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The City of New York  
**Office of Management and Budget**  
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**Mark Page**  
Director

May 28, 2003

Hon. Michael Bloomberg  
Mayor  
City Hall  
New York, NY 10007

Hon. George E. Pataki  
Governor  
The Executive Chamber, Capitol  
Albany, NY 12224

Hon. A. Gifford Miller  
Speaker of the Council  
City Hall  
New York, NY 10007

Hon. William C. Thompson  
Comptroller  
Municipal Bldg., 1 Centre St.  
New York, NY 10007

Hon. Owen Johnson  
Chair, Senate Finance Comm.  
The Capitol  
Albany, NY 12247

Hon. Herman D. Farrell, Jr.  
Chair, Assembly Ways and  
Means Comm.  
The Capitol  
Albany, NY 12224

Hon. Neil D. Breslin  
Ranking Minority Member  
Senate Finance Comm.  
The Capitol  
Albany, NY 12247

Hon. Thomas F. Barraga  
Ranking Minority Member  
Assembly Ways and Means Comm.  
The Capitol  
Albany, NY 12224

Hon. Alan G. Hevesi  
Comptroller  
Gov. A.E. Smith Office Bldg.  
Albany, NY 12236

Mr. Jeffrey Sommer  
Acting Executive Director  
State Financial Control Board  
123 William St., 23rd Floor  
New York, NY 10038

**Re: Revised Statement of Debt Affordability**

Pursuant to Section 7 of Chapter 16 of the Laws of 1997 of the State of New York ("Chapter 16"), I am providing the annual statement of debt affordability.

Schedule A demonstrates the amount needed to meet the City's capital financing need, as defined in Section 2799-bb of the New York City Transitional Finance Authority Act (the

"Act"), which was enacted as Section 2 of Chapter 16. Absent the bonding authority provided for the New York City Transitional Finance Authority (the "TFA") pursuant to the Act, the Capital Plan of New York City (the "City") would require the City to incur debt and contract liabilities in excess of the limit imposed by the State Constitution and implementing legislation. Absent such bonding capacity, the City would exceed its limit on debt and contract liabilities by \$10.5 billion, \$8.6 billion, \$8.5 billion, \$8.4 billion and \$8.6 billion at the end of fiscal years 2003, 2004, 2005, 2006 and 2007, respectively.

Neither this letter nor Schedule A constitutes the annual declaration of need provided for pursuant to Section 2799-ff of the Act, which will be prepared following adoption by the City Council of the City's fiscal year 2004 budget. The capital financing need set forth in this letter and more fully described in Schedule A is preliminary and subject to revision based on the formal declaration of need.

The projects to be funded by the TFA are expected to be those costs set forth in the City's Capital Budget representing approximately 11 percent of capital expenditures made by the City, net of New York City Municipal Water Finance Authority ("NYW") financing, and Dormitory Authority of the State of New York ("DASNY") court and health and hospital financing, during its 2002-2006 fiscal years. It is expected that general obligation bonds will fund 78 percent of such net expenditures and TSASC, Inc. will fund the remaining 11 percent of such expenditures. The projects financed by the TFA will be described in more detail in a report to be issued by the Mayor of the City pursuant to Section 2799-ff of the Act.

There is no reserve or surplus fund held by the TFA as of the date of this statement and there was none as of the end of the most recently completed fiscal year.

Schedule B presents the sources of financing for the City's four-year capital program, including among other sources, City General Obligation bonds, bonds of TSASC, Inc. and bonds of the TFA. Schedule C specifies amounts of debt service payable on City General Obligation bonds and TFA bonds, debt amounts expected to be outstanding in each of the Financial Plan years for General Obligation and TFA bonds, and various debt service and debt ratios as required by Section 7 of Chapter 16. New York City General Obligation bond debt service is shown both gross and net of certain offsetting non-tax third party payments (water and sewer rental payments). Schedule C provides a framework for assessing the affordability to the City of the combined amounts of General Obligation and TFA bonds proposed to be issued over the Financial Plan period.

In my opinion, debt affordability is a judgment made by balancing the City's need for essential capital improvements and the costs of delaying or not implementing such improvements against the impact of debt service costs arising from the financing of those capital needs on the other competing City priorities funded through the City's operating budget. The judgment is reflected in the City's Financial Plan and in its operating budget and Capital Plan as proposed by the Mayor, which has the result, in fiscal 2007, of debt service (excluding the TFA and including the Municipal Assistance Corporation for the City of New York

("MAC")) requiring 8.4 percent of total revenues and 14.5 percent of total tax revenues. Schedule C shows that debt service (including the TFA and MAC) accounts for 10.4 percent of total revenues and 17.3 percent of total tax revenues in 2007.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mark Page". The signature is written in a cursive style with a long horizontal stroke at the end.

