FISCAL YEAR 2003 ANNUAL REPORT OF THE COMPTROLLER ON CAPITAL DEBT AND OBLIGATIONS

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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. Generally, this debt is used to finance the City's capital projects as the City is restricted from issuing debt to fund operating expenses (although these restrictions were relaxed in the aftermath of the September 11, 2001 attacks to allow up to $2.5 billion of debt to fund operating expenses). 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 soundly 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 stipulated in the New York State Constitution, is ten percent of the five-year average of the full value of taxable real property. The City's FY 2003 general debt-incurring power of $35.99 billion is projected to rise to $39.17 billion in FY 2004, $41.87 billion in FY 2005, and $43.74 billion in FY 2006.

The City's indebtedness is projected to grow from $32.66 billion at the beginning of FY 2003 to $41.15 billion at the beginning of FY 2006. Consequently, the City was below its general debt limit by $3.34 billion on July 1, 2002. The City is projected to be below the limit by $3.3 billion on July 1, 2003, by $3.2 billion on July 1, 2004, and by $2.6 billion by July 1, 2005.

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 $13.7 billion and will provide the City with resources to finance its capital program through FY 2006. After adjusting for the additional benefit of the NYCTFA and TSASC debt-incurring power, the City will be able to incur additional debt of approximately $6 billion through FY 2006.

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 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 bears responsibilities that in other cities are distributed more broadly among states, counties, unified school districts, and public authorities.

The City must therefore use 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. Bond proceeds are also used for financing shorter-lived capital items.

Debt per capita, which amounted to $2,490 in FY 1990, has grown to $5,083 in FY 2002, an increase of 104 percent. Over the same period, the cumulative growth in debt per capita exceeds both the rate of inflation by 63 percent and the growth in City tax revenues by 55 percent. New York City leads a sample of large U.S. cities in the size of debt burden per capita by a margin of 2.16 to one.

The fiscal result of the current Capital Plan will be a large and increasing debt burden. The record amount of debt issued by the City will substantially increase its borrowing costs. This effect has been well documented as reflected by the widening spread between the Municipal Market Data index and City borrowing costs. While the City continues to have good access to the public credit markets, Gross New York City debt rose by 11.9 percent between FY 2001 and FY 2002.

Because of the impact of the attacks on the World Trade Center and the ongoing recession, the current-year focus has been on balancing the City's operating budget. The next capital budgeting cycle must address the long-term pressures that debt service places on the operating budget.

I. PROFILE OF NEW YORK CITY DEBT

Debt is issued by New York City, or on behalf of New York City, through a number of different mechanisms. This debt is used to finance the City's capital projects (Gross NYC Debt). Gross NYC Debt rose by 11.9 percent between FY 2001 and FY 2002.[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 2003 Adopted Budget and Financial Plan projects that over the next decade, Gross NYC Debt will increase by just 3.5 percent annually, in part as a result of the sunset of the Municipal Assistance Corporation (MAC) debt in 2008, along with the repayment of its outstanding obligations.[3]

A. Composition of Debt

Debt utilized by the City to finance its capital program can be divided into six categories, with general obligation bonds accounting for 62.3 percent of the total as shown on Table 1. The City's debt, as described in Table 1 below, 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 State or City tax exemption.

Table 1. *Gross NYC Debt Outstanding as of June 30, 2002, $ millions*

	General Obligation Bonds	**Municipal Assistance Corp.**	**Transitional Finance Authority**	**TSASC**	**Capital Lease Obligation [a]**	**Samurai Funding Corp.**	**Gross Debt Outstanding**
Tax-Exempt							
Fixed Rate	$24,700	$2,880	$8,874 [c]	$740	$2,595	$-	$39,789
Variable Rate	2,677	-	1,250	-	-	-	3,927
Derivatives[b]	205	-	-	-	-	-	205
Subtotal	$27,582	$2,880	$10,124	$740	$2,595	$-	$43,921
Taxable							
Fixed Rate	$257	$-	$365	$-	$494	$-	$1,116
Variable Rate	626	-	-	-	-	40	666
Subtotal	$883	$-	$365	$-	$494	$40	$1,782
Total	**$28,465**	**$2,880**	**$10,489**	**$740**	**$3,089**	**$40**	**$45,703**
Percent of Total	**62.3%**	**6.3%**	**23.0%**	**1.6%**	**6.7%**	**0.1%**	**100.0%**

[a] This figure includes $270 million in Jay Street Development Corporation debt issued in May 2001.
[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 $1.2 billion in Bond Anticipation Notes (BANs) and $1.0 billion in Recovery Notes issued in FY 2002.
Source: *Comprehensive Annual Financial Report of the Comptroller, FY 2002*, p.262.

[1] This information is presented on p. 262 of the *NYC Comptroller's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002* that was released on October 31, 2002.
[2] Ibid.
[3] On July 1, 2008, MAC will repay the last of its principal maturities.

Table 1 shows that tax-exempt debt accounted for 96 percent of the total value of debt outstanding at the end of FY 2002. Fixed-rate debt accounted for 90.6 percent of tax-exempt debt and 87 percent of total debt. Tax-exempt debt with variable rates can mature any time from two to 30 years with interest-payment terms that are reset on a daily, weekly, or other periodic basis.

Elements of Outstanding Gross NYC Debt

1. *General Obligation (GO)* debt, which has the full faith and credit of the City, totaled $28.47 billion as of June 30, 2002 and accounted for 62.3 percent of total debt outstanding. Compared with FY 2001, GO debt increased $1.63 billion, or six 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 $2.880 billion at the end of FY 2002. This was $337 million, or 10.5 percent lower than in FY 2001. MAC's share of Gross NYC Debt outstanding has decreased to 6.3 percent in FY 2002 from 7.9 percent in FY 2001. MAC debt service is funded from the City's sales-tax revenue collections. MAC, a creation of the State in the aftermath of 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.

