Fiscal Year 2005
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 financing vehicles. 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 responsibly 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 prescribed by the New York State Constitution, is ten percent of the five-year rolling average of the full value of taxable City real property. The City's FY 2005 general debt-incurring power of $43.12 billion is projected to rise to $45.47 billion in FY 2006, $47.31 billion in FY 2007, and $48.62 billion in FY 2008. Over the next three fiscal years, the City expects to commit additional capital contracts in the amount of $15.44 billion. The City also anticipates retiring $5.39 billion of GO debt in this period. As a result of paying off this debt, the City will have debt-incurring capacity, within the general debt limit, of $4.69 billion by the beginning of FY 2008.

The City's General Obligation (GO) debt was $31.38 billion at the beginning of FY 2005. After including contract and other liability and adjusting for appropriation, the City's indebtedness against the debt limit totaled $33.88 billion at the beginning of FY 2005, as shown in the Debt Incurring Power Table (see page iv). The City's indebtedness is expected to grow to $43.93 billion by the beginning of FY 2008.

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 the New York City Transitional Finance Authority (NYCTFA) and TSASC, Inc. The debt-incurring capacity of NYCTFA and TSASC totals $15.30 billion and has already provided approximately $14.80 billion in resources to finance the City's capital program. After adjusting for the benefit of the remaining TSASC debt-incurring power, the City was below its general debt limit by $9.28 billion on July 1, 2004 and is projected to have remaining debt incurring capacity of $7.61 billion on July 1, 2005, $6.31 billion on July 1, 2006, and $4.73 billion on July 1, 2007.

Debt per capita, which amounted to $2,490 in FY 1990, grew to $6,223 by FY 2004, an increase of 150 percent. Over the same period, the cumulative growth rate in debt per capita exceeded the rate of inflation by 100 percentage points and the growth rate in City tax revenues by 63 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 the size of debt burden per capita by a margin of 2.5 to one.

NYC Debt-Incurring Power

	July 1, 2004	July 1, 2005 [a]	July 1, 2006	July 1, 2007
Gross Statutory Debt-Incurring Power	**$43,115**	**$45,466**	**$47,306**	**$48,616**
Actual Bonds Outstanding as of June 30 (net) [b]	30,274	28,572	26,487	24,883
Plus New Capital Commitments				
FY 2005 [c]		5,710	5,710	5,710
FY 2006			5,229	5,229
FY 2007				4,498
Less: Appropriation	(1,475)	(1,462)	(1,471)	(1,477)
Subtotal: Net Funded Debt Against the Limit	**28,799**	**32,820**	**35,955**	**38,843**
Plus: Contract and Other Liability	5,085	5,085	5,085	5,085
Subtotal: Total Indebtedness Against the Limit	**33,884**	**37,905**	**41,040**	**43,928**
Remaining Debt-Incurring Power within the General Debt Limit	**9,231**	**7,561**	**6,266**	**4,688**
Total Authorized TFA Debt-Incurring Power	11,500	11,500	11,500	11,500
Less: TFA Bonds Issued to Date for Contract Liability	11,500	11,500	11,500	11,500
Remaining Authorized TFA Debt Incurring Power	**0**	**0**	**0**	**0**
Remaining TSASC Debt-Incurring Power	**44**	**44**	**44**	**44**
Remaining Debt-Incurring Power within General Limit, TFA Capacity, and TSASC Capacity[d]	**$9,275**	**$7,605**	**$6,310**	**$4,732**

[a] Based on preliminary data from the State Office of Real Property Services (SORPS). The estimates for FY 2005, which begins on July 1, 2004, through FY 2008 are developed by using the July 1, 2004 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. $31.378 billion from Table 1 minus $1.104 billion of the aforementioned adjustments equals $30.274 billion.

[c] Reflects Capital Commitments as of the FY 2005 Adopted Budget Commitment Plan (issued in September 2004) and includes cost of issuance and certain Inter-Fund Agreements.

[d] The *Statement of Debt Affordability* released by the City in April, 2004 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 City's *Statement of Debt Affordability* forecasts that indebtedness would be below the General debt limit by $5.5 billion at the end of FY 2004. In addition, the City has decided to use a minimal amount of the remaining debt-incurring power of TSASC for TIFIA loans.

SOURCE: NYC Comptroller's Office.

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 financing vehicles, is used to finance the City's capital projects (Gross NYC Debt). Gross NYC Debt rose by 7.2 percent between FY 2003 and FY 2004.[1] In the 1980s, Gross NYC Debt grew at an average annual rate of 4.5 percent.[2] 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. The FY 2005 Adopted Budget and Financial Plan projects that over the next four years Gross NYC Debt will increase by about four percent annually.[3]

A. COMPOSITION OF DEBT

Debt used by the City to finance its capital program can be divided into four categories as shown on Table 1. General Obligation (GO) bonds account for 63.3 percent of the City's total debt and is comprised of both tax-exempt and taxable bonds, as well as capital lease obligations. Tax-exempt debt is used to finance projects that have a public purpose while taxable debt is issued for projects that have a public purpose but are not eligible for a Federal, State or City tax exemption.

Table 1. Gross NYC Debt Outstanding as of June 30, 2004 [a]

($ in millions)

	General Obligation Bonds	Transitional Finance Authority	TSASC	Capital Lease Obligation[b]	Gross Debt Outstanding
Tax-Exempt					
Fixed Rate	$25,155	$10,158	$1,256	$2,922	$39,491
Variable Rate[c]	4,906	2,905[d]	-	-	7,811
Subtotal	$30,061	$13,063	$1,256	$2,922	$47,302
Taxable					
Fixed Rate	$656	$301	$-	$639	$1,596
Variable Rate[c]	661	-	-	-	661
Subtotal	$1,317	$301	$-	$639	$2,257
Total	**$31,378**	**$13,364**	**$1,256**	**$3,561**	**$49,559**
Percent of Total	**63.3%**	**27.0%**	**2.5%**	**7.2%**	**100.0%**

[a] Total figure excludes MAC Debt.
[b] This figure includes $691 million in Jay Street Development Corporation debt.
[c] 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.
[d] 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 2004, p.286. Note: This table excludes MAC debt.

