The City of New York
Executive Budget
Fiscal Year 2002

Rudolph W. Giuliani, Mayor

Office of Management and Budget
Adam L. Barsky, Director

Message of the Mayor

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April 25, 2001

Message of the Mayor

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The City of New York
Office of the Mayor
New York, N.Y. 10007

April 25, 2001

To the Citizens of the City of New York
Members of the City Council
Members of the Financial Control Board

Ladies and Gentlemen:

Since emerging from the 1990-91 recession, economic growth in the U.S. has averaged 3.8 percent a year, even accelerating in the past year to five percent. This year, however, the projected increase could be as little as one percent and we are seeing a slowdown in the growth of jobs.

The City is not immune to these national forces. Although in the near term the economy is holding up well, with employment still growing and tax receipts still on plan, we must now be cautious in the outlook for next year, for both the local economy and our expectations for revenue growth.

Fortunately, the City is in better shape going into this economic slowdown than was the case back in 1990. The choices we have made over the last seven years to reduce growth in government spending, cut taxes, improve core City services, reduce dependency and lower crime, will not only provide a foundation for economic growth long-term, but will help the City weather economic weakness in the short-term.

The strides we have made are significant. Since 1993 private sector employment has increased by 481,000 and we have regained all the jobs lost in the 1990-91 recession. The resurgence in employment has helped thousands of New Yorkers avoid reliance on government subsidies, and today the public assistance caseload is lower by more than 50 percent. Whole new areas of the City have been developed as sources of economic growth, with new developments in such areas as 125th Street in Harlem and 42nd Street in mid-town Manhattan. Lower Manhattan has been turned around as well, a result of the Commercial Revitalization Program's targeted tax incentives. Vacancy rates downtown have fallen from 20 percent in 1993 to three percent today, and lower Manhattan now contains a vibrant residential community which virtually did not exist in 1994. The future of New York City's status as the world's financial center is also assured because of our successful efforts to retain the New York Stock Exchange and NYMEX, and by bringing the Nasdaq headquarters here. Additionally, we can look to our historic investments in the City's cultural institutions as catalysts for new economic development, as well as the development which will accompany the Staten Island and Coney Island stadiums.

Tax cuts were an important contributor to the City's economic recovery. Our first reduction--the hotel tax cut--was crucial in providing evidence that targeted tax reductions can actually spur economic growth. The hotel occupancy rate, which stood at 70 percent before the imposition of the hotel tax cut, rose to 85 percent last year and visitor spending in the City is up over 40 percent. Today the tax burden is lower for both individuals and businesses; tax reductions already enacted have saved New York City's residents and businesses a cumulative $8 billion.

Finally, the City is markedly safer. Since 1993 the number of murders is down 65 percent, vehicle theft is down 68 percent and overall crime is down 52 percent.

These changes--decreasing the taxes paid by residents and businesses and increasing the quality of New York City as a business and residential location--will do much to mitigate the impacts of the weakening U.S. economy.

Despite all these successes, however, now is the time when we must be especially vigilant in maintaining the City's hard won fiscal discipline. This year, our fiscal strategy of maintaining discipline in spending has helped generate a $2.8 billion surplus. Next year, the proposed budget actually lowers spending 2.8 percent while maintaining investments in core services and funding a collective bargaining agreement with an historic provision for merit pay. The budget also continues to make tax cuts a priority and lowers the cost of government for residents and businesses by making further reductions in the personal income tax surcharge and by continuing the reductions in the commercial rent tax which we began in 1995.

Our efforts over the last seven years to reduce the municipal bureaucracy, lower taxes and improve City services have made this City a better place to live and work. The choices we make with this budget can mean continuing that progress.

Sincerely,

Rudolph W. Giuliani
Mayor

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The City of New York

April 25, 2001

Statement Pursuant to Section 243 of the City Charter regarding the Operating Budget of the New York City Council

Section 243 of the City Charter provides that the City Council:

> shall approve and submit to the mayor detailed itemized estimates of the financial needs of the council for the ensuing fiscal year. Such estimates shall be comprised of at least one personal service unit of appropriation and at least one other than personal service unit of appropriation for each standing committee of the council and for each organizational unit established [by the council]. The mayor shall include such estimates in the executive budget without revision, but with such recommendations as the mayor may deem proper.