3. *New York City Transitional Finance Authority (NYCTFA)* debt totaled $10.49 billion at the end of FY 2002. This is a 42 percent increase, or $3.1 billion, over FY 2001. The NYCTFA's share of Gross NYC Debt outstanding increased to 23 percent in FY 2002 from 18.1 percent in FY 2001. This significant increase is due to the issuance of $2.2 billion in FY 2002 NYCTFA Bond Anticipation Notes (BAN) and NYCTFA Recovery Notes that remained outstanding at fiscal-year end. 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. Standard & Poor's raised the NYCTFA's credit rating to AA+ from AA in October 2000.

   In July 2002, the NYCTFA successfully issued $1 billion in New York City Recovery Bonds for use in the City's operating budget. In addition, in September 2002, the NYCTFA issued $1.027 billion in New York City Recovery Bonds to redeem the Recovery Notes issued in October 2001.

[4] FY 2001 figure is from the *FY 2002 Annual Report of the Comptroller on Capital Debt and Obligations*, December 2001.
[5] The debt limit is discussed in further detail in Section II.

The issuance of $2.03 billion in NYCTFA long-term debt in FY 2003 was made under State Legislative authorization that increased the NYCTFA's debt-incurring power by $2.5 billion. The debt was used to finance the City's costs relating to or arising from the attack on the World Trade Center (WTC). The $2.5 billion authorization is in addition to the NYCTFA's $11.5 billion limitation for the issuance of debt to finance the City's capital program. At this time, there remains available to the City approximately $470 million in additional NYCTFA WTC-related debt-incurring power.

4. *TSASC Inc. (TSASC)* debt totaled $740 million as of June 30, 2002. TSASC, which stands for Tobacco Settlement Asset Securitization Corporation, is a local development corporation organized under the not-for-profit corporation law of the State. The bonds issued by this entity are entitled Tobacco Flexible Amortization Bonds (TFABs). The proceeds of the TFAB bonds are used to finance New York City capital projects. The TFAB bonds are secured by tobacco settlement revenues as described in the Master Settlement Agreement among 46 states, six jurisdictions, and the major tobacco companies. Due to delays in issuing additional TSASC bonds and the use by TSASC of $120 million in proceeds for the Fresh Kills landfill closure, TSASC has reduced its debt-incurring power to about $2.2 billion from $2.4 billion.[6]

   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 FY 2002, TSASC issued approximately $46 million of bonds to USDOT. The proceeds of this loan will be used to fund the reconstruction and rehabilitation of ferry terminals in lower Manhattan and Staten Island.

   Although TSASC provides the City with an additional source of financing, it is the most expensive type of financing used by the City, exceeding GO and NYCTFA interest costs by 25 to 50 basis points.

5. *Capital Lease Obligations* totaled $3.09 billion as of June 30, 2002, an increase of $472 million, or 18 percent from FY 2001. 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 ($669 million), the Jay Street Development Corporation ($270 million), the City University Construction Fund ($396 million), the Educational Construction Fund ($125 million), the Primary Care Development Corporation ($54 million), the Health and Hospitals Corporation ($844 million), the Housing Finance Agency ($195

[6] In the Summer of 2002, TSASC received special State legislative authority which permitted it to issue tax-exempt debt for Fresh Kills landfill closure costs. In July 2002, TSASC issued $500 million of bonds, of which $120 million was for Fresh Kills landfill closure.

million), the Urban Development Corporation ($42 million), as well as general lease obligations ($494 million).[7]

6. *New York City Samurai Funding Corporation (SFC)* debt was first issued in FY 1993 in the amount of $200 million taxable bonds and sold to investors in Japan. As of June 30, 2002, there remains $40 million in SFC debt outstanding which will be paid off in full in May 2003.

Other Issuing Authorities

In addition to the financing facilities cited above, a number of independent authorities in the City issue bonds to finance numerous projects in the NYC metropolitan area. Among the most prominent are the 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.[8] Nonetheless, this debt pays for the services provided to City residents. In turn, City residents pay the user fees that secure, in large part, the $28.8 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, 2002, $ millions*

	Water Finance Authority	Metropolitan Transportation Authority
Tax-Exempt		
Fixed Rate	$10,526	$15,875
Variable Rate	1,621	750
Total	**$12,147**	**$16,625**

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

The NYWFA had $12.147 billion in debt outstanding as of June 30, 2002, an increase of $1.52 billion or 14.3 percent over FY 2001. 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 $16.625 billion of debt outstanding as of June 30, 2002. This is an increase of $995 million, or 6.4 percent, over June 30, 2001. 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

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[7] Although for reporting purposes $844 million of HHC debt is included in the category of *Capital Lease Obligations,* the debt of HHC is not guaranteed by New York City.

[8] $660 million of debt issued for water and sewer purposes prior to June 30, 1985 is included in Gross NYC Debt.

commuters in 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.

As a result of the attack on the WTC, subway stations on the N, R, 1, and 9 lines sustained considerable damage. The MTA expects the majority of the costs of repair and reconstruction to be reimbursed by the Federal Emergency Management Agency (FEMA) and/or private insurance payments to the authority.

Since May 2002, the MTA has embarked on a debt-restructuring program and has issued approximately $11.5 billion of refunding bonds through October 2002. The initiative involves refunding and defeasing about $13 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. As prescribed in its restructuring program, an additional $3.1 billion to $3.3 billion of new money bonds will be issued to match its allowable maximum annual debt service of about $1.2 billion per annum.