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1 This information is presented on p. 286 of the Office of the NYC Comptroller's, *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004* that was released on November 1, 2004. Both FY 2003 and FY 2004 exclude MAC debt for comparison purposes.
2 This information is presented on p. 266 of the Office of the NYC Comptroller's *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2000* that was released in October, 2000.
3 GO, TSASC, and NYCTFA debt used a proxy for estimated growth rate, because of unavailable data regarding future lease-purchase debt issuance.

Tax-exempt debt accounted for 95.4 percent of the total value of debt outstanding at the end of FY 2004. Fixed-rate tax-exempt debt accounted for 83.5 percent of tax-exempt debt and 79.7 percent of total debt. Tax-exempt and taxable variable rate debt comprised 17.1 percent of gross NYC 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 $31.378 billion as of June 30, 2004 and accounted for 63.3 percent of total debt outstanding. Compared with FY 2003, GO debt increased by $1.699 billion, or 5.7 percent.[4] 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.

2. *Municipal Assistance Corporation for the City of New York (MAC)* debt is no longer a financial or legal obligation of New York City. The Sales Tax Asset Receivable (STAR) Corporation issued bonds totaling $2.6 billion at the end of October 2004. The proceeds of these bonds will be used to reimburse the City for amounts retained by MAC since July 1, 2003 for debt service and to relieve the City of its remaining MAC debt service obligations. Debt service on the STAR Corporation bonds is payable solely from the funds of the corporation consisting of $170 million in payments per year required to be made by the New York Local Government Assistance Corporation (LGAC), subject to appropriation by the State. The final maturity of this new debt is FY 2034.

3. *New York City Transitional Finance Authority (NYCTFA)* debt totaled $13.36 billion at the end of FY 2004. This is an 11.1 percent increase or $1.34 billion over FY 2003. The NYCTFA's share of Gross NYC Debt outstanding increased to 27 percent in FY 2004 from 24.7 percent in FY 2003. This increase is due primarily to the issuance of $1.11 billion of NYCTFA bonds to redeem previously issued TFA Bond Anticipation Notes.

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

   The only remaining NYCTFA debt capacity is $470 million, available under the special $2.5 billion Disaster Recovery Bond authorization.

4. *TSASC, Inc. (TSASC)* debt totaled $1.256 billion as of June 30, 2004. TSASC is a local development corporation organized under New York State's Not-For-Profit Corporation Law. 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.

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[4] FY 2003 figure is from the *FY 2004 Annual Report of the Comptroller on Capital Debt and Obligations*, December 2003.
[5] The debt limit is discussed in further detail in Section II.

In September 2003, TSASC announced that it did not intend to issue any additional bonds under its indenture, and that it was reviewing alternatives for its outstanding bonds.

TSASC is a special purpose, bankruptcy-remote local development corporation created pursuant to the Not-for-Profit Corporation Law of the State of New York. TSASC is authorized to issue bonds to purchase from the City its future right, title and interest under a Master Settlement Agreement (the MSA) between participating cigarette manufacturers and 46 states, including the State of New York. As of June 30, 2004, TSASC had approximately $1.25 billion of bonds outstanding.

In June 2003, Moody's downgraded R.J. Reynolds Tobacco Holdings to Ba1, which resulted in a Downgrade Trapping Event in connection with TSASC's outstanding bonds. The majority of TSASC's bonds are now rated BBB by S&P and Baa2 by Moody’s. All of TSASC's bonds are now rated BBB by Fitch. The downgrade triggered a trapping event, in which a portion of excess tobacco settlement revenues (TSRs) not used for debt service and that would otherwise flow to the City must be deposited in a trapping account until an amount equal to 25% of the outstanding amount of TSASC's bonds has been accumulated in that account. As of June 30, 2004, $60.3 million had been trapped towards a requirement totaling $314 million.

5. *Capital Lease Obligations* totaled $3.56 billion as of June 30, 2004, an increase of $317 million, or 9.8 percent from FY 2003. 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 lease obligations are included in the gross debt outstanding, but are excluded in the calculation of the City’s indebtedness under the general debt limit. Issuers of capital lease obligations include the Dormitory Authority of the State of New York for the New York City Courts Capital Program ($640 million), the Jay Street Development Corporation ($691 million), the City University Construction Fund ($309 million), the Educational Construction Fund ($107 million), the Primary Care Development Corporation ($51 million), the Health and Hospitals Corporation ($832 million), the Housing Finance Agency ($141 million), the Urban Development Corporation ($43 million), the Industrial Development Agency ($108 million), as well as general lease obligations ($639 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 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) as shown on Table 2.

[6] Although for reporting purposes $832 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.

Table 2. NYWFA and MTA Debt Outstanding as of June 30, 2004

($ in millions)

	Water Finance Authority	Metropolitan Transportation Authority
Tax Exempt		
Fixed Rate	$11,129	$16,898
Variable Rate	2,295[a]	2,578
Total	**$13,424**	**$19,466**

[A] Includes $800 million of commercial paper.
SOURCES: The NYC Municipal Water Finance Authority and the Metropolitan Transportation Authority.