Mark Page

Attachments

**Schedule A: Capital Financing Need***(\$ in millions)***NYC Debt and Contract Liabilities**

|   | <u>FY 2003</u>         | <u>FY 2004</u>        | <u>FY 2005</u>        | <u>FY 2006</u>        | <u>FY 2007</u>        |
|---|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b><u>I. Beginning Fiscal Year Condition</u></b>  |                        |                       |                       |                       |                       |
| (1) Net G.O. Bonds Outstanding  | \$27,927               | \$29,065              | \$29,201              | \$30,166              | \$31,521              |
| (2) Excluded G.O. Debt for Water Purposes   | (606)                  | (555)                 | (482)                 | (434)                 | (394)                 |
| (3) Appropriations for G.O. Debt to be Redeemed   | (1,198)                | (1,429)               | (1,457)               | (1,471)               | (1,524)               |
| (4) Net Contracts and Other Liabilities to be Financed  | <u>16,691</u>          | <u>18,023</u>         | <u>19,792</u>         | <u>20,630</u>         | <u>21,009</u>         |
| (5) Total Debt and Contract Liabilities at the Beginning of FY                                      | 42,814                 | 45,102                | 47,054                | 48,891                | 50,613                |
| <b><u>II. Activities During FY</u></b>  |                        |                       |                       |                       |                       |
| (6) New Capital Commitments   | 3,550                  | 3,370                 | 3,348                 | 3,280                 | 3,311                 |
| (7) Redemptions of Debt and Other Adjustments   | <u>168</u>             | <u>39</u>             | <u>(41)</u>           | <u>(35)</u>           | <u>(40)</u>           |
| <b><u>III. Year-End Condition</u></b>   |                        |                       |                       |                       |                       |
| (8) Total Debt and Contract Liabilities at the End of FY  | <u>46,532</u>          | <u>48,511</u>         | <u>50,362</u>         | <u>52,136</u>         | <u>53,883</u>         |
| (9) General Debt Limit  | <u>35,993</u>          | <u>39,931</u>         | <u>41,905</u>         | <u>43,756</u>         | <u>45,318</u>         |
| <b>Capital Financing Need (Debt and Contract Liabilities<br/>Less General Debt Limit = (8)-(9))</b> | <b><u>\$10,539</u></b> | <b><u>\$8,580</u></b> | <b><u>\$8,457</u></b> | <b><u>\$8,380</u></b> | <b><u>\$8,566</u></b> |

**Schedule B: Sources of Funds**

*(\$ in millions)*

|                                  | <u>2003</u>  | <u>2004</u>  | <u>2005</u>  | <u>2006</u>  | <u>2007</u>  | <u>Total</u>  |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| City General Obligation Bonds    | 1,950        | 2,220        | 2,550        | 2,950        | 3,100        | 12,770        |
| TFA (1)                          | 1,650        | 145          | -            | -            | -            | 1,795         |
| TSASC Bonds (2)                  | 500          | 715          | 717          | -            | -            | 1,932         |
| NYW (3)                          | 1,697        | 1,660        | 1,745        | 1,937        | 1,783        | 8,822         |
| DASNY and Other Conduit Debt (4) | 110          | 651          | 230          | 316          | 230          | 1,537         |
| Total                            | <b>5,907</b> | <b>5,391</b> | <b>5,242</b> | <b>5,203</b> | <b>5,113</b> | <b>26,856</b> |

(1) TFA includes bonds anticipation notes ("BANs") and bonds issued to fund the City's capital program, notes and bonds issued to pay costs related to September 11 attack ("Recovery Bonds and Notes") and excludes bonds issued to defease BANs and to defease Recovery Notes.

(2) The City expects to derive net proceeds of approximately \$2.2 billion from TSASC for capital purposes, including the \$604 million of proceeds from the November 1999 TSASC financing, \$295 million from August 2002 financing and \$150 million loan from the US Department of Transportation pursuant to the Transportation Infrastructure Financing and Innovation Act.

(3) NYW includes commercial paper and revenue bonds issued for the water and sewer system's capital program, and include reserve amounts. Figures do not include bonds that defease commercial paper or refunding bonds.

(4) DASNY and Other Conduit Debt includes DASNY financing of the City Court Capital Program, three HHC projects, Jay Street Development Corp. financing of the 330 Jay Street project, and other conduit financings.

**Schedule C: New York City's Debt Outstanding & Debt Service Ratios**

(\$ in millions)