The City Council approved and submitted its operating budget, and pursuant to the City Charter, it has been included in the Executive Budget. Set forth herein are my recommendations regarding the Council's operating budget.

The Council has proposed a three-percent increase in its operating budget. Despite my efforts to reduce the City's budget, the Council's submission this year continues its historic practice of increasing its own expenditures while fewer resources are provided to other Elected Officials and City agencies. Since 1994, the City Council's operating budget has grown by over 51 percent, including a 32 percent increase since 1999.

The vast increases the City Council annually provides for itself stand in stark contrast to the budgetary discipline exercised by other Elected Officials over the same time period. Since 1994, the Mayor's Office budget was reduced by 38 percent. Similarly, over the same period of time, nearly all other Elected Officials reduced their budgets by 4 percent or more. The efforts these officials have made to carry out their responsibilities in ways characterized by fiscal discipline collectively saved the City over $27 million. If the City Council had made similar budgetary decisions, the City would have benefited from over $7 million in additional savings.

The Council should conform its budget to the requirements set forth in the Charter. The Charter requires separate units of appropriation for each standing committee so that both the general public and the Mayor have a meaningful opportunity to review components of the Council's budget. However, the Council has refused to comply with Section 243 of the Charter by continuing its past practice of submitting a budget in which virtually the entire Council appropriation falls under the broad units of appropriation of "Council Members", "Committee Staffing" and "Council Services." Each standing committee is appropriated only $1 for each PS unit of appropriation and $1 for each OTPS unit of appropriation. To ensure accountability, the Council budget should abide by the Charter's requirements and apportion its expenses among its committees.

I reserve the right, pursuant to Section 255 (a) of the Charter, to disapprove any item included in the Council's operating budget.

Accordingly, pursuant to Section 243 of the City Charter I recommend that the City Council reduce its proposed budget to reflect spending more in line with the rate of inflation -- an increase of approximately two percent -- and restructure its units of appropriation to adhere to the Charter's requirements.