The NYWFA and MTA bonds are secured by dedicated revenues and are therefore not considered debt of the City.[7] 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 $32.9 billion of debt of these two authorities.

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. Debt issued by NYWFA is supported by user fees and certain other revenues. As of June 30, 2004, the NYWFA had $13.42 billion in debt outstanding, an increase of $550 million or 4.3 percent over FY 2003.[8]

The MTA is composed of four major agencies providing commuter transportation throughout the metropolitan area. 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 Bridge and Tunnel Authority operates all intra-State tunnels and bridges throughout the five boroughs of New York City. As of June 30, 2004, the MTA had $19.466 billion of debt outstanding, an increase of $1.82 billion, or 10.3 percent, over June 30, 2003.

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 planned growth in NYCTFA and TSASC debt and all new issuance will likely come from GO debt.[9]

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[7] The $568 million of debt issued for water and sewer purposes prior to June 30, 1985 is included in Gross NYC Debt.
[8] FY 2003 and FY 2004 figures have been adjusted downward by $609 million for "Crossover" bonds that effectively defease outstanding debt.
[9] The City has proposed legislation that would permit further NYCTFA debt issuance.

Table 3. NYC Bonds Outstanding, Three Major Issuers, FYs 2004-2014

($ in millions)

End of Fiscal Year	Debt Outstanding for GO, NYCTFA, & TSASC	Percent Change
2004	$45,614	-
2005	$47,167	3.4%
2006	$49,284	4.5%
2007	$51,328	4.1%
2008	$53,143	3.5%
2009	$54,807	3.1%
2010	$56,053	2.3%
2011	$56,948	1.6%
2012	$57,653	1.2%
2013	$58,344	1.2%
2014	$59,052	1.2%

SOURCE: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report,* November 1, 2004, and the Office of Management and Budget, June 2004 Financial Plan.

The principal and interest composition for the three major issuers combined is reflected in Table 4. Principal repayments, excluding MAC, are estimated to be $1.85 billion in FY 2005, $1.68 billion in FY 2006, $2.11 billion in FY 2007, and $2.21 billion in FY 2008.[10] Thus, principal is estimated to comprise 44.5 percent of debt service in FY 2005, 40.2 percent in FY 2006, 44.1 percent in FY 2007, and 43.7 percent in FY 2008.[11]

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
2005	$1,847	$2,299	$4,146	44.5%
2006	$1,683	$2,503	$4,186	40.2%
2007	$2,106	$2,664	$4,770	44.1%
2008	$2,205	$2,836	$5,041	43.7%

SOURCE: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report*, November 1, 2004, and the Office of Management and Budget, June 2004 Financial Plan.
NOTE: Adjusted for prepayments and includes debt service for GO, NYCTFA, and TSASC only.

During FY 2004, the City issued $6.46 billion of GO debt of which approximately $3.42 billion was issued to refund certain outstanding bonds and $3.04 billion were new money bonds for capital purposes. The refundings produced $32.40 million in debt-service savings in FY 2004, $96.50 million of savings in FY 2005, and $109.80 million in FY 2006. At the end of FY 2004, GO debt totaled $31.38 billion of which $15.45 billion, or 49.2 percent, will come due in the next ten years as shown in Table A1 of the Appendix.

[10]Approximately $200 million of the FY 2006 GO debt was defeased through a bond retirement transaction in June and is not included herein.
[11]Debt service excludes lease-purchase debt, interest on short-term notes, and MAC as of the FY 2005 Adopted Budget and Financial Plan, June 2004. MAC is excluded from the principal and interest analysis because its debt service is being paid by the STAR Corporation.

In FY 2004, the NYCTFA issued $1.94 billion of bonds for capital purposes, of which $1.09 billion were for the redemption of previously issued Bond Anticipation Notes (BAN), $709 million for bond refundings, and $145 million for capital projects. NYCTFA debt totaled $13.36 billion at the end of FY 2004. Of the $13.36 billion of NYCTFA bonds outstanding, $4.57 billion, or 34 percent, is coming due in the next ten years as shown in Table A1 of the Appendix.

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 have significantly outpaced capital spending for other purposes due primarily to deteriorating facilities and pressures to reduce class size. The amount of total GO bonds outstanding used for education capital projects has risen over the last number of years from 13.4 percent, or $2.38 billion in FY 1992 to 31.2 percent, or $9.79 billion as of June 30, 2004. General Obligation debt outstanding grew from $17.8 billion to $31.4 billion over the same period.

Spending on bridges and highways has increased by $1.2 billion in absolute terms, but has declined in relative terms to nine percent in FY 2004 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.

Since FY 1986, the NYWFA has financed virtually all capital expenditures of the Department of Environmental Protection (DEP), thereby decreasing the outstanding portion of 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 total GO debt outstanding, water and sewer debt has declined to $568 million, or 1.8 percent of the total as of June 30, 2004 as shown in Table 5.

Table 5. Use of GO Debt, NYC, FY 2004 & FY 1992

($ in millions)

Categories	**Debt Outstanding as of June 30, 2004**	**Percent of Total**	**Debt Outstanding as of June 30, 1992**	**Percent of Total**
Education (Schools)	$9,791	31.2%	2,382	13.4%
Housing and Urban Development	3,033	9.7	2,502	14.0
Mass Transit	2,685	8.6	2,365	13.3
Bridges, Tunnels, Highways and Streets	2,820	9.0	1,658	9.3
Public Safety, Correction and Courts	2,133	6.8	1,729	9.7
Sanitation	1,531	4.9	1,141	6.4
Parks, Recreational and Culturals	1,665	5.3	996	5.6
Water Pollution Control, Water Mains and Sewers[a]	568	1.8	1,502	8.4
Health Services	658	2.1	863	4.8
Public Buildings	922	2.9	429	2.4
Social Services	483	1.5	283	1.6
Off-Street Parking, Airports, Ferries and Markets	403	1.3	267	1.5
Undistributed and Other	4,686	14.9	1,694	9.6
Total [b]	**$31,378**	**100.0%**	**$17,811**	**100.0%**

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

[b] This includes $31.378 billion of GO debt and excludes MAC, NYCTFA, TSASC, and capital lease obligations. Over the past five years the NYCTFA and TSASC have supplanted some of GO borrowing and have issued $14.7 billion of bonds and notes. The Table above does not include debt issued by the TFA or TSASC.