This restructuring will result in increased total debt-service costs compared with refunded debt service for the MTA's formerly outstanding debt. The MTA's proposal to restructure its debt will increase the average life of outstanding debt by extending much of the principal due from the near-term into future years. The objective of the transactions is different from refundings whose objective is to generate savings. Rather than generate present value and/or gross savings, which would be the typical by-product of "high to low" refundings, these transactions have, by and large, generated no savings of any kind either in the aggregate or in present value terms. Their value combined with other new money bond issues, however, will increase resources to the MTA's calendar year 2000-2004 capital budget by anywhere from $4.1 billion to $4.3 billion.

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 2002, Moody's Investors Service Inc.(Moody's), Standard & Poor's (S & P), and Fitch Ratings maintained GO ratings at A2, A, and A+ respectively.

During FY 2002, the City issued $3.657 billion of GO debt of which approximately $1.007 billion were issued to refund certain outstanding bonds and $2.65 billion were new money bonds for capital purposes. The refunding will produce $204 million in debt-service savings in FY 2003. At the end of FY 2002, GO debt totaled $28.465 billion of which $14.162 billion, or 49.8 percent is coming due in the next ten years as shown in Table A1 of the Appendix. During the course of FY 2002, yields on GO bonds averaged 5.28 percent in the secondary market, about 28 basis points above the Municipal Market Data (MMD) AAA index.[9]

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[9] The MMD market index is a popular AAA municipal market index used in the capital markets. The MMD and City debt was discussed in *"One Year Later – The Fiscal Impact of 9/11 on New York City",* released September 4th 2002. The report can be

In FY 2002, the NYCTFA issued $1.02 billion of bonds for capital purposes and $1.8 billion of Bond Anticipation Notes (BANs). At the end of FY 2002, NYCTFA debt totaled $10.489 billion of which $2.2 billion were BANS and short-term recovery notes. Of the $8.289 billion of NYCTFA bonds outstanding, $2.527 billion, or 30.5 percent, are coming due in the next ten years as shown in Table A1 of the Appendix. During the course of FY 2002, yields on NYCTFA bonds averaged 5.17 percent in the secondary market, 17 basis points above the Municipal Market Data (MMD) AAA index.

In Fiscal Year 2002, Moody's Investors Service Inc.(Moody's), Standard & Poor's (S & P), and Fitch Ratings maintained NYCTFA ratings at Aa2, AA+, and AA+ respectively.

B. 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. Following the trend of the past several years, capital expenditures for schools have consumed a considerable portion of GO bond proceeds. As of June 30, 2002, debt used to finance capital projects for education purposes grew significantly and comprised 26.9 percent of GO debt outstanding, up from 13.4 percent in FY 1992.

Deteriorating facilities and pressures to reduce class size have significantly increased the outstanding share of GO debt for education. With the exception of education, spending on the share of most other functions declined.

Spending on bridges and highways has increased by $752 million in absolute terms, but has declined in relative terms to 8.4 percent in FY 2002 from 9.3 percent 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 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 $660 million, or 2.3 percent of the total as of June 30, 2002 as shown on Table 3.

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found on the Comptroller's website: www.comptroller.nyc.gov

Table 3. *Use of GO Debt, NYC, FY 2002 & FY 1992, $ millions*

Categories	Debt Outstanding as of June 30, 2002	Percent of Total	Debt Outstanding as of June 30, 1992	Percent of Total
Education (Schools)	$7,680	26.9%	$2,382	13.4 %
Housing and Urban Development	2,726	9.6	2,502	14.0
Mass Transit	2,427	8.5	2,365	13.3
Bridges, Tunnels, Highways and Streets	2,410	8.4	1,658	9.3
Public Safety, Correction and Courts	2,067	7.3	1,729	9.7
Sanitation	1,442	5.1	1,141	6.4
Parks, Recreation and Culturals	1,286	4.5	996	5.6
Water Pollution Control, Water Mains and Sewers [a]	660	2.3	1,502	8.4
Health Services	670	2.3	863	4.8
Public Buildings	760	2.7	429	2.4
Social Services	427	1.5	283	1.6
Off-Street Parking, Airports, Ferries and Markets	274	1.0	267	1.5
Undistributed and Other	5,676	19.9	1,694	9.5
Total [b]	**$28,505**	**100.0%**	**$17,811**	**100.0%**

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

[b] This includes $28.465 billion of GO debt and $40 million of Samurai Funding Corporation bonds 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 $10.3 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 2002,* and the Office of Management and Budget, *Adopted Budget Debt Service Statement II*, FY 2003 and FY 1993.

As shown on Table 4, water pollution control, water mains and sewers and other projects related to the Department of Environmental Protection (DEP) will comprise $7.1 billion of estimated City-funded commitments between FYs 2003-2006. Significantly funded GO funded program areas include bridges, tunnels, streets, and highways at $3.97 billion, education at $3.93 billion, public safety at $3.34 billion, housing and urban renewal at $2.35 billion, and parks, libraries, and cultural affairs at $1.71 billion.

Table 4. *September Capital Commitment Plan by Category, City Funds, FYs 2003-2006*
$ millions

Categories	**Projected FY 2003-2006 Commitments**	**Percent of Total**
Water Pollution Control, Water Mains and Sewers [a]	$7,108	29.2%
Bridges, Tunnels, Highways and Streets	3,965	16.3
Education (Schools)	3,931	16.2
Public Safety, Correction and Courts	3,342	13.7
Housing and Urban Development	2,350	9.7
Parks, Libraries and Culturals	1,715	7.0
Sanitation	951	3.9
Mass Transit	925	3.8
Health Services	864	3.5
Public Buildings	541	2.2
Off-Street Parking, Airports, Ferries and Markets	112	0.5
Social Services	102	0.4
Reserve for Unattained Commitments and Other	(1,576)	(6.5)
Total [b]	**$24,330**	**100.0%**

[a] Will be funded near 100 percent from NYC Water Finance Authority bonds.
[b] This represents City-funded capital commitments as of the September 2002 Commitment Plan and includes a $3.1 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 which 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 which 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 1999 through 2003 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 $359.9 billion or the five-year average of taxable real property. The debt limit is then calculated by multiplying the five-year average of $359.9 billion by ten percent, which yields the debt limit of approximately $35.99 billion for FY 2003 as shown in Table 5.