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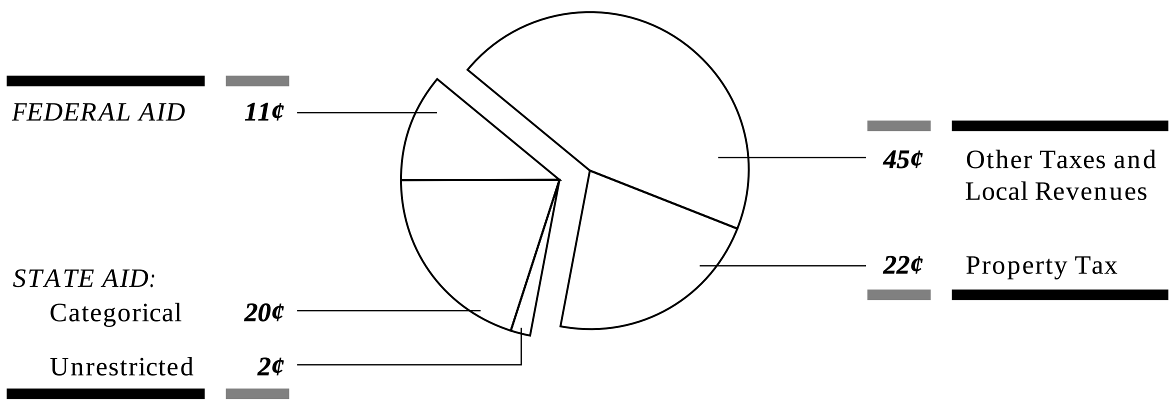
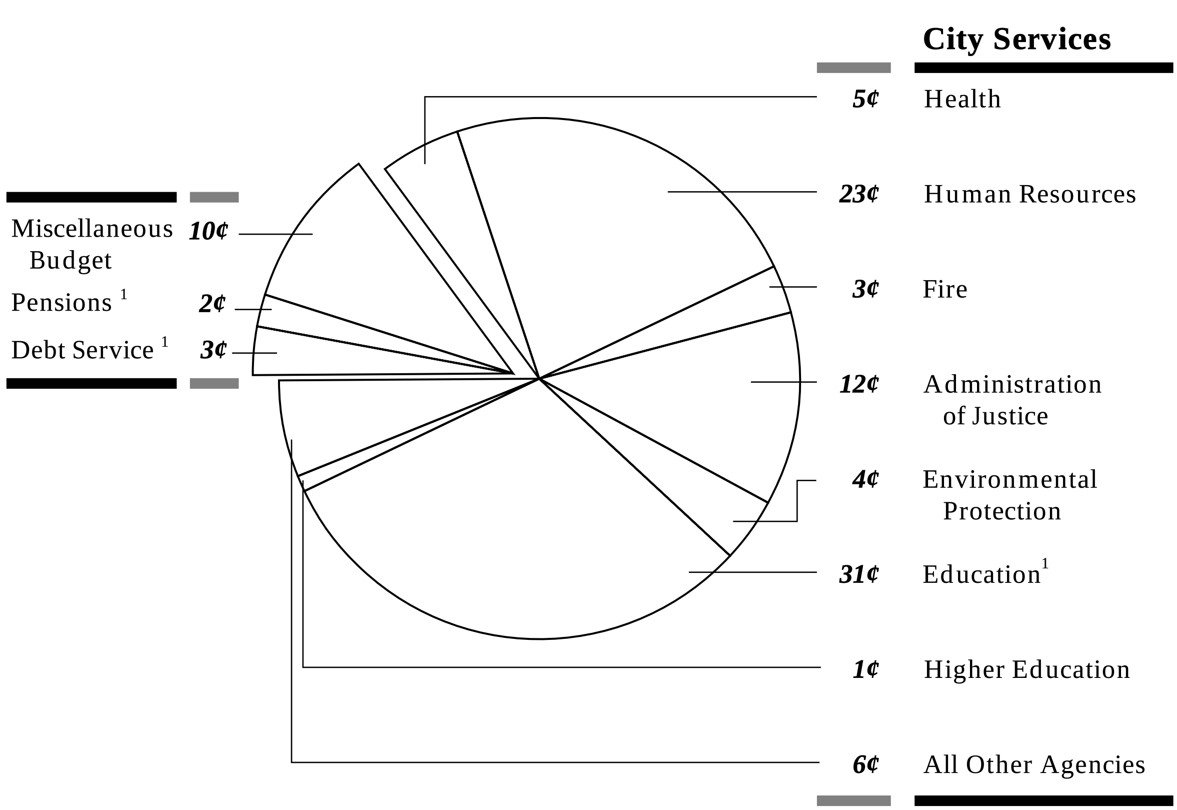


Where the 2002 Dollar Goes To



[1] Debt Service and Pension costs related to the Board of Education have been included in Education.

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REVIEW OF REVENUE AND EXPENSE BUDGETS

The 2002 Executive Budget is $39.5 billion, a decrease of $ 1.0 billion from the forecasted results for 2001. This is the twenty-second consecutive budget which is balanced under generally accepted accounting principles.

Financial Summary—1996-2002

($ in Millions)