SOURCE: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report, FY 2004,* and the Office of Management and Budget, *Adopted Budget Debt Service Statement II*, FY 2005 and FY 1993.

As shown in Table 6, excluding DEP, the education portion of the September 2004 Capital Plan over FYs 2005-2008 is projected to increase to $5.55 billion or 27.5 percent. Other GO supported program areas include bridges, tunnels, streets and highways at $3.02 billion, housing and urban renewal at $2.24 billion, public safety at $2.45 billion and parks, libraries, and cultural facilities at $1.66 billion.

Although funded by NYWFA bonds, water pollution control, water mains and sewers and other projects involving DEP will comprise $7.83 billion of the estimated City-funded commitments. This represents 28 percent of the estimated total City capital commitments between FYs 2005-2008.

Table 6. September Capital Commitment Plan by Category, City Funds, FYs 2005 - 2008

($ in millions)

Categories	Projected FY 2005-2008 Commitments	Percent of Total	Percent of Total without Water & Sewer
Water Pollution Control, Water Mains and Sewers (DEP)[a]	$7,829	28.0%	-
Bridges, Tunnels, Highways and Streets	3,023	10.8	15.0%
Education (Schools)	5,545	19.8	27.5
Housing and Urban Development	2,236	8.0	11.1
Public Safety, Correction and Courts	2,445	8.7	12.1
Parks, Libraries and Culturals	1,658	5.9	8.2
Sanitation	1,199	4.3	6.0
Mass Transit	326	1.2	1.6
Health Services	1,125	4.0	5.6
Public Buildings	2,206	7.9	11.0
Off-Street Parking, Airports, Ferries and Markets	65	0.2	0.3
Social Services	309	1.1	1.5
Total Before Reserve	**$27,967**	**100.0%**	**100.0%**
Reserve for Unattained Commitments	($2,777)	(N/A)	(N/A)
Total [b]	**$25,190**	**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 *FY 2005 September Capital Commitment Plan* and includes a $2.8 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 contains 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 traditionally less than the market value of properties.

- The general debt limit is based on the taxable full market value of real property and not on assessed value. To derive a taxable market value, the State Office of Real Property Services (SORPS) develops special equalization ratios that express 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 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 7 illustrates the calculation of the FY 2005 debt limit. The FY 2005 general debt limit was calculated using the assessed valuation of taxable real estate for fiscal years 2001 through 2005 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 calculate the five-year average of taxable real property, which is $431.152 billion. The debt limit is then calculated by multiplying the five-year average by ten percent, which yields the debt limit of approximately $43.115 billion for FY 2005.

Table 7. Calculation of Full Valuation of Real Property in New York City and the General Debt Limit, FY 2005

Fiscal Year	Billable Assessed Valuation of Taxable Real Estate	Special Equalization Ratio (for Market Value)	Full Valuation
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	0.2230	$423,794,846,955
2004	$99,854,097,559	0.2161	$462,073,565,752
2005	$103,676,971,611	0.2004	$517,350,157,740
		5 - Year Average	$431,152,134,909
		10 Percent of the 5-Year Average	$43,115,213,491

SOURCE: The City of New York, City Council Tax Fixing Resolution for FY 2005.

Table 8 shows that the City's FY 2005 general debt-incurring power of $43.12 billion is projected to rise to $45.47 billion in FY 2006, $47.31 billion in FY 2007, and $48.616 billion in FY 2008. The City's indebtedness is projected to grow from $33.88 billion at the beginning of FY 2005 to $43.93 billion at the beginning of FY 2008. Consequently, the City was below its general debt limit by $9.28 billion on July 1, 2004. The City is projected to be below the general limit by $7.61 billion on July 1, 2005, by $6.31 billion on July 1, 2006, and by $4.73 billion by July 1, 2007.

NYCTFA and TSASC have already provided resources totaling $14.7 billion through FY 2004. During FY 2004, the NYCTFA issued $145 million of bonds, using up all its $11.5 billion borrowing capacity authorized for capital purposes. TSASC is not likely to use its remaining bond issuance capacity with the exception of funding of Transportation Infrastructure Finance and Innovation Act (TIFIA) loans. The City will be able to incur additional debt (other than Recovery Bonds) of approximately $4.7 billion through FY 2008. The impact of these capital costs is discussed in "Affordability Measures" beginning on page 18.

