New York City's Growing Debt Burden

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- **City-funded and MWFA commitments are projected to average $6.8 billion during fiscal years 2005 through 2009, compared with $5.1 billion during the 2000-2004 period—an increase of 33 percent.**
- **City-funded debt service threatens to consume an increasing share of City fund revenues, which will leave fewer resources to fund other municipal services.**
- **After holding steady at $4.2 billion during fiscal years 2004 through 2006, City-funded debt service is projected to increase by 14 percent in FY 2007, and to grow at an average annual rate of 9.5 percent until reaching $5.8 billion in FY 2009.**
- **Debt service consumed 11.6 percent of City fund revenues in FY 2005, but is projected to consume 15.4 percent by FY 2009.**
- **New York City's debt burden in 2002 was more than twice the average of the nation's 56 largest cities, according to a report by Moody's Investors Service.**
- **New York City's outstanding debt, which averaged $52 billion during fiscal years 2004 through 2006, is now projected to reach $61 billion by FY 2009. When combined with water and sewer debt, total outstanding debt will reach nearly $81 billion by FY 2009.**
- **Outstanding debt per capita (including water and sewer debt) grew at an average annual rate of 1.6 percent during fiscal years 2003 through 2005, but is projected to grow at an average annual rate of 5 percent during fiscal years 2006 through 2009.**
- **Debt per capita is projected to reach $9,800 by FY 2009. This translates into outstanding debt of $25,679 per New York City household.**

The capital needs of New York City are extensive. A 1998 study conducted by then-City Comptroller Alan G. Hevesi[1] reported that New York City had capital needs of more than $91.8 billion in the decade covering fiscal years 1998 through 2007. These needs include the construction, restoration, and maintenance of bridges, roadways, schools, housing, water and sewer systems, and mass transit. Current capital needs also include investments that spur economic growth—vitally important to the City's future—and the costs of complying with recent environmental regulations.

The cost of capital investments are borne mostly by City taxpayers, and the burden is increasing. The task of balancing the City's capital needs against other municipal services is never an easy one, but the rising debt burden is an area of increasing concern. City-funded debt service threatens to consume an increasing share of City fund revenues, which will leave fewer resources to fund other municipal services.

Capital Commitments

New York City's capital budget includes commitments that are funded with general obligation bonds, which are issued directly by the City and backed by general property taxes (and, if needed, other revenues of the City); and bonds issued by closely related but legally separate entities.[2] These entities include the Transitional Finance Authority (TFA) and TSASC Inc. (the

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[1] The Office of the City Comptroller reviewed the City's capital assets in the late 1980s and again in the late 1990s. The latter report, *Dilemma in the Millennium*, was issued August 1998.

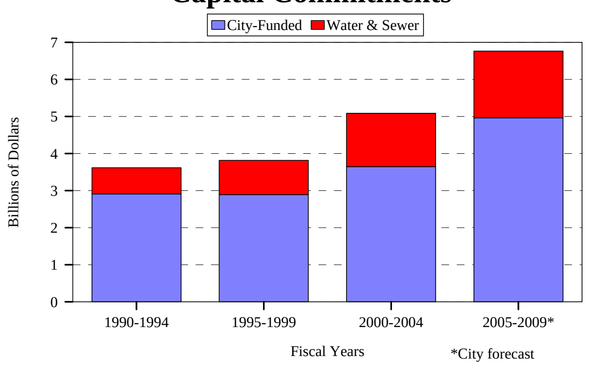
[2] This includes obligations issued by certain entities created by the State or City that require annual appropriations from the City pursuant to lease-purchase agreements, or other contractual obligations, such as general leases. Historical figures include commitments funded through the Municipal Assistance Corporation (MAC).

Tobacco Settlement Asset Securitization Corporation). Although the bonds issued by these entities are not funded directly through the City's operating budget, the resources that fund them—such as personal income taxes in the case of the TFA—could have otherwise benefited the City's budget. This report refers collectively to these commitments as being City-funded.

