt divided by personal income per capita. 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 of this ratio above six percent as high.[12]

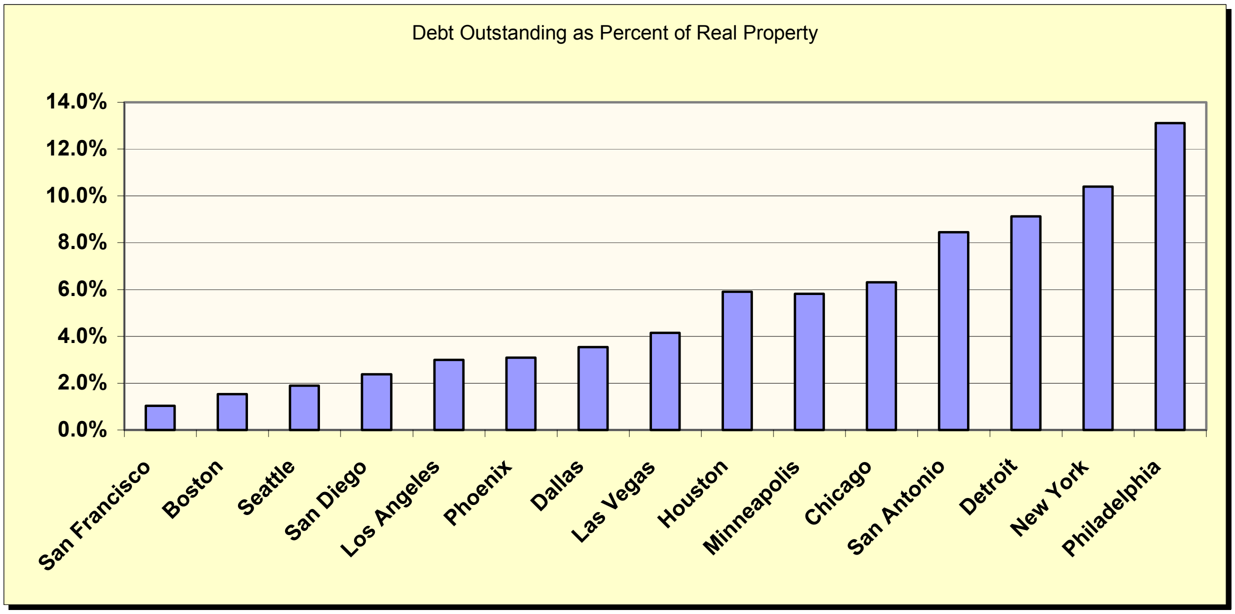
The rationale behind the use of personal income is that it is another relative measure of a locality's wealth. The wealthier a community, the greater its capacity to pay taxes, and therefore to sustain local government debt and operations. This, of course, is always a balancing act for local municipalities, as over-taxation can lead to the flight of its tax-paying citizens and the loss of a predictable source of revenues. Similar to that of the full value of property ratio, Standard & Poor's considers that a personal income ratio greater than six percent as high.[13]

Among the cities surveyed in this report, New York City is 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 percent of full value of real property in FY 2002 is 10.4 percent. This is six percentage points above the sample-city average of 4.2 percent. Only Philadelphia exceeds New York City, with a ratio of 13.1 percent. The cities with the next highest ratios after New York are Detroit and San Antonio with ratios of nine and 8.4 percent. Other major cities such as Chicago and Los Angeles produce ratios of 6.3 percent and three percent respectively, both considerably lower than New York City as shown in Chart 3.

[12] Standard & Poors' Public Finance Criteria 2000, p.29.
[13] Ibid.

Chart 3. Debt Outstanding as Percent of the Full Value of Real Property

($ in millions)