Table 8. NYC Debt-Incurring Power

	July 1, 2004	July 1, 2005 [a]	July 1, 2006	July 1, 2007
Gross Statutory Debt-Incurring Power	**$43,115**	**$45,466**	**$47,306**	**$48,616**
Actual Bonds Outstanding as of June 30 (net) [b]	30,274	28,572	26,487	24,883
Plus New Capital Commitments				
FY 2005 [c]		5,710	5,710	5,710
FY 2006			5,229	5,229
FY 2007				4,498
Less: Appropriation	(1,475)	(1,462)	(1,471)	(1,477)
Subtotal: Net Funded Debt Against the Limit	**28,799**	**32,820**	**35,955**	**38,843**
Plus: Contract and Other Liability	5,085	5,085	5,085	5,085
Subtotal: Total Indebtedness Against the Limit	**33,884**	**37,905**	**41,040**	**43,928**
Remaining Debt-Incurring Power within the General Debt Limit	**9,231**	**7,561**	**6,266**	**4,688**
Total Authorized TFA Debt-Incurring Power	11,500	11,500	11,500	11,500
Less: TFA Bonds Issued to Date for Contract Liability	11,500	11,500	11,500	11,500
Remaining Authorized TFA Debt Incurring Power	**0**	**0**	**0**	**0**
Remaining TSASC Debt-Incurring Power	**44**	**44**	**44**	**44**
Remaining Debt-Incurring Power within General Limit, TFA Capacity, and TSASC Capacity[d]	**$9,275**	**$7,605**	**$6,310**	**$4,732**

[a] Based on preliminary data from the State Office of Real Property Services. The estimates for FY 2005, which begins on July 1, 2004, through FY 2008 are developed by using the July 1, 2004 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. $31.378 billion from Table 1 minus $1.104 billion of the aforementioned adjustments equals $30.274 billion.

[c] Reflects Capital Commitments as of the FY 2005 Adopted Budget Commitment Plan (issued in September 2004) and includes cost of issuance and certain Inter-fund Agreements.

[d] The Debt Affordability Statement released by the City in April, 2004 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 City's Debt Affordability Statement forecasts that indebtedness would be below the General debt limit by $5.5 billion at the end of FY 2004. In addition, the City has decided to use a minimal amount of the remaining debt-incurring power of TSASC for TIFIA loans.

SOURCE: NYC Comptroller's Office.

III. Affordability of City Debt

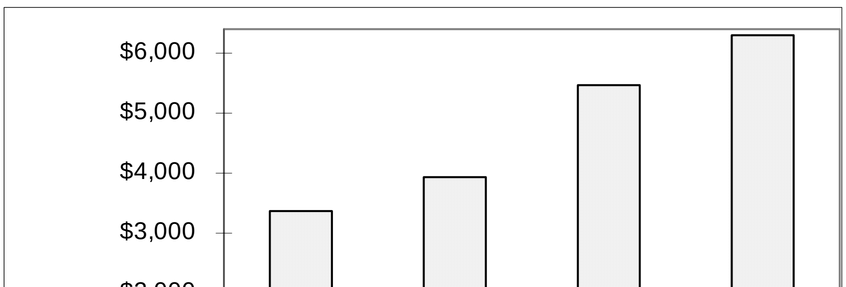
The proper measure of the affordability of City debt is always subject to debate. New York City's debt per capita of $5,867 in 2003 is the highest among the sampled cities. A historically accurate measure that has been used to capture the fundamental impact of incurring debt is debt service as a percent of local tax revenues. This measure will be discussed in "Affordability Measures" beginning on page 17.

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 repair and maintain its infrastructure. This trend began in the late 1980s and has continued through FY 2004. The City committed resources averaging $3.4 billion per year between FYs 1993-1996, $3.9 billion per year between FYs 1997-2000, and $5.5 billion per year between FYs 2001-2004. In FY 2001, the City chose to embark on a historically high capital commitment program, with City-funded capital commitments of $6.1 billion, an increase of 63.8 percent over FY 2000. City-funded commitments declined slightly to $5.83 billion in FY 2002, $5.4 billion in FY 2003, and to $4.5 billion in FY 2004. Between FYs 2005-2008, City-funded commitments are forecasted to average $6.3 billion, 15 percent more than the average of $5.5 billion between FYs 2001 and 2004 as shown in Chart 1.

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

($ in millions)

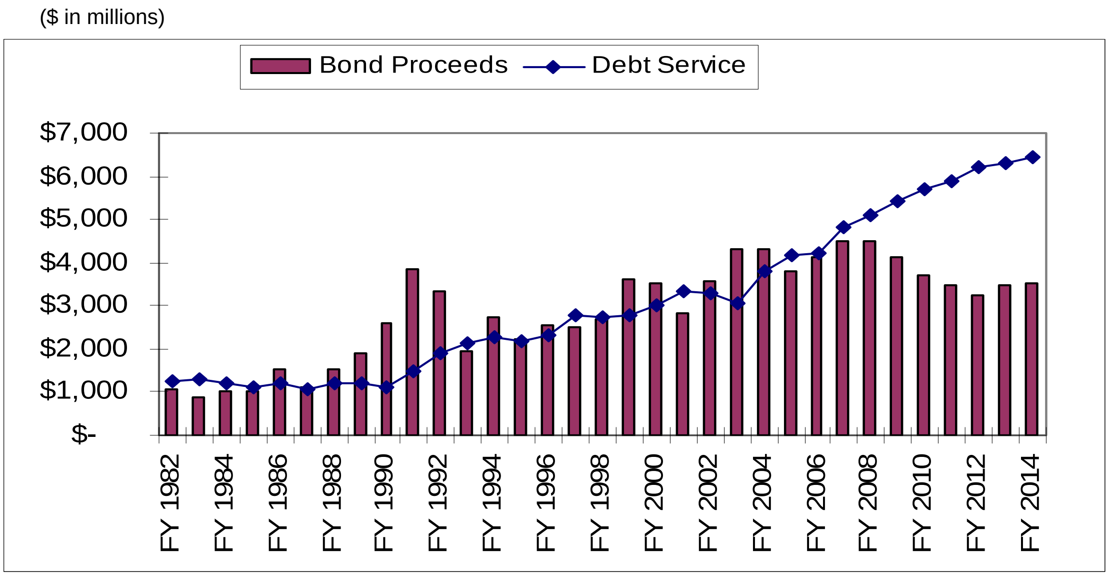


	93-96	97-00	01-04	05-08
☐ City Capital Commitments	$3,383	$3,922	$5,459	$6,298
Percent Change		16%	39%	15%

SOURCE: *Message of the Mayor*, various FYs 1991-2001, and *FY 2005 September Capital Commitment Plan*.