	Fiscal Years Ending June 30						
	1996*	1997*	1998*	1999*	2000*	2001**	2002***
Revenues							
Taxes:							
General Property Tax	$6,954	$7,291	$7,239	$7,631	$7,850	$8,136	$8,643
Other Taxes	10,198	11,266	12,528	13,123	13,993	14,661	13,885
Tax Audit Revenues	657	651	458	536	416	399	487
Criminal Justice Fund	331	90	185	—	—	—	—
Tax Reduction Program	—	—	—	—	—	—	(494)
Miscellaneous Revenues	3,379	3,732	3,541	3,473	4,239	4,794	4,600
Unrestricted Intergovernmental Aid	621	654	621	652	631	593	706
Other Categorical Grants	343	379	412	367	431	439	392
Less: Intra-City Revenue	(644)	(683)	(705)	(780)	(1,150)	(1,381)	(1,343)
Disallowances	(40)	(36)	(15)	(39)	(5)	(15)	(15)
Sub-Total City Funds	$21,799	$23,344	$24,264	$24,963	$26,405	$27,626	26,861
Inter-Fund Revenues	244	245	252	249	240	296	301
Total City & Inter-Fund Revenues	$22,043	$23,589	$24,516	$25,212	$26,645	$27,922	$27,162
Federal Categorical Grants	4,194	4,133	4,292	4,262	4,417	4,737	4,457
State Categorical Grants	6,078	6,264	6,372	6,639	7,062	7,824	7,913
Total Revenues	$32,315	$33,986	$35,180	$36,113	$38,124	$40,483	$39,532
Expenditures							
Personal Service	$16,176	$16,495	$17,642	$18,535	$19,178	$21,176	$21,865
Other Than Personal Service	14,016	13,701	14,393	14,469	16,165	17,624	17,541
Debt Service	2,406	2,842	1,460	1,269	739	261	924
MAC Debt Service Funding	132	264	304	—	—	—	—
Budget Stabilization and Prepayments:							
Budget Stabilization	—	—	1,357	2,001	2,509	2,097	345
Debt Service	106	1,342	119	90	90	38	—
MAC Debt Service	—	—	468	386	451	488	—
Other	118	20	137	138	137	138	—
	$224	$1,362	$2,081	$2,615	$3,187	$2,761	$345
General Reserve	—	—	—	—	—	42	200
	$32,954	$34,664	$35,880	$36,888	$39,269	$41,864	$40,875
Less: Intra-City Expenditures	(644)	(683)	(705)	(780)	(1,150)	(1,381)	(1,343)
Total Expenditures	$32,310	$33,981	$35,175	$36,108	$38,119	$40,483	$39,532
Surplus/(Deficit) GAAP Basis	$5	$5	$5	$5	$5	$—	$—

* Actual, Comptroller's Report as of the audit of the respective fiscal year excluding subsequent restatements.
** Forecast
*** Executive Budget

For fiscal year 2001 an operating surplus of $2.8 billion is projected. The 2001 budget forecast provides for a budget stabilization account of $2.1 billion and prepayments of $664 million of MAC Debt Service, Lease Debt and certain Transit Authority subsidies. The 2001 forecast also provides for a general reserve of $42 million to offset any adverse changes, which may surface during the remainder of the fiscal year or during the audit of the operating results.

The following table details changes to the 2001 budget since adoption, indicating sources and uses of funds and the allocation of the operating surplus.

FY 2001 Changes Since Adoption
($ in millions)

Additional Sources of Funds	
• Revenues	$ 1,519
• Agency Programs	527
• Tax Reductions Not Enacted	331
• Prior Payables	264
• General Reserve	158
Total Sources	**$2,799**
Additional Uses of Funds	
• Collective Bargaining	$ (389)
• Pension Costs	(79)
• Medicaid	(140)
• Police	(166)
• All Other Spending	(169)
Total Uses	**$(943)**
Adopted Budget Stabilization Account	$ 905
Operating Surplus	**$ 2,761**
Allocation of Operating Surplus	
• FY 2001 Budget Stabilization Account	$2,097
• Prepayments of MAC Debt, Lease Debt & Transit Authority Subsidies	664
Total Operating Surplus	**$2,761**

The 2002 budget provides for a budget stabilization account of $345 million and a general reserve of $200 million, which is double the $100 million that is mandated by the Financial Emergency Act at the beginning of a fiscal year. A new tax reduction program in 2002 valued at $494 million, growing to $1.3 billion by 2005, has been designed to continue to provide economic stimulus and to improve the City's long-term economic competitiveness. The following table details changes to the 2002 budget since the 2001 budget was adopted.