Table 5. *Calculation of Full Valuation of Real Property in New York City and the General Debt Limit, FY 2003*

Fiscal Year	Billable Assessed Valuation Of Taxable Real Estate	Special Equalization Ratio (for market value)	Full Valuation
1999	$78,239,325,754	0.2566	$304,907,738,714
2000	80,885,286,485	0.2466	328,001,972,770
2001	84,319,741,571	0.2340	360,340,775,944
2002	89,539,563,218	0.2339	382,811,300,633
2003	94,506,250,871	0.2231	423,604,889,606
		5 – Year Average	$359,933,335,533
	10 Percent of the	5 – Year Average	$35,993,333,553

Source: The City of New York, City Council Tax Fixing Resolution for FY 2003.

Table 6 shows that the City's FY 2003 general debt-incurring power of $35.99 billion is projected to rise to $39.17 billion in FY 2004, $41.87 billion in FY 2005, and $43.74 billion in FY 2006. The City's indebtedness is projected to grow from $32.66 billion at the beginning of FY 2003 to $41.15 billion at the beginning of FY 2006. Consequently, the City was under its general debt limit by $3.34 billion on July 1, 2002. The City is projected to be under the limit by $3.3 billion on July 1, 2003, by $3.2 billion on July 1, 2004, and by $2.6 billion by July 1, 2005 as shown in Table 6.

The NYCTFA and TSASC's debt-incurring capacity of $13.7 billion provide the City with the resources to finance its capital program through FY 2006. After adjusting for the additional benefit of the NYCTFA and TSASC debt-incurring power, the City will be able to incur additional debt of approximately $6 billion through FY 2006. The impact of these capital costs is discussed in Section III. D. Affordability Measures, beginning on page 20.

Table 6. *NYC Debt-Incurring Power, ($ millions)*

	July 1, 2002	July 1, 2003 [a]	July 1, 2004	July 1, 2005
Gross Statutory Debt-Incurring Power	**$35,993**	**$39,174**	**$41,869**	**$43,743**
Actual Bonds Outstanding as of June 30 (net) [b]	27,383	26,188	24,768	23,355
Plus New Capital Commitments				
FY 2003 [c]		4,634	4,634	4,634
FY 2004 [c]			4,226	4,226
FY 2005 [c]				3,853
Less: Appropriation	(1,199)	(1,427)	(1,432)	(1,397)
Subtotal: Net Funded Debt Against the Limit	**26,184**	**29,395**	**32,196**	**34,671**
Plus: Contract and Other Liability	6,474	6,474	6,474	6,474
Subtotal: Total Indebtedness Against the Limit	**32,658**	**35,869**	**38,670**	**41,145**
Remaining Debt-Incurring Power within the Debt General Debt Limit	**3,335**	**3,305**	**3,199**	**2,598**
Total Authorized TFA Debt-Incurring Power	11,500	11,500	11,500	11,500
Less: TFA Bonds Issued to Date for Contract Liability	9,639	9,639	9,639	9,639
Remaining Authorized TFA Debt-Incurring Power	**1,861**	**1,861**	**1,861**	**1,861**
Remaining Debt-Incurring Power within General Limit and TFA Capacity	**5,196**	**5,166**	**5,060**	**4,459**
Total Authorized TSASC Debt-Incurring Power	2,200	2,200	2,200	2,200
Less: TSASC Bonds Issued to Date for Contract Liability	646	646	646	646
Remaining Authorized TSASC Debt-Incurring Power	**1,554**	**1,554**	**1,554**	**1,554**
Remaining Debt-Incurring Power within General Limit, TFA Capacity, and TSASC Capacity[d]	**$6,750**	**$6,720**	**$6,614**	**$6,013**

[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 2006 are developed by using the FY 2004 special equalization ratio provided by SORPS which is then held constant for the ensuing two 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. $28.465 billion from Table 1 minus $1.082 billion of the afore-mentioned adjustments equals $27.383 billion.

[c] Reflects Capital Commitments as of the FY 2003 Adopted Budget Commitment Plan (issued in September 2002) and includes cost of issuance and certain Inter-fund Agreements.

[d] The Debt Affordability Statement released by the City in April, 2002 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 $11.4 billion at the end of the fiscal year.

Source: NYC Comptroller's Office.

B. The Implications of the WTC Attacks for the City's Debt and Debt Limit

Despite the enormous price tag associated with the costs of the WTC attacks, the event did not place additional strain on the City's debt limit. The TFA's additional debt issuance of $2.03 billion in recovery bonds is fully covered to date by the $2.5 billion special State authorization. However, this debt issuance does increase TFA's debt-service costs by about $150 million annually for the next 20 years. The direct result of this additional TFA debt service is that less personal income tax (PIT) will be available for use in the City's general fund for other expenditure needs.

On September 4th, 2002, the Comptroller issued a report entitled "One Year Later, The Fiscal Impact of 9/11 on New York City," which provided a comprehensive examination and analysis of the financial toll exacted by the World Trade Center attacks on the City's economy, budget and cash flow.[10]

In the immediate aftermath of the WTC disaster the City faced immense clean-up and recovery costs and unknown revenue losses that could seriously impact its cash balances. In spite of tremendous uncertainty, the City was able to maintain a strong cash position and avoid a crisis by issuing debt through authorizing legislation. The City received State authority to issue New York City Transitional Finance Authority (NYCTFA) Recovery Notes beyond prior authorizations and without limit, payable solely from State or Federal aid received on account of the disaster. In addition, the other law notwithstanding, the NYCTFA was authorized to issue up to $2.5 billion of NYCTFA recovery bonds or notes, the proceeds of which are to be used to pay costs related to the September 11th attacks. This provision essentially released the City from the Financial Emergency Act requirements that banned the use of borrowed funds for operating purposes over fiscal-year end. In October 2001, the City sold $1 billion of Recovery Notes and $1.5 billion of Revenue Anticipation Notes backed by State education aid revenue. These actions provided the City with the cash necessary to pay the immediate and extraordinary costs related to the attacks.