The New York City Municipal Water Finance Authority (MWFA) issues debt to fund improvements to the City's water and sewer system. The debt service on these bonds is funded with dedicated water and sewer fees that are billed directly to residential, commercial, and industrial users. Prior to FY 1986, these commitments were funded with proceeds from general obligation bonds, and the debt service was paid through the City's operating budget. Although other entities also issue debt that benefits New York City, it is generally agreed that City-funded commitments and commitments funded by the MWFA represent the total of New York City commitments[3].

City-funded commitments averaged $2.9 billion during the 1990s, but $3.6 billion during the 2000-2004 period. These commitments are projected to average $4.9 billion during fiscal years 2005 through 2009 (see Graph 1). These estimates may be higher if the State does not match the City's $6.5 billion commitment for education projects.

Graph 1
Capital Commitments



Sources: NYC Office of Management & Budget; NYC Comptroller; OSDC analysis

Most of the increases projected for fiscal years 2005 through 2009 reflect increased capital spending for housing, transportation, and economic development projects, such as the City's contribution to the expansion of the Jacob Javits Convention Center. These estimates include the City-funded cost of infrastructure improvements for new stadiums for the New York Mets and the New York Yankees.

Commitments funded by the MWFA averaged $816 million during the 1990s. During fiscal years 2000 through 2004, MWFA commitments averaged $1.4 billion, an increase of 77 percent, and are projected to average $1.8 billion during fiscal years 2005 through 2009, an increase of another 25 percent. The increased spending over the next five years is due to the Department of Environmental Protection's large capital program, and includes costs associated with the construction of the Croton Filtration Plant, Water Tunnel Number 3, and the upgrade and stabilization of water treatment plants throughout the city.

In total, City-funded and MWFA commitments are projected to average $6.8 billion during fiscal years 2005 through 2009, compared with $5.1 billion during the 2000-2004 period—an increase of 33 percent.

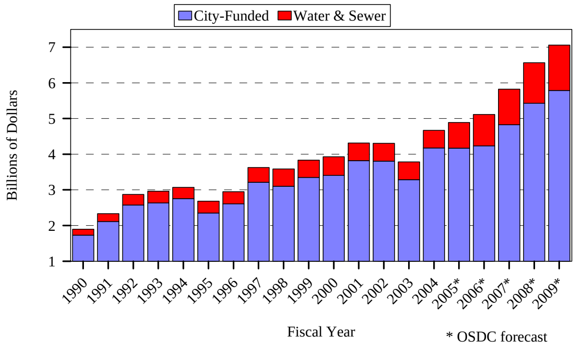
Debt Service Payments

Debt service on City-funded commitments is projected to increase rapidly over the next few years (see Graph 2). After holding steady at $4.2 billion during fiscal years 2004 through 2006, City-funded debt service is projected to increase by 14 percent in FY 2007, and to grow at an average annual rate of 9.5 percent until reaching $5.8 billion in FY 2009.

These estimates already reflect the benefit of the MAC refinancing initiative approved by the State in 2003. Under the initiative, which was designed to relieve pressure on the City's operating budget, outstanding MAC debt (due to be fully paid by FY 2008) was refinanced by the Sales Tax Asset Receivable Corporation, a local development corporation organized by the City. The debt service on the new bonds will be funded with annual payments of $170 million from the Local Government Assistance Corporation, a State entity. Consequently, the City will save $2.5 billion during fiscal years 2005 through 2008, but the State will incur costs of $5.1 billion over 30 years.

[3] Commitments are contracts registered with the City's Comptroller's Office for work eligible to be financed through bond financing.

Graph 2
Debt Service



Sources: NYC Comptroller; NYC Office of Management & Budget; OSDC analysis

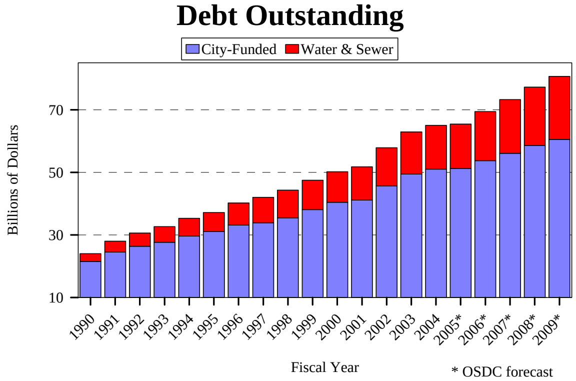
The MWFA debt service, which is billed directly to users, averaged $485 million during fiscal years 1997 through 2004, but a trend of rising debt service begins in FY 2005. MWFA debt service is projected to total $719 million in FY 2005—an increase of 47 percent over the FY 2004 level—and is projected to grow at an average annual rate of 15.3 percent before reaching nearly $1.3 billion in FY 2009.