The City's capital program relies almost exclusively on borrowing.[12] The City's annual borrowing grew from $1.6 billion in FY 1986 to $4.32 billion in FY 2004. The City's borrowing is expected to decline slightly and average $4.23 billion annually between FYs 2005-08.[13] The annual average growth rate of City debt-service payments was 6.6 percent per year between FY 1986 and FY 2004, rising to $3.8 billion in FY 2004 from $1.2 billion in FY 1986. Debt service is expected to rise by 5.5 percent per year from $3.8 billion in FY 2004 to $6.5 billion by FY 2014 as illustrated in Chart 2.

Chart 2. Bond Proceeds and Debt Service, FYs 1982-2014



Sources: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports*, 1982-2003 and Office of Management and Budget, *Financial Plan*, June 2004. 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, City debt expanded at a significant rate. Debt per capita, which amounted to $2,490 in FY 1990, has grown to $6,223 in FY 2004, an increase of 150 percent. Over the same period, the cumulative growth rate in debt per capita exceeded both the rate of inflation by 100 percentage points and the growth rate in City tax revenues by 63 percentage points. The debt per capita figure does not include the debt of the New York Municipal Water Finance Authority (NYWFA) 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 approximately $10,300.

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[12] While the October 2004 Financial Plan contains an assumed $200 million per year in pay-as-you-go capital spending for education, the City has proposed an outyear gap-closing program that eliminates this pay-as-you-go capital spending.
[13] This includes bond proceeds for GO, NYCTFA, 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 2.5 to one. At $5,867 per capita in FY 2003, New York City surpasses the city with the next highest debt burden (Chicago), by 1.50 to 1, or $1,947 per capita, as shown in Table 9.

Table 9. Debt Per Capita Measures for Selected Cities, 2003

City	Population	Direct and Overlapping Debt Outstanding ($ 000)	Debt Per Capita[a]
Chicago	2,896,016	$11,352,404	$3,920
Detroit	951,270	3,131,060	3,291
Houston	2,009,690	5,934,208	2,953
San Jose	925,000	2,330,397	2,519
Seattle	571,900	1,333,168	2,331
San Antonio	1,262,800	2,924,509	2,316
Las Vegas	535,000	1,024,593	1,915
Los Angeles	3,864,400	6,641,397	1,719
Phoenix	1,455,906	1,950,438	1,340
Boston	589,000	918,660	1,408
Dallas	1,211,000	1,887,500	1,559
San Francisco	791,600	859,625	1,086
Average of Sample Cities	1,421,926	$3,357,328	$2,361
New York City	8,085,742	$47,440,000	$5,867

[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. In addition, the Cities of San Diego and Philadelphia did not respond in time for inclusion in this table.

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. Given its population size, 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. 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, 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.

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 City's debt per capita has not grown as rapidly as five other cities between FY 1988 and FY 2003. It also is seven percentage points below the average increase of the cities surveyed over that period. For example, between FY 1988 and FY 2003, the debt per capita of Las Vegas and Chicago have grown significantly faster, by 560 percent and 311 percent, respectively, compared with New York City at 188 percent as shown in Table 10.

Table 10. Debt Per Capita Comparisons for Selected Cities – 1988 and 2003

City	Debt per Capita in 1988	Debt per Capita in 2003	Percent Change 1988-2003
Las Vegas	290	1,915	560
Los Angeles	435	1,719	295
San Francisco	344	1,086	216
Chicago	953	3,920	311
San Antonio	887	2,316	161
San Jose	663	2,519	280
Phoenix	594	1,519	126
Seattle	986	2,346	136
Boston	701	1,408	101
Houston	1,189	2,294	148
Detroit	1,156	3,291	185
Dallas	1,213	1,559	29
Average of All Other Cities[a]	$801	$2,361	195%
New York City	$2,041	$5,867	188%

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

NOTE: 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.

[a] From Table 9, 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 $2,109, which is 36 percent of New York City's level in FY 2003. Even affluent counties such as Nassau and Westchester have debt per capita considerably less than that of New York City, at $2,634 and $2,352 respectively, as shown in Table 11 (although NYC's costs are increased by its funding of construction related to education).

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	$1,974	6/30/03
Westchester County	$2,352	12/31/03
Nassau County	$2,634	12/31/02
City of Albany	$1,547	7/1/04
City of Syracuse	$2,134	7/1/04
Onandaga County	$2,011	12/31/03
City of Buffalo	$1,523	12/31/03
Erie County	$1,684	12/31/03
City of Rochester	$1,851	6/30/03
Monroe County	$1,839	12/31/03
Average of Above N.Y. Cities and Counties[a]	**$2,109**	
New York City	$6,223	6/30/04
New York City	$5,867	6/30/03

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.