To help with the clean-up and rebuilding efforts at the WTC site and lower Manhattan area, President George W. Bush pledged $21.4 billion to New York as part of a national emergency aid proposal estimated at over $40 billion. Under this package, the report stated, a total of $9.1 billion had been allocated through FEMA to reimburse the City and State for recovery and clean-up costs related to the WTC attacks. The Federal government also earmarked about $5 billion in expected tax incentives as economic stimulus to businesses in the lower Manhattan area, and dedicated an additional $3.5 million for the redevelopment of the WTC site and vicinity through the Lower Manhattan Development Corporation and the Empire State Development Corporation. In addition, the Federal relief package includes $3.8 billion in funding for a wide range of initiatives such as the upgrade and reconstruction of mass transit infrastructure, roadway and tunnel repairs, and small business loans, and health monitoring.

[10] The report can be downloaded from the Comptroller's web site: www.comptroller.nyc.gov

C. The Debt-Limit Problem

In FY 1998, the City faced the possibility of ending its capital program because it had exhausted its debt issuance capacity. To enable the City to provide for its capital improvements, the State enacted legislation that created the NYCTFA. The NYCTFA's debt is not subject to the general debt limit. Initially, the NYCTFA was authorized to borrow up to $7.5 billion. The City exhausted the NYCTFA's initial debt capacity in 1999. With the creation of TSASC in 1999, which now has $2.2 billion of debt-incurring power, the City was able to continue its capital program through FY 2000. In FY 2001, the City once again, faced with the exhaustion of its debt limit, sought and obtained from the State the authorization to borrow an additional $4 billion through the NYCTFA. The combined debt-incurring power of the NYCTFA and TSASC adds approximately $13.7 billion in debt capacity thereby permitting the City to finance its capital projects. These additional financing mechanisms will allow the City to carry out its capital program specified in the City's September 2002 Capital Plan.

The City will be revising its Preliminary Ten-Year Capital Strategy in January 2003 and publishing its final version in April 2003. Until that time, it is difficult to determine the ultimate affordability of the City's Ten-Year Capital Strategy because the City is in the midst of redefining the scope and breadth of its overall capital program. What is clear at this time, however, is that the Capital Plan as defined in both the April and September 2002 plans is well within the projected debt limit through FY 2006.

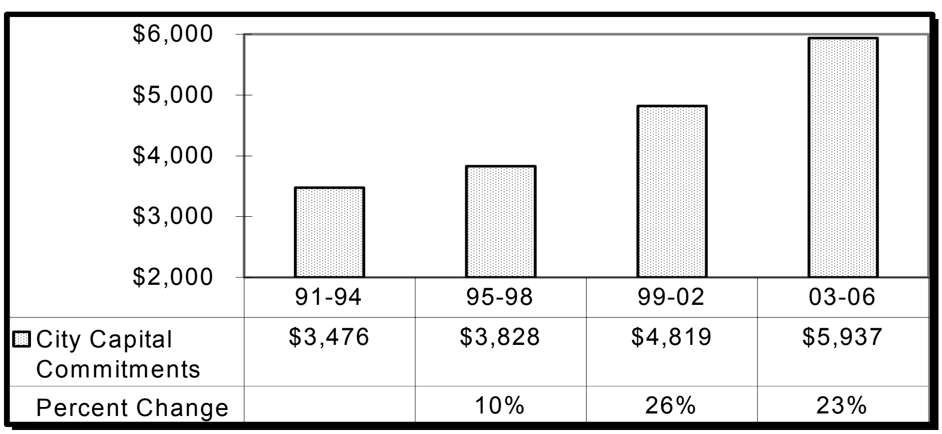
III. AFFORDABILITY OF CITY DEBT

The events of 9/11 have not placed an excessive burden on the City's capital plan. Although the City plans to embark on a relatively ambitious capital program over the next four years - at an average of $5.9 billion annually - this amount is comparatively less than the capital program presented in the April 2001 Plan. Despite the added pressures on the City's operating budget, we are encouraged that a relatively small amount (approximately $200 million) of unforeseen capital projects directly related to the WTC disaster are contained in the capital plan.

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 tumultuous 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 2003. The City committed resources averaging $3.5 billion between FYs 1991-94, $3.8 billion between FYs 1995-98, and $4.8 billion between FYs 1999-2002. 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 percent over FY 2000. In FY 2002, City-funded commitments retreated slightly to $5.77 billion. Between FYs 2003-2006, City-funded commitments are forecast to average $5.9 billion, approximately 23 percent more than the average of $4.8 billion between FYs 1999 and 2002 as shown on Chart 1.