FY 2002 Changes Since Adoption
($ in millions)

Additional Sources of Funds		
• FY 2001 Budget Stabilization Account		$ 2,761
• Agency Programs		846
• Revenue Forecast		285
• Debt Service		150
• OTB Privatization		250
• Reimbursement for Landfill Closure Costs		225
• State and Federal Actions		150
Total Additional Sources of Funds		**$ 4,667**
		======
Additional Uses of Funds		
• FY 2002 Gap Reduction		$ (2,652)
• Collective Bargaining		(505)
• Targeted Spending		(671)
• Public Safety	(197)	
• Health & Welfare	(186)	
• Energy	(59)	
• Campaign Finance Board	(58)	
• Environmental Protection	(31)	
• City Council	(11)	
• All Other (net)	(129)	
• Additional Tax Reduction Program		(494)
• Fund FY 2002 Budget Stabilization Account		(345)
Total Uses of Additional Funds		**$ (4,667)**
		======

Summary of Financial Plan

The City's financial plan sets forth projected operations on a GAAP basis for the 2002 through 2005 fiscal years. In accordance with the City Charter a four-year financial plan is to be included in the Executive Budget submission. The financial plan will also be submitted to the Financial Control Board in accordance with the Financial Emergency Act. The assumptions, upon which the four-year plan revenue and expenditure estimates are based, are summarized in the Appendix section of this Mayor's Message.

As indicated, a budget stabilization account of $345 million is included in 2002 and a general reserve of $200 million is included for every year of the plan. The tax reduction program is valued at $494 million in 2002, $719 million in 2003, $ 1.0 billion in 2004 and $1.3 billion in 2005.

Four-Year Financial Plan
($ in Millions)

	2002	2003	2004	2005
Revenues				
Taxes:				
General Property Tax	$8,643	$9,100	$9,536	$9,970
Other Taxes	13,885	14,584	15,282	16,071
Tax Audit Revenues	487	426	427	427
Tax Reduction Program	(494)	(719)	(1,041)	(1,264)
Miscellaneous Revenues	4,600	3,979	4,046	4,032
Unrestricted Intergovernmental Aid	706	632	632	632
Other Categorical Grants	392	360	352	344
Less: Intra-City Revenues	(1,343)	(1,301)	(1,256)	(1,256)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Sub-Total City Funds	$26,861	$27,046	$27,963	$28,941
Inter-Fund Revenues	301	297	297	297
Total City & Inter-Fund Revenues	$27,162	$27,343	$28,260	$29,238
Federal Categorical Grants	4,457	4,131	4,105	4,104
State Categorical Grants	7,913	8,012	8,101	8,179
Total Revenues	$39,532	$39,486	$40,466	$41,521
Expenditures				
Personal Service	$21,865	$22,375	$22,693	$23,129
Other Than Personal Service	17,391	17,389	17,687	17,976
Pay-As-You-Go Capital	150	150	150	120
Debt Service	924	2,964	3,401	3,583
Budget Stabilization Account	345	0	0	0
MAC Debt Service	0	490	489	490
General Reserve	200	200	200	200
	$40,875	$43,568	$44,620	$45,498
Less: Intra-City Expenses	(1,343)	(1,301)	(1,256)	(1,256)
Total Expenditures	$39,532	$42,267	$43,364	$44,242
Gap To Be Closed	**$0**	**$(2,781)**	**$(2,898)**	**$(2,721)**

A comparison of the gaps in this financial plan to the gaps that existed when the 2001 budget was adopted and a revised out-year gap closing program for 2003 through 2005 follow.

FINANCIAL PLAN UPDATE

($ in Millions)