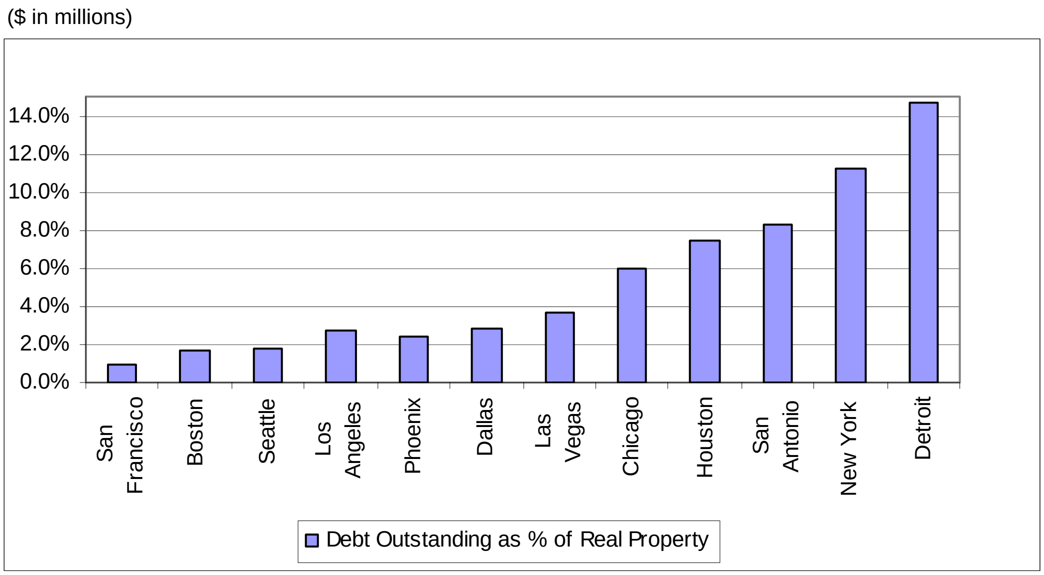
Another way to examine debt burden of a municipality or city is to measure its debt relative to its wealth. Two traditional measures of that relationship are outstanding debt divided by the full value of real property and per capita debt divided by personal income per capita. The rationale behind the 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 to be high.[14]

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 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 residents and the loss of a predictable source of revenues. Standard & Poor's considers a personal income ratio greater than six percent to be high.[15]

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 percentage of full value of real property in FY 2003 is 11.2 percent. This is seven percentage points above the sample city average of 3.8 percent. Only Detroit exceeds New York City, with a ratio of 14.7 percent. The cities with the next highest ratios after New York are San Antonio and Houston with ratios of 8.3 and 7.5 percent. Other major cities such as Chicago and Los Angeles have ratios of 6.0 percent and 2.7 percent respectively, both considerably lower than New York City as shown in Chart 3.

[14]Standard & Poor's Public Finance Criteria 2000, p.29.
[15] Ibid.

Chart 3. Debt Outstanding as Percent of the Full Value of Real Property, FY 2003



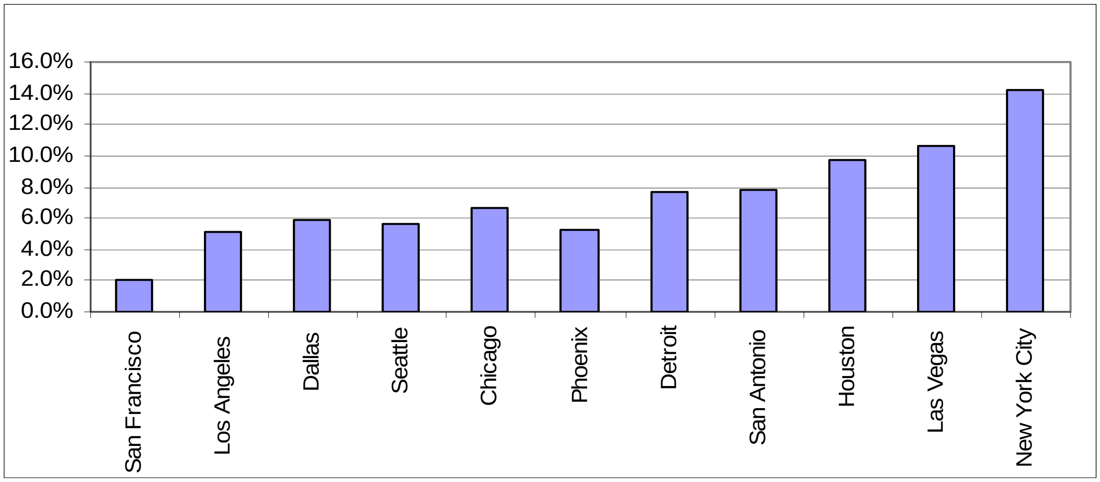
SOURCE: Each City's Comprehensive Annual Financial Report FY 2003.
NOTE: Debt per capita is based on data extracted from each city's " Direct and Overlapping Debt Outstanding" exhibit included in that City's Comprehensive Annual Financial Report. While the individual exhibits are similar in format, there is no assurance that the components of the data published in those exhibits are comparable. In addition, the Cities of San Diego and Philadelphia did not respond in time for inclusion in this table.

New York City's debt per capita as a percentage of personal income per capita in FY 2002 was 14.2 percent or 2.3 times higher than the average of the sample cities as shown on Chart 4.[16]

No other sample city exceeds New York. Las Vegas was the next highest at 10.6 percent, and San Francisco was the lowest at 2.1 percent as shown on Chart 4.

[16] 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 2002. The City and County of San Francisco is a coterminous geographic entity.