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



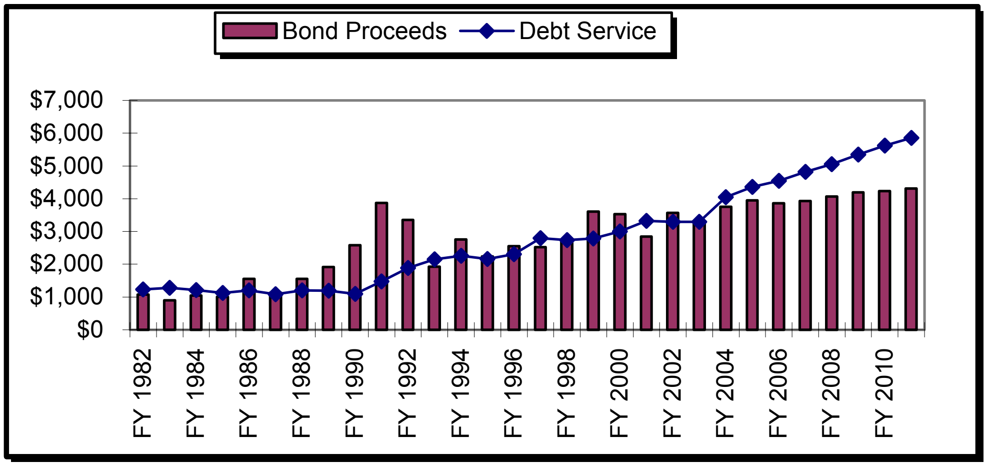
Source: *Message of the Mayor*, various FYs 1989-2000 and FY 03 April 2002 Capital Plan.

The City's ambitious capital program relies heavily on borrowing. As a result, the City's borrowing grew from $1.5 billion in FY 1986 to $3.56 billion in FY 2002. City borrowing is expected to rise further and average $3.7 billion annually between FYs 2003-06.[11] The increase

[11] This includes bond proceeds for GO, the Samurai Funding Corporation, TFA, and TSASC bonds only.

in long-term borrowing has resulted in a large increase in annual debt service. The annual average growth rate of City debt-service payments was 6.5 percent per year between FY 1986 and FY 2002, rising to $3.3 billion in FY 2002 from $1.2 billion in FY 1986. Debt service is expected to rise by 7.4 percent per year from $3.3 billion in FY 2003 to $5.85 billion by FY 2011 as shown in Chart 2.

Chart 2. Bond Proceeds and Debt Service, FYs 1982-2011, $ millions



Sources: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports*, 1982-2002 and Office of Management and Budget, *Financial Plan*, June 2002. 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 $5,083 in FY 2002, an increase of 104 percent. Over the same period, the cumulative growth in debt per capita exceeds both the rate of inflation by 63 percent and the growth in City tax revenues by 55 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 be approximately $8,675.

C. Comparison with Selected Municipalities

NYC leads a sample of large U.S. cities in the size of debt burden per capita by a margin of 2.16 to one. At $4,628 per capita in FY 2001, New York City exceeds the city with the next highest debt burden (Minneapolis), by 1.28 to 1, or by $1,026 per capita, as shown in Table 7.

Table 7. *Debt Per Capita Measures for Selected Cities, 2001*

City	**Population**	**Direct and Overlapping Debt Outstanding ($ 000)**	**Debt Per Capita**[a]
Minneapolis	382,618	$1,378,120	$3,602
Chicago	2,896,016	9,636,,862	3,328
Philadelphia	1,517,550	4,828,466	3,182
Houston	1,953,631	4,858,955	2,487
San Antonio	1,226,250	2,715,469	2,214
Seattle	568,100	1,158,061	2,038
Las Vegas	517,000	1,048,255	2,028
Detroit	951,270	1,889,020	1,986
San Diego	1,250,700	2,016,505	1,612
Los Angeles	3,802,700	6,065,456	1,595
Phoenix	1,352,394	1,870,399	1,383
Boston	589,000	808,815	1,373
Dallas	1,199,809	1,532,956	1,278
San Francisco	793,459	953,535	1,202
Average of Sample Cities	1,357,178	$2,911,491	$2,145
New York City	8,008,278	$37,059,000	$4,628

[a] Table 7 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.[12]

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.

[12] The debt outstanding for Minneapolis is calculated from data in an Official Statement dated October 25, 2001, Table H, p.23 and their 2001 CAFR. The Office of the Director of Finance provides debt outstanding for Philadelphia.

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 2001. It also is 50 percentage points below the average increase of the cities surveyed over that period. For example, between FY 1988 and FY 2001, the debt per capita of San Diego and Las Vegas have grown significantly faster, by 762 percent and 599 percent, respectively, compared with New York City at 127 percent as shown on Table 8.

Table 8. *Debt Per Capita Comparisons for Selected Cities – 1988 and 2001*

City[a]	**Debt per Capita in 1988**	**Debt per Capita in 2001**	**Percent Change 1988-2001**
San Diego	$187	$1,612	762 %
Las Vegas	290	2,028	599
Minneapolis	825	3,602	337
Philadelphia	851	3,182	274
Los Angeles	435	1,595	267
San Francisco	344	1,202	250
Chicago	953	3,328	249
San Antonio	887	2,214	150
Phoenix	594	1,383	133
Houston	1,189	2,487	109
Seattle	986	2,038	107
Boston	701	1,373	96
Detroit	1,156	1,986	72
Dallas	1,213	1,278	5
Average of All Other Cities[b]	**$774**	**$2,145**	**177%**
New York City	**$2,041**	**$4,628**	**127%**

[a] Table 8 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 7 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 $1,765, which is 38 percent that of New York City. Even the affluent counties of Westchester and Nassau have debt per capita statistics 57 and 37 percent less than that of New York City as shown on Table 9.

Table 9. *Debt Per Capita Comparisons for Selected N.Y. Cities and Counties*

City or County	Debt per Capita	Date of Observation
City of White Plains	$1,293	6/30/01
Westchester County	1,980	12/31/01
Nassau County	2,900	12/31/00
Suffolk County	1,056	12/31/99
City of Albany	1,606	8/31/01
City of Syracuse	1,599	8/2/02
Onandaga County	1,870	12/31/01
City of Buffalo	1,472	12/31/01
Erie County	1,326	12/31/01
City of Rochester	1,920	6/30/02
Monroe County	1,458	12/31/01
Average of Above N.Y. Cities and Counties[a]	1,765	
New York City	**$5,083**	**6/30/02**
New York City	**$4,628**	**6/30/01**

Source: Comprehensive Annual Financial Reports of various Cities and Counties

[a] 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.