	2001	2002	2003	2004	2005
FY 2001 Adopted Budget (Gap)/Surplus - Restated	**$1,236**	**$(2,652)**	**$(2,374)**	**$(1,752)**	**$(1,752)**
Revenue Changes					
Tax Revenue Forecast	$1,367	$676	$811	$985	$2,207
Delay of Airport Arbitration	—	(350)	(35)	175	210
Other Revenues	152	(41)	(106)	(103)	(150)
Total Revenue Changes	$1,519	$285	$670	$1,057	$2,267
Collective Bargaining	$(389)	$(505)	$(744)	$(802)	$(902)
Expenditure Changes					
Pension Funding Changes	$(79)	$(287)	$(463)	$(630)	$(825)
Police	(166)	(176)	(46)	(59)	(56)
Debt Service	(20)	150	(80)	(39)	(224)
Campaign Finance Board	—	(58)	—	—	—
Other Spending	(289)	(150)	72	(168)	(498)
Prior Payables	264	—	—	—	—
General Reserve	158	—	—	—	—
Total Other Expenditure Changes	$(132)	$(521)	$(517)	$(896)	$(1,603)
Budget Stabilization Account & Prepayments					
FY 2001	**$(2,761)**	**$2,761**	**$ —**	**$ —**	**$ —**
FY 2002	**—**	**(345)**	**345**	**—**	**—**
Total Budget Stabilization & Prepayments	**$(2,761)**	**$2,416**	**$345**	**$ —**	**$ —**
Gap to Be Closed - Executive Budget	**$(527)**	**$(977)**	**$(2,620)**	**$(2,393)**	**$(1,990)**
Gap Closing Program					
Agency Programs	$527	$846	$408	$386	$383
Privatization of OTB	—	250	—	—	—
Reimbursement of Landfill Closure Costs	—	225	—	—	—
State and Federal Actions	—	150	150	150	150
Total Gap Closing Program	$527	$1,471	$558	$536	$533
Surplus/(Gap) Prior to New Tax Reduction Plan	$ —	$494	$(2,062)	$(1,857)	$(1,457)
Tax Reduction Program	—	$(494)	$(719)	$(1,041)	$(1,264)
Remaining (Gap)	**$ —**	**$ —**	**$(2,781)**	**$(2,898)**	**$(2,721)**
Out-Year Gap Closing Actions					
Agency Programs	$ —	$ —	$1,681	$1,798	$1,621
State Actions	—	—	450	450	450
Federal Actions	—	—	550	550	550
Roll General Reserve	—	—	100	100	100
Total Out-Year Gap Closing Plan	$ —	$ —	$2,781	$2,898	$2,721
Remaining Surplus Out-Year (Gap)/Surplus	$ —	$ —	$ —	$ —	$ —

Employment Levels

Between 1993 and 2001 city funded staffing levels have been significantly reduced, while during the same time City resources were redirected to significantly increase staffing in vital areas. By June 2001 over 13,000 new City funded employees will have been added to Education and Police, while City funded staff levels will have been reduced by over 20,000 in other areas.

The 2002 Executive Budget continues these staffing priorities. Education and Police staffing levels are maintained, while staffing levels in other areas will be further reduced.

The following table illustrates the changes in City planned staffing levels from 1993 through 2002.

Changes in City Funded Staffing Levels

	Education (ped). & Police (unif.)	All Other Employees	Total
December 31, 1993 Actual (Restated*)	105,342	117,494	222,836
Projected Staffing June 30, 2002	118,702	96,643	215,345
Projected Change December 1993 to June 2002	13,360	(20,851)	(7,491)
% Change	12.7%	(17.7)%	(3.4)%

* Includes adjustments for HAPD and TAPD merger of 7,555, EMS transfer of 3,459 and a reclassification of Water and Sewer revenue funded positions of (4,419).

FEDERAL AND STATE AGENDA

OVERVIEW

The Federal and State agenda for 2002-05 is designed to control the growth of costly mandated programs and produce savings for the City and State governments. In total, this program saves the City $150 million annually for 2002-05. In addition, the City expects to receive $75 million of 1996 State Clean Water/Clean Air Bond Act funds in 2002 as reimbursement for costs associated with the closure of the Fresh Kills landfill in Staten Island.

FEDERAL OVERVIEW

New York City continues to send more tax dollars to Washington than it receives in Federal spending. According to "The Federal Budget and the States," a report released annually by the John F. Kennedy School of Government at Harvard University, in 1999 New York State's balance of payments deficit with Washington was estimated to be approximately $16 billion, with New York City the source of half of that deficit. With the Federal budget surplus expected to grow to almost $900 billion by Federal Fiscal Year 2011, the Federal government must address this imbalance.

The City's request for fairness in Federal spending focuses on three main proposals: full reimbursement for the protection of government officials and foreign dignitaries, an increased Federal share of Medicaid for children and funding for emerging public health crises.

