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N.Y.C.'s Growing Debt Bill

By Ronnie Lowenstein

Many New Yorkers know that running the city's police department and public schools consumes a big portion of their tax dollars. Far fewer know that another large chunk of their taxes is swallowed up by debt service—interest and principal—on bonds the city issues to borrow money.

This money is used to pay for costly capital projects such as building new schools, repairing roads and bridges and replacing outdated fire trucks and ambulances.

This year's debt service is sizable—$3.9 billion—and dwarfs what city spends on sanitation, parks, youth programs and many other services. By 2005, debt service is projected to total $4.9 billion, devouring nearly 20 cents out of every tax dollar. Some fiscal experts are questioning whether the city can afford to continue to borrow at this pace.

Answering that question requires more than a technical formula. It demands weighing competing city priorities along with a concern for the tax burden on residents and businesses. New Yorkers want modern schools and safe roads; they also want enough librarians and cops. Capital spending affects how much can be spent on day-to-day services.

The city now has roughly $40 billion in debt outstanding. The issuance of new debt has grown substantially over the past decade. New borrowing rose from an average of $1.1 billion a year in the 1980s to $2.8 billion in the 1990s, a 75 percent rise, adjusted for inflation. Over the next four years, the city plans to borrow $24.1 billion more.

The amounts are huge, but so are the city's capital needs. A 1999 report by Comptroller Alan Hevesi found the city's infrastructure in need of nearly $92 billion worth of upgrades, repair and new construction. Even with the recent rapid growth, the city's 10-year capital spending plan falls $40 billion short of the need.

The city's ability to borrow is largely controlled by the state. Under the state Constitution, the city's maximum general obligation debt is tied to the market value of its taxable real estate. The state's formula has led to some big swings in the debt limit that have little to do with how much debt the city can afford.

Just a few years ago, the city nearly reached it state-mandated limit. Officials turned to some other means of borrowing. In 1997, the Transitional Finance Authority was created to float bonds that are repaid from personal income tax revenues. The authority can issue up to $11.5 billion in bonds.

The city also plans to use payments it receives as part of the national tobacco settlement to issue more than $2 billion in bonds. But this is no free lunch—these bonds require higher debt-service payments than other city bonds, absorbing revenue that could otherwise fund municipal services.

The city also increasingly looks to so-called "lease appropriation" debt to fund some major projects. This arrangement was recently used to borrow the funds for constructing the new courthouse complex in Brooklyn. The Mayors' Executive Budget outlines plans to use lease appropriation to borrow $ 600 million for a new stock exchange and $600 million for sport stadiums.

These efforts are creative ways of side-stepping a state mandated limit that does not always reflect the city's capacity to repay debt. But they have also become ways the city masks how much it is spending on debt service. And without full disclosure, it will become harder for the public to consider how much more debt their city can afford.

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