|  | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>I. Debt Service of NYC GO, MAC &amp; TFA (\$ in millions)</b>               |             |             |             |             |             |
| [1.1] NYC General Obligation Debt Service*                                     | \$2,429     | \$3,173     | \$3,438     | \$3,567     | \$3,767     |
| [1.2] Municipal Assistance Corporation Debt Service                            | \$214       | \$531       | \$490       | \$492       | \$493       |
| [1.3] Transitional Finance Authority Debt Service                              | \$540       | \$830       | \$996       | \$993       | \$996       |
| [1.4] Total Debt Service (NYC GO, MAC & TFA)= [1.1] + [1.2] + [1.3]            | \$3,184     | \$4,533     | \$4,924     | \$5,052     | \$5,256     |
| [1.5] Water Rental Payment   | \$118       | \$85        | \$76        | \$87        | \$96        |
| <b>Total Debt Service (NYC GO, MAC &amp; TFA) [1.4] as % of:</b>               |             |             |             |             |             |
| a. Total Revenue**   | 7.21%       | 10.00%      | 10.41%      | 10.30%      | 10.44%      |
| b. Total Taxes**   | 13.89%      | 16.81%      | 17.78%      | 17.39%      | 17.25%      |
| c. Total NYC Personal Income   | 1.03%       | 1.43%       | 1.48%       | 1.44%       | 1.42%       |
| <b>Total Debt Service (NYC GO, MAC &amp; TFA) [1.4]+[1.5] as % of:</b>         |             |             |             |             |             |
| a. Total Revenue**   | 7.47%       | 10.18%      | 10.57%      | 10.48%      | 10.63%      |
| b. Total Taxes**   | 14.41%      | 17.12%      | 18.05%      | 17.69%      | 17.56%      |
| c. Total NYC Personal Income   | 1.07%       | 1.46%       | 1.50%       | 1.47%       | 1.44%       |
| <b>NYC General Obligation Bonds Debt Service [1.1] as % of:</b>                |             |             |             |             |             |
| d. Real Property Tax Revenue   | 24.38%      | 28.39%      | 29.69%      | 29.72%      | 30.27%      |
| e. Full Value of Taxable Real Estate   | 0.67%       | 0.79%       | 0.82%       | 0.82%       | 0.83%       |
| <b>NYC General Obligation Bonds Debt Service [1.1]+[1.5] as % of:</b>          |             |             |             |             |             |
| d. Real Property Tax Revenue   | 25.56%      | 29.15%      | 30.35%      | 30.45%      | 31.04%      |
| e. Full Value of Taxable Real Estate   | 0.71%       | 0.82%       | 0.84%       | 0.84%       | 0.85%       |
| <b>II. Debt Outstanding: NYC GO, MAC &amp; TFA (\$ in millions) as of 6/30</b> |             |             |             |             |             |
| [1.6] NYC General Obligation Debt Outstanding***                               | \$29,602    | \$29,759    | \$30,761    | \$32,158    | \$33,630    |
| [1.7] Municipal Assistance Corporation Debt Outstanding                        | \$2,525     | \$2,151     | \$1,758     | \$1,354     | \$924       |
| [1.8] Transitional Finance Authority Debt Outstanding                          | \$12,020    | \$12,982    | \$12,766    | \$12,391    | \$12,000    |
| [1.9] Total Debt Outstanding (NYC GO, MAC & TFA ) [1.6]+[1.7]+[1.8]            | \$44,147    | \$44,893    | \$45,285    | \$45,903    | \$45,903    |
| <b>Total Debt Outstanding (NYC GO, MAC &amp; TFA) [1.9] as % of:</b>           |             |             |             |             |             |
| f. Total NYC Personal Income   | 14.31%      | 14.19%      | 13.61%      | 13.09%      | 12.39%      |
| <b>NYC General Obligation Debt Outstanding [1.6] as % of:</b>                  |             |             |             |             |             |
| g. Real Property Tax Revenue   | 297.03%     | 266.28%     | 265.66%     | 267.94%     | 270.21%     |
| h. Five Year Average Full Value of Taxable Real Estate                         | 8.22%       | 7.45%       | 7.34%       | 7.35%       | 7.42%       |
| <b>III. Debt Service &amp; Debt Outstanding Per Capita (\$ in thousands)</b>   |             |             |             |             |             |
| i. Debt Service Per Capita (NYC GO+MAC+TFA DS, Net of Water Ren                | \$0.398     | \$0.566     | \$0.615     | \$0.631     | \$0.656     |
| j. Debt Service Per Capita (NYC GO+MAC+TFA DS)                                 | \$0.412     | \$0.577     | \$0.624     | \$0.642     | \$0.668     |
| k. Debt Outstanding Per Capita (NYC GO+MAC+TFA)                                | \$5.513     | \$5.606     | \$5.655     | \$5.732     | \$5.732     |

\* Includes RANs interest costs, lease debt payments and excludes prepayments, Water & Sewer rental payment.

\*\* Includes amount required to support TFA debt service.

\*\*\* Includes debt for New York City Health and Hospitals Corporation, education purposes and water & sewer purposes and excludes debt issued by business improvement districts.

(\$ in millions)

|  | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| a. Total Revenue                           | \$43,635    | \$44,523    | \$46,289    | \$48,047    | \$49,366    |
| b. Total Taxes (as of Exe04)               | \$22,376    | \$26,139    | \$26,703    | \$28,049    | \$29,474    |
| c. Total NYC Personal Income (As of Exe04) | \$308,490   | \$316,360   | \$332,820   | \$350,540   | \$370,630   |
| d. Real Property Tax Revenue               | \$9,966     | \$11,176    | \$11,579    | \$12,002    | \$12,446    |
| e. Full Value of Taxable Real Estate       | \$359,930   | \$399,310   | \$419,050   | \$437,559   | \$453,177   |
| Population                                 | 8,008,278   | 8,008,278   | 8,008,278   | 8,008,278   | 8,008,278   |