Full Reimbursement for the Protection of Government Officials and Foreign Dignitaries

The City takes extraordinary security measures for the protection of foreign missions and officials year-round, including such events as the 55th General Assembly of the United Nations and the Millenium Summit of Heads of State and Heads of Government, which were both held in New York City in September 2000. Thousands of heads of state and dignitaries from around the world were in New York City for these events, costing the City an estimated $26 million for added security and logistical support. Although the State Department reimburses the City a minimal amount for police overtime, there are numerous other costs associated with these security activities for which the City should be reimbursed. For example, the State Department fails to reimburse the City for Emergency Medical Services personnel and equipment, even when they are requested by the Secret Service. Furthermore, the City bears additional costs for security measures provided by the Fire Department, the Department of Transportation and the Department of Sanitation that are not reimbursed by the Federal government. The distinctions made by the State Department when denying reimbursement do not reflect the actual cost to New York City of providing extraordinary security in connection with international events.

Increase in Medicaid Funding for Children

New York City, which has 67 percent of the statewide population of children who are on Medicaid, will spend more than $500 million on this program to cover children this year. In addition, the City has undertaken HealthStat, which is a comprehensive outreach and education program to enroll children and families in health care insurance plans. The City is seeking fiscal relief from the Federal government in the form of an increased Federal Medical Assistance Percentage (FMAP) for children. The City urges Congress to increase the FMAP rate for children in New York City from 50 percent, the statutory floor under Federal law, to 55 percent. City savings in 2002 are estimated at $48 million, assuming an effective date of October 1, 2001. Full annual savings rise to $66 million in 2003. This initiative would complement the extremely successful Child Health Plus program in New York State and would help to rectify the City's relatively low matching percentage compared to other states where the FMAP averages 61 percent.

This proposal is based on the findings of a General Accounting Office study that examines the fairness of the FMAP formula. A major recommendation of the study is to substitute the FMAP per-capita income calculation with the total taxable resources (TTR) assessment. TTR measures a state's ability to finance program services from the total income produced or received within a state. Per-capita income often fails to capture the extent of poverty within a state, as is the situation in New York.

Funding for Emerging Public Health Crises

Immunization: New York City seeks the restoration of immunization funding to the 1997 level of $10 million, a $5 million increase above the current level of funding. Two years ago, the Centers for Disease Control (CDC) imposed an across-the-board cut to immunization grants and reprogrammed certain funds. The reprogramming resulted in a 50 percent reduction in Federal funding for immunization programs in New York City. Increased Federal support is needed for the New York City Department of Health to continue its aggressive work in immunization service delivery, education, and outreach, all of which have greatly increased the number of children who are up-to-date on their immunizations.

Tuberculosis: Since 1999, Federal funding for tuberculosis (TB) programs has decreased by $8 million. Moreover, the proposed budget for Federal Fiscal Year 2002 called for a reduction in TB spending of $45 million, which could result in an additional loss of $2 million for New York City. The grant awarded to the New York City Department of Health in 2000 was $18 million, $8 million less than the 1999 award. While the funding for TB programs in New York City has declined, the national appropriation has risen by more than $9 million. According to the CDC, the available funds are being reprogrammed to other state and local governments, even though the need for maintaining the current level of service has not diminished in New York City. The City is a major entry point for visitors and immigrants from countries with exploding rates of drug-resistant TB.

Since the TB epidemic's height in 1992, when the case rate was five times the national average, the City has reduced TB deaths by over 59 percent. The current case rate of 23.6 per 100,000 people, however, is still more than three times the national average. Completion of treatment is the key to both the successful control of TB and to the prevention of drug-resistant TB. The City's program of Directly Observed Therapy has been largely responsible for a 91 percent reduction in drug-resistant cases since 1992. The restoration of the 1999 level of TB funding to New York City remains critical in order to provide adequate support for the City's TB programs.

Asthma Funding: The New York City Department of Health receives little Federal aid to support asthma-control activities. Current funding consists of only one small grant that supports surveillance studies which enable the Department of Health to evaluate the prevalence of asthma in school-age children. While no other Federal aid is made available to the City directly, the CDC has reported that the death rates from asthma among 25 to 45 year old adults are much higher in New York City than in other major urban areas in the nation. New York City is requesting that Congress appropriate funding for asthma detection and prevention and that the CDC allocate at least $8 million to New York City.