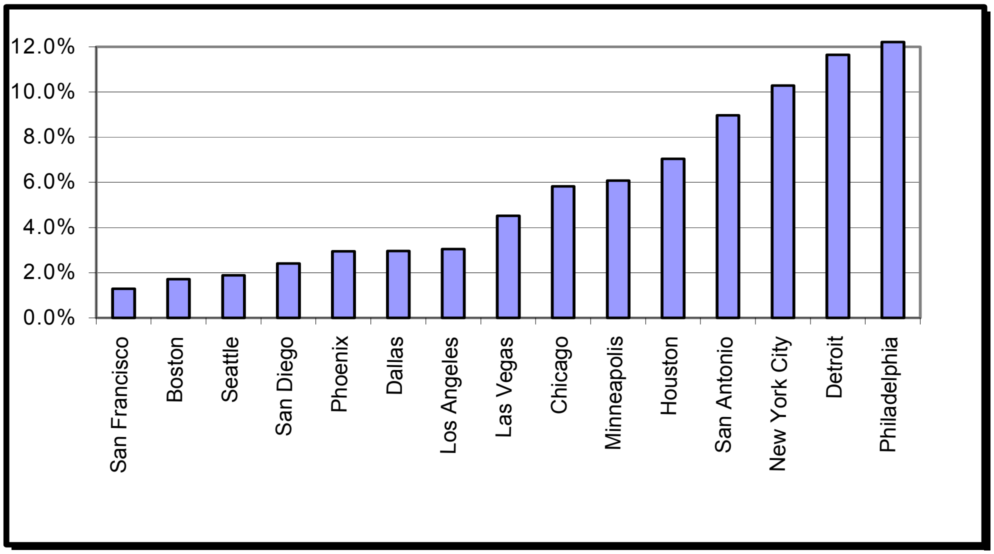
Another way to examine debt burden of a municipality is to measure its debt relative to its wealth. Two traditional measures of that relationship are outstanding debt divided by the full value of real property and per capita debt divided by personal income per capita. The rationale behind the use of 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.[13]

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.[14]

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 2000 is approximately ten percent. This is almost six percent above the sample-city average of 4.3 percent. Only Philadelphia and Detroit exceed New York City, with ratios of 12.2 and 11.7 percent. The city with the next highest ratio after New York is San Antonio with a ratio of nine percent. Other major cities such as Chicago and Los Angeles produce ratios of 5.8 percent and 3.1 percent respectively; both considerably lower than New York City as shown in Chart 3.

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

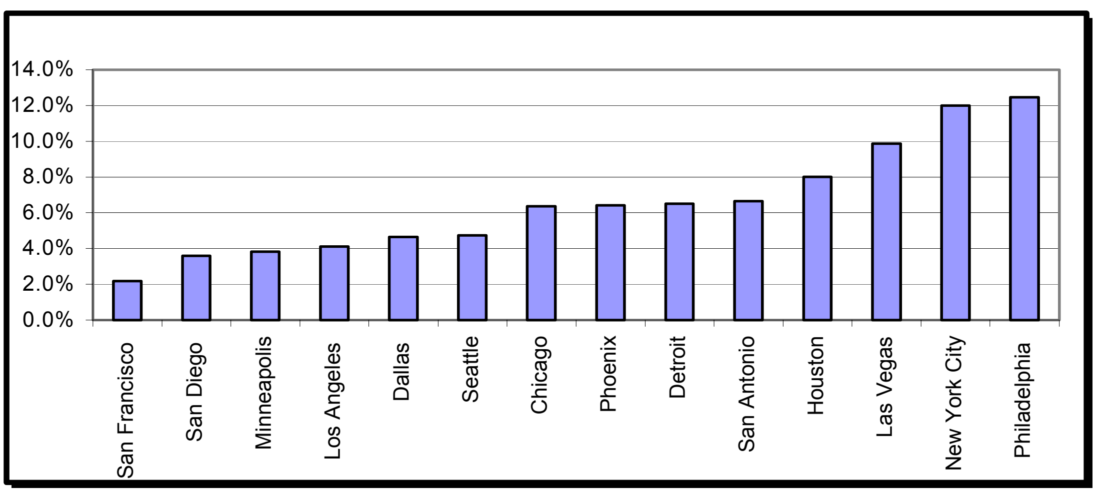
Chart 3. Debt Outstanding as Percent of the Full Value of Real Property



Source: Each City's Comprehensive Annual Financial Report, FY 2001.

New York City's debt per capita as a percent of personal income per capita in FY 2000 was 12 percent or 2.1 times higher than the average of the sample cities of 5.7 percent. [15] Only Philadelphia exceeds New York City, with a ratio of 12.5 percent, with Las Vegas being the next highest at 9.9 percent, and San Francisco being the lowest at 2.2 percent as shown on Chart 4.