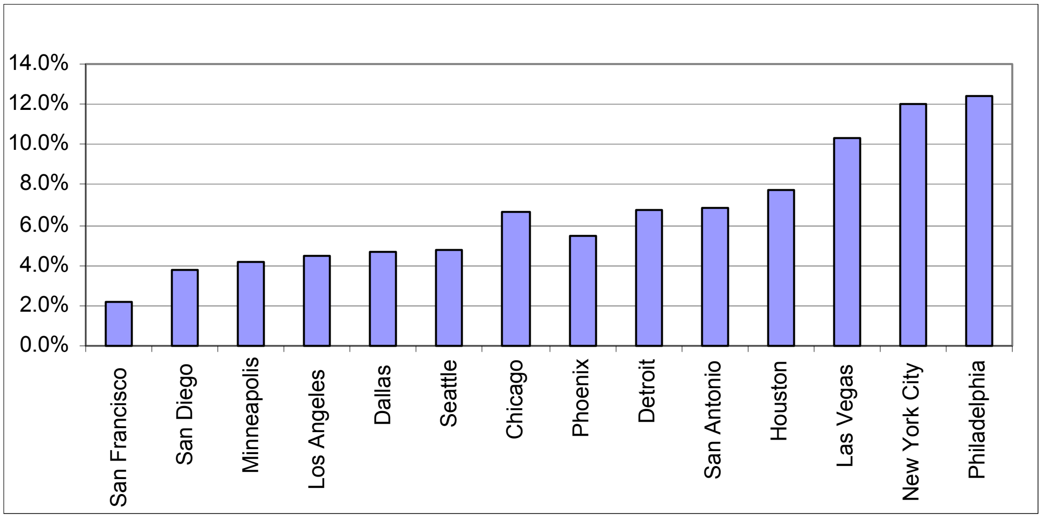
SOURCE:: Each City's Comprehensive Annual Financial Report, FY 2002.

New York City's debt per capita as a percent of personal income per capita in FY 2001 was 12 percent or 2.1 times higher than the average of the sample cities of 5.8 percent.[14]

[14] 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 2001. The City and County of San Francisco and the City and County of Philadelphia, respectively, are coterminous geographic entities. Other cities are subsets of larger counties.

Only Philadelphia exceeds New York City, with a ratio of 12.4 percent, with Las Vegas being the next highest at 10.3 percent, and San Francisco being the lowest at 2.2 percent as shown in Chart 4.

Chart 4. Debt per Capita as Percent of Personal Income per Capita, 2001



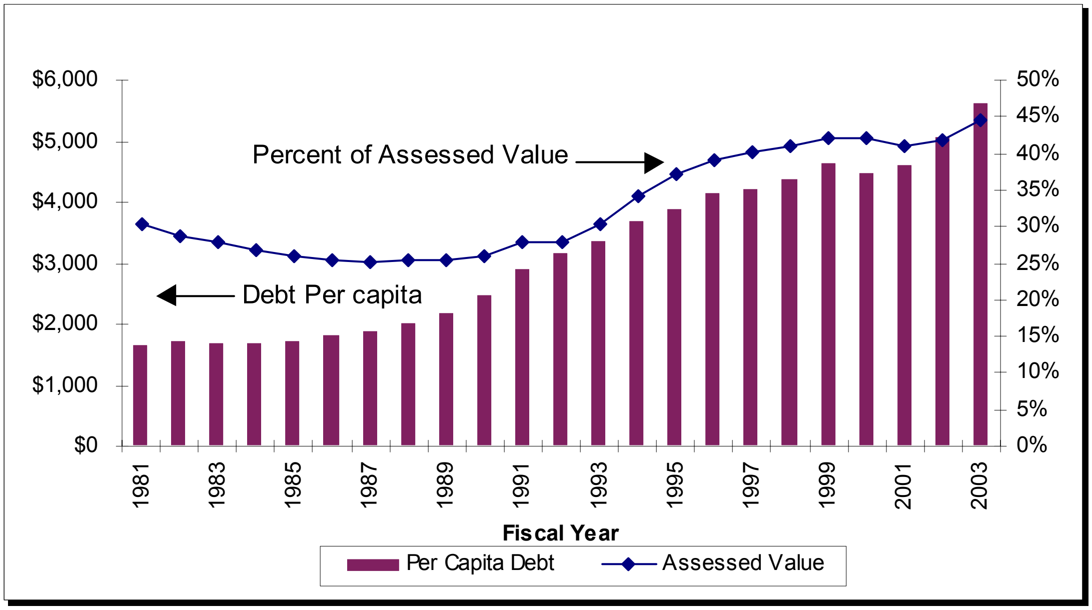
SOURCE: 2001 Comprehensive Annual Financial Reports of Sample Counties as proxies for the above cities, and the Department of Commerce - Bureau of Economic Analysis – 2001 personal income data.

D. AFFORDABILITY MEASURES

The level of NYC's debt is rising and consuming a larger portion of the value of taxable real property. On an historical basis, NYC's debt is becoming unaffordable. As a percentage of the assessed value of real property, NYC debt rose to 44 percent in FY 2003 from 26 percent in FY 1990, indicating that local resources available to meet outstanding obligations are declining as shown in Chart 5.[15]

[15] Debt per capita figures used here exclude capital lease obligations.