Chart 4. Debt per Capita as Percent of Personal Income per Capita, FY 2002

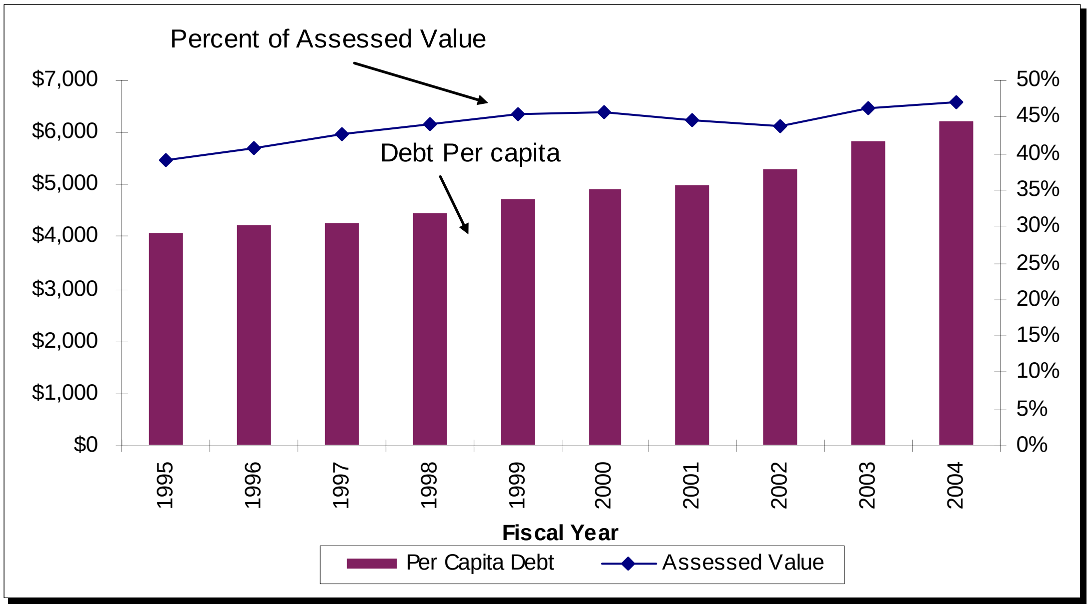


SOURCE: FY 2002 Comprehensive Annual Financial Reports of Sample Counties as proxies for the above cities, and the Department of Commerce – Bureau of Economic Analysis – 2002 personal income data. NOTE: Debt per capita is based on data extracted from each city's " Direct and Overlapping Debt Outstanding" exhibit included in that City's Comprehensive Annual Financial Report. While the individual exhibits are similar in format, there is no assurance that the components of the data published in those exhibits are comparable. In addition, the Cities of San Diego and Philadelphia did not respond in time for inclusion in this table.

D. AFFORDABILITY MEASURES

The level of NYC's debt is rising and outpacing the growth of the assessed value of taxable real property. As a percentage of the assessed value of real property, NYC debt rose to 47.1 percent in FY 2004 from 39 percent in FY 1995, indicating that local resources available to meet outstanding obligations are declining as shown in Chart 5.

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

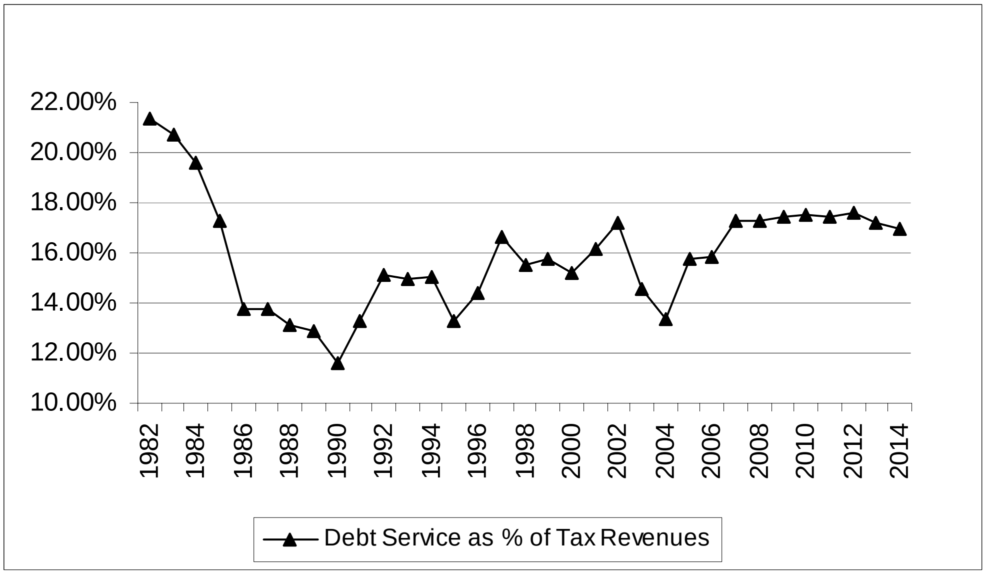


SOURCE: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports*, FYs 1981-2004.

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 13.4 percent in FY 2004. By FY 2008, annual debt service will consume an estimated 17.3 percent of tax revenues, a level not seen since the early 1980's when the City was emerging from a protracted recession.[17] 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 17.3 percent.

[17] From the City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports*, 1982-2003, and OMB, *Adopted Financial Plan*, June 2004.

Chart 6. Debt Service as a Percent of Tax Revenues



SOURCE: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports*, 1982-2003, and OMB, Adopted Financial Plan, June 2004.

APPENDIX

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

($ in millions)

Fiscal Years	GO	NYCTFA[a]	TSASC	Total	Percent of Total
2005-2014	$15,446	$4,569	$134	$20,149	43.8%
2014-2023	$12,167	$5,950	$ 386	$18,503	40.2%
2024 and After	$ 3,765	$2,845	$ 736	$ 7,346	16.0%
Total	**$31,378**	**$13,364**	**$1,256**	**$45,998**	**100.0%**

[a] Includes $2.0 billion of Recovery Bonds.

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 Municipal Water Finance Authority
OMB	Office of Management and Budget
S&P	Standard & Poor's

SORPS	State Office of Real Property Services
TIFIA	Transportation Infrastructure Finance and Innovation Act
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