In total, City-funded and MWFA debt service is projected to average $5.9 billion during fiscal years 2005 through 2009, compared with $4.2 billion during the 2000-2004 period—an increase of 42 percent.

Outstanding Debt

The amount of outstanding debt funded directly by City tax revenues or other City revenues (i.e., City-funded debt) grew at an average annual rate of 6.6 percent during the 1990s, and is projected to grow at 4.6 percent during the 2000s. City-funded outstanding debt averaged $52 billion during fiscal years 2004 through 2006, but is projected to reach nearly $61 billion by FY 2009 (see Graph 3).

Graph 3
Debt Outstanding



Sources: NYC Comptroller; NYC Office of Management & Budget; OSDC analysis

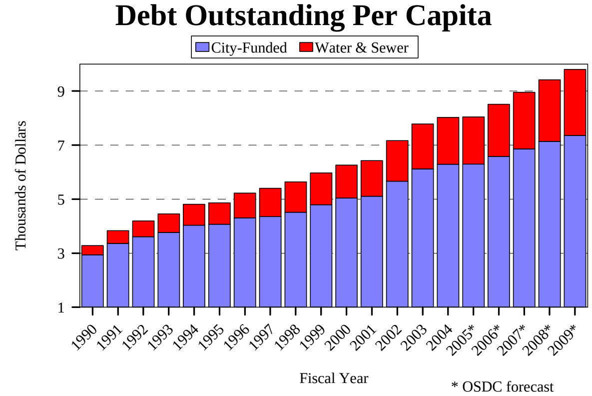
The amount of outstanding MWFA debt grew at an average annual rate of 15.7 percent during the 1990s, and is projected to increase at an annual rate of 8.4 percent during the next decade. Outstanding MWFA debt averages $14.7 billion during fiscal years 2004 through 2006, but is projected to reach $20.1 billion by FY 2009.

In total, City-funded and MWFA outstanding debt is projected to average $73.2 billion during fiscal years 2005 through 2009, compared with $57.6 billion during the 2000-2004 period—an increase of 27 percent—and is projected to reach nearly $81 billion by FY 2009 .

Debt Affordability Measures

New York City's debt burden is relatively high regardless of how it is measured. Outstanding debt per capita (including water and sewer debt) grew at an average annual rate of 1.6 percent during fiscal years 2003 through 2005, but is projected to grow at an average annual rate of 5 percent during fiscal years 2006 through 2009. Given these trends, debt per capita will reach $9,800 in FY 2009, which is a 21.8 percent increase over the level projected for FY 2005 (see Graph 4). This translates into outstanding debt of $25,679 per New York City household.

Graph 4
Debt Outstanding Per Capita



Source: NYC Comptroller; NYC Office of Management & Budget; OSDC analysis

Debt is consuming a large percentage of the City's wealth. Total outstanding debt represented about 15 percent of personal income in FY 1991 and about 17 percent during most of the 1990s. It is projected to consume about 20 percent of personal income during this decade (see Graph 5).