Chart 4. Debt per Capita as Percent of Personal Income per Capita, 2000



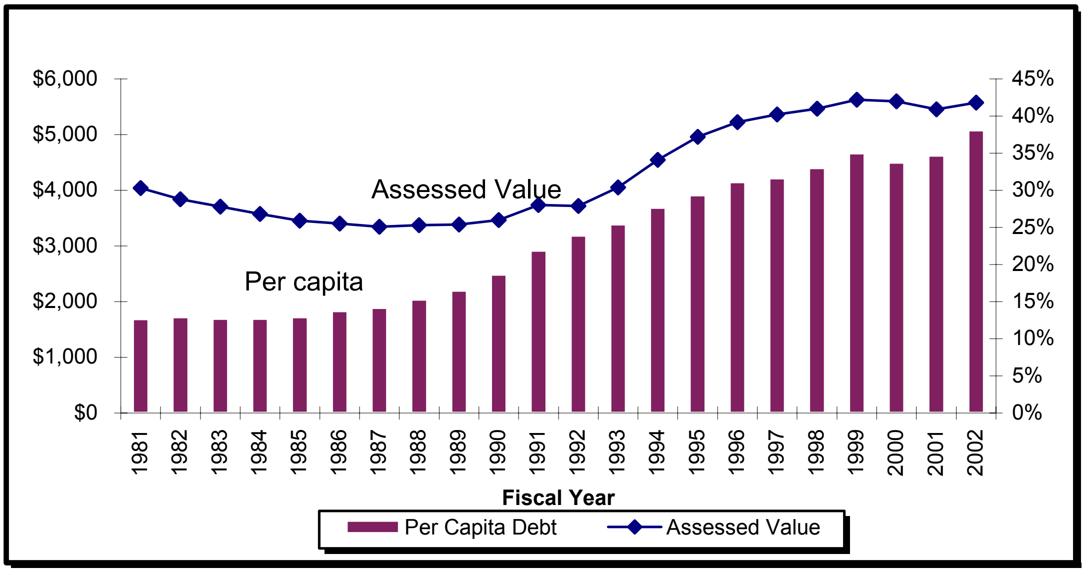
Source: 2000 Comprehensive Annual Financial Reports of Sample Counties as proxies for the above cities, and the Department of Commerce - Bureau of Economic Analysis – 2000 personal income data.

[15] 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 2000. 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.

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 41.8 percent in FY 2002 from 26 percent in FY 1990, indicating that resources available to meet outstanding obligations are declining as shown on Chart 5.

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

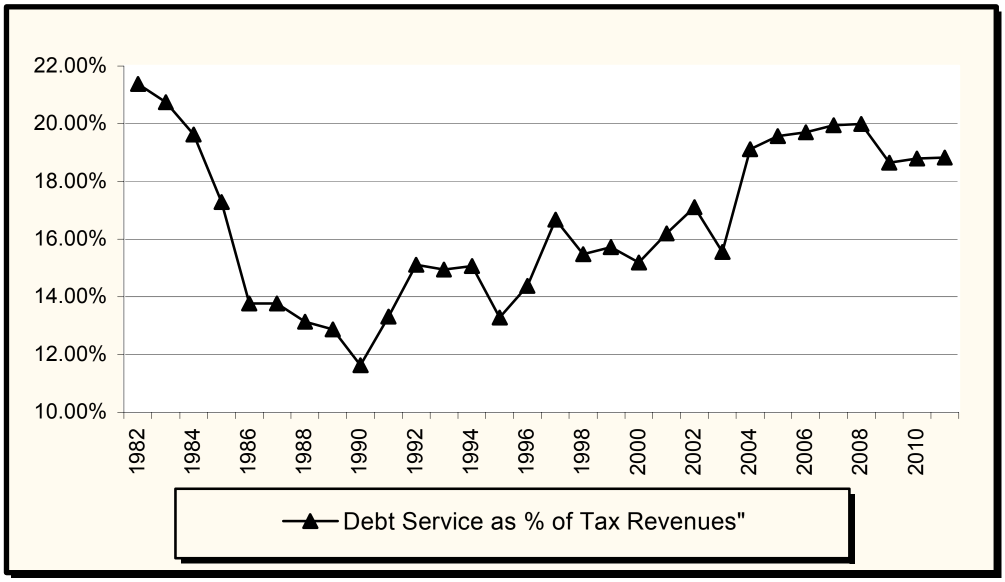


Source: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Reports,* FYs 1981-2002.

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 17.2 percent in FY 2002. By FY 2006, annual debt service will consume an estimated 19.7 percent of tax revenues.[16] This is a level not experienced since the early 1980s, when the City was forced to restructure its debt as it emerged out of a long and protracted recession as shown on Chart 6.

[16] From the NYC Office of Comptroller, *Comprehensive Annual Financial Reports*, 1982-2002, and OMB, *Adopted Financial Plan*, June 2002.

Chart 6. Debt Service as a Percent of Tax Revenues



Source: NYC Office of Comptroller, *Comprehensive Annual Financial Reports*, 1982-2002, and OMB, *Adopted Financial Plan*, June 2002.

APPENDIX

Table A1. *Amortization Schedule of the Four Principal Issuers of Debt for New York City, $ thousands*

Fiscal Years	GO	NYCTFA[a]	TSASC[b]	MAC	Total	Percent
2003-2012	$14,162,430	$2,527,240	$ 97,370	$2,879,640	$19,666,680	48.8%
2013-2022	$10,692,190	$3,384,395	$ 248,240		$14,324,825	35.5%
2023 and After	$ 3,610,864	$2,377,030	$ 348,620		$ 6,336,514	15.7%
Total	**$28,465,484**	**$8,288,665**	**$ 694,230**	**$2,879,640**	**$40,328,019**	**100.0%**

[a] Excludes $1.2 billion of NYCTFA BANs and $1.0 billion of NYCTFA Recovery Notes.
[b] Excludes $46 million of TIFIA debt.

Glossary of Acronyms

BAN	Bond Anticipation Notes
BEA	Bureau of Economic Analysis
CAFR	Comprehensive Annual Financial Report
FEMA	Federal Emergency Management Association
FY	Fiscal Year
GO Debt	General Obligation Debt
LMDC	Lower Manhattan Development Corporation
MAC	Municipal Assistance Corporation
MTA	Metropolitan Transportation Authority
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
N.Y.	New York
NYWFA	New York City Water Finance Authority
OMB	Office of Management and Budget
SFC	Samurai Funding Corporation
S&P	Standard & Poors’
SORPS	State Office of Real Property Services
TFAB	Tobacco Flexible Amortization Bonds
TSASC	Tobacco Settlement Asset Securitization Corporation
USDOT	United States Department of Transportation
U.S.	United States
WTC	World Trade Center