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

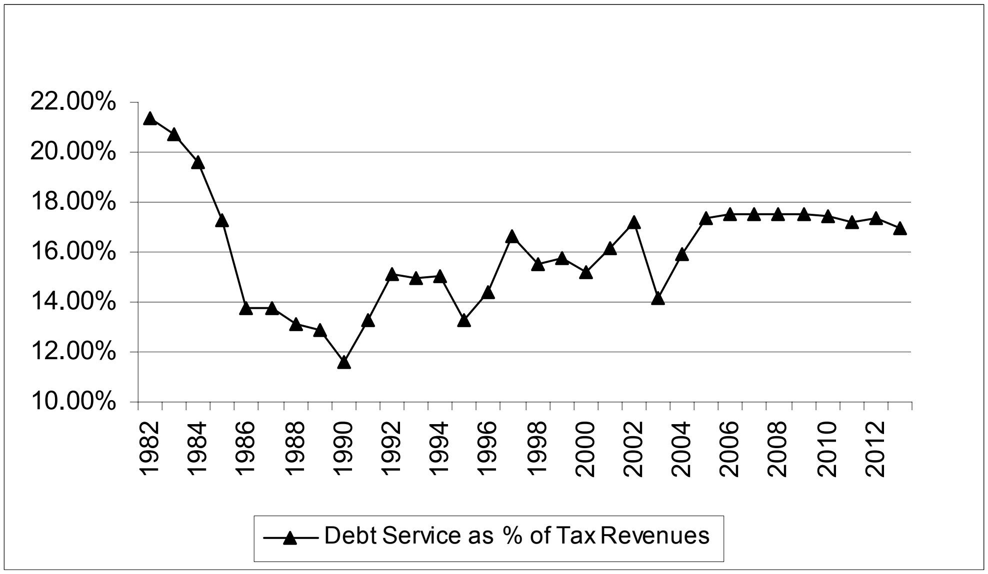


SOURCE: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports,* FYs 1981-2003.

Another measure of debt affordability is the ratio of annual debt service to annual tax revenues. This measure shows the pressure that debt service exerts on a municipality's operating budget. In the case of NYC, debt service, which consumed 11.6 percent of tax revenues in FY 1990, consumed 14.5 percent in FY 2003. By FY 2007, annual debt service will consume an estimated 17.5 percent of tax revenues.[16] Reductions to the City's capital program that occurred in January 2003 have helped reduce this outer year estimate of debt burden. At this time last year, the debt-service to tax revenue ratio estimate for FY 2007 was approximately 19.7 percent. Thus, a combination of an improved local tax revenue outlook coupled with reductions to the capital program have decreased the forecast percentage from last year by about two percentage points. Despite an improved outlook from this time last year, debt service at an estimated 17.5 percent of local tax revenues by FY 2007 is still a ratio not seen since the early 1980's when the City was emerging from a protracted recession. However, if interest costs over the next four years are less than the budgeted rate of seven percent and tax revenue collections remain on target, this ratio will be lower than the estimated 17.5 percent.

[16] From the NYC Office of Comptroller, *Comprehensive Annual Financial Reports*, 1982-2003, and OMB, *Adopted Financial Plan*, June 2003.

Chart 6. Debt Service as a Percent of Tax Revenues



SOURCE: NYC Office of Comptroller, *Comprehensive Annual Financial Reports*, 1982-2003, and OMB, Adopted Financial Plan, June 2003.

APPENDIX

Table A1. Amortization Schedule of the Four Principal Issuers of Debt for New York City

(in $ millions)

Fiscal Years	GO	NYCTFA[a]	TSASC[b]	MAC	Total	Percent
2004-2013	$14,911	$3,831	$253	$2,525	$21,520	47.3%
2014-2023	$11,177	$5,523	$ 638		$17,338	38.1%
2024 and After	$ 3,591	$2,670	$ 367		$ 6,628	14.6%
Total	**$29,679**	**$12,024**	**$1,258**	**$2,525**	**$45,486**	**100.0%**

[a] Excludes $1.1 billion of NYCTFA BANs, but includes $2.0 billion of Recovery Bonds.
[b] Excludes $46 million of TIFIA debt

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Glossary of Acronyms

BAN	Bond Anticipation Notes
BEA	Bureau of Economic Analysis
CAFR	Comprehensive Annual Financial Report
CY	Calendar Year
FEMA	Federal Emergency Management Agency
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
NYWFA	New York City Water Finance Authority
OMB	Office of Management and Budget
S&P	Standard & Poor's

SORPS	State Office of Real Property Services
TFAB	Tobacco Flexible Amortization Bonds
TSASC	Tobacco Settlement Asset Securitization Corporation
U.S.	United States
USDOT	United States Department of Transportation
WTC	World Trade Center