Standard & Poor's considers a debt-to-personal-income ratio (excluding water and sewer debt) of 6 percent as "high"—even for large older cities like New York, which tend to have higher capital

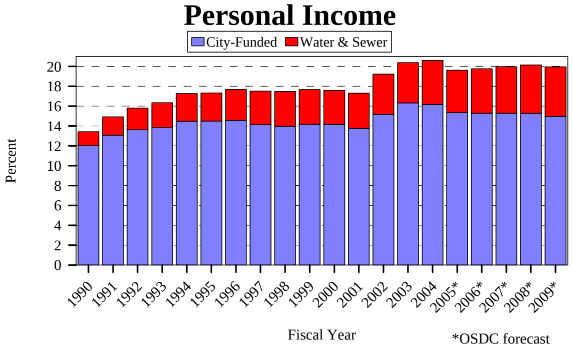
Measures of Debt Affordability	2005	2006	2007	2008	2009
Debt Service (CF) as a Percent of Tax Revenues	13.3	13.9	15.6	16.9	17.2
Debt Service (CF) as a Percent of City Fund Revenues	11.6	12.2	13.9	15.0	15.4
Debt Service (GO) as a Percent of Property Tax Revenues	27.3	26.8	30.9	31.4	32.5
Debt Service (GO) as a Percent of Full Value of Taxable Real Estate	0.7	0.7	0.8	0.8	0.8
Debt Service (CF+MWFA) as a Percent of Personal Income	1.5	1.5	1.6	1.7	1.7
Debt Outstanding (CF+MWFA) as a Percent of Personal Income	19.6	19.8	19.9	20.1	19.9
Debt Outstanding (CF+MWFA) Per Capita	$8,044	$8,510	$8,956	$9,414	$9,800
Debt Service (CF+MWFA) Per Capita	$601	$627	$712	$800	$858

CF=City-Funded; GO=General Obligation; MWFA = Municipal Water Finance Authority

needs because of aging infrastructure. New York City's ratio averaged 15.2 percent during fiscal years 2000 through 2005 and is expected to remain at this level through FY 2009. According to a report issued by the City Comptroller,[4] the City's debt burden (measured as a percent of personal income on a per capita basis) was 2.5 times higher than in other major cities in 2003.

Graph 5

Debt Oustanding as a Percent of Personal Income



Sources: NYC Office of Management & Budget; City Comptroller; OSDC analysis

A report by Moody's Investors Service found that New York City's debt burden (excluding water and sewer debt) was more than twice the average of the nation's 56 largest cities.[5] Moody's found this average to be 4 percent in 2002, compared with 10.7 percent for New York City. New York ranked third behind Detroit and Philadelphia.

[4] *Fiscal Year 2005 Annual Report of the Comptroller on Capital Debt and Obligations*, December 2004.

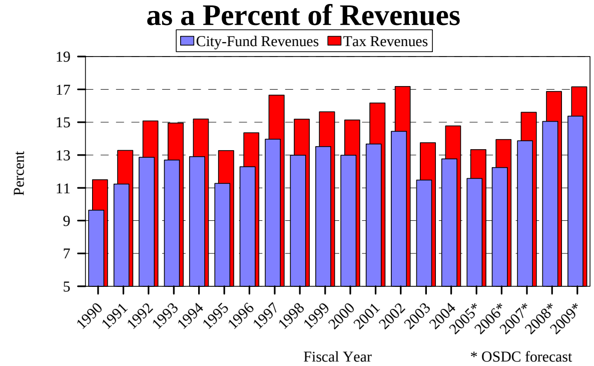
[5] Moody's Investors Services, *Robust Real Estate Markets Reinforce Finances of Nation's Largest Cities—Outlook is Stable*, May 2004. Moody's uses the standard measurement of net direct debt (i.e., City-funded debt) compared to the full valuation of the City's real estate tax base.

Impact on the Operating Budget

The impact of debt service on the City's operating budget can be measured in several different ways. Whether measured as a percentage of City fund revenue or tax revenue, however, the debt service burden is expected to grow significantly during fiscal years 2007 through 2009 (see Graph 6).

Graph 6

City-Funded Debt Service as a Percent of Revenues



Sources: NYC Comptroller; NYC Office of Management & Budget; OSDC analysis

Debt service (excluding debt service on water and sewer bonds) as a percent of tax revenues is expected to average 14 percent during fiscal years 2003 through 2006, which is 2 percent less than the 1997 through 2002 period; but is then expected to reach 17.2 percent of tax revenues by FY 2009. Consequently, fewer resources will be available to fund other municipal services. Debt service consumed 11.6 percent of the City fund revenues in FY 2005, but is projected to consume 15.4 percent by FY 2009.

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