Mosquito-Borne Disease Control Program: Last year, the City mounted a rapid emergency response to the West Nile virus, a mosquito-borne disease that previously had not been recognized in the Western Hemisphere. In order to prevent future infectious disease outbreaks, the New York City Department of Health developed a comprehensive surveillance and control plan that will detect and combat mosquito-borne diseases before they spread to humans. This plan should help prevent the virus from spreading to other areas of the country. In support of these activities, the City spent $15 million in calendar year 2000. In 2002, the City is requesting at least $5 million of Federal reimbursement for costs associated with control of the West Nile virus.

STATE OVERVIEW

The State agenda for 2002 is centered around a number of initiatives requesting equitable relief for the City. For example, in last year's State budget, all local governments were provided an increase in revenue sharing, with the exception of New York City. The City deserves the same benefits that other local governments receive.

Currently, the New York State Legislature and Executive are engaged in a contentious budget debate. The Supreme Court decision in the case of *Campaign for Fiscal Equity v. The State of New York*, mandating that the State overhaul its education financing system, affects a major component of Albany's support to localities. Although the Governor has announced his intention to appeal this decision, an education debate will be in the forefront during budget negotiations and this is likely to further delay a State budget.

Increase in Revenue Sharing

The State Revenue Sharing program began in 1970 and was enacted to provide a predictable funding stream to municipalities that was adequate and equitable. The original program based the allocation to local governments on State personal income tax revenue. The law has been amended several times since 1970 and the amount available declined significantly from 1987 to 1992. In State Fiscal Year (SFY) 1994-95, the State implemented its first revenue sharing increase in nearly 10 years. However, in SFY 2000-01, for the first time ever, New York City was excluded from an increase in the revenue sharing allocation. The budget included a 5 percent across-the-board increase in General Purpose State Aid for the State's cities, towns and villages, but specifically excluded New York City. In this year's State Budget, the City requests inclusion in any revenue sharing program increase, for a total savings of $30 million to New York City.

E-911 Wireless Surcharge for Local Emergency Expenditures

E-911 monthly surcharges on cellular telephone bills throughout the State are given directly to the New York State Police, which does not perform functions in New York City. The City generates approximately 50 percent of the total wireless E-911 revenues. In their budget resolution for this year, the State Senate proposed the creation of a Wireless Telephone E-911 Surcharge Program. This proposal would create a fund using the revenues from the wireless communications surcharge to provide localities with resources to fund emergency response and public safety equipment improvements. This program would allow New York City to directly benefit from the fees generated from the E-911 charges. The City is requesting the creation of an E-911 surcharge assistance fund of which $5 million would be the City's equitable share in 2002, growing to $10 million in 2003-05.

Medicaid Fraud Prevention Initiatives

The State's Medicaid costs related to pharmacy services have grown roughly 20 percent a year since 1995. While a portion of the spiraling costs is attributable to the introduction of more efficacious drugs to combat AIDS, a portion of the growth is due to pharmaceutical fraud. The City proposes working with the State to implement several measures to reduce pharmaceutical fraud. The City could save at least $16 million through the implementation of these reforms in 2002 and full annual savings would grow to $36 million.

These initiatives include redesigned prescription forms printed on non-reproducible paper, as well as the imposition of more stringent criminal penalties for Medicaid recipients who allow others to use their cards. In addition, the City supports tougher criminal penalties for pharmacists who commit prescription fraud.

Reimbursement for Fresh Kills Landfill Closure Costs

When New York State enacted the 1996 Clean Water/Clean Air Bond Act, $75 million was authorized to New York City for the closure of the Fresh Kills landfill. State law mandated the landfill to close by December 31, 2001. To date, $45 million has been appropriated by the State, but no funds have been committed. This year's Executive Budget, as well as the Senate and Assembly budget resolutions, appropriate the remaining $30 million. The City has spent hundreds of millions of dollars on Fresh Kills closure and the landfill was closed in March 2001. The City requests that the State fulfill its commitment and reimburse the City $75 million for Fresh Kills closure.

Bond Act Funds for Municipal Recycling

Within the Solid Waste title of the 1996 Clean Water/Clean Air (CWCA) Bond Act, there was $50 million authorized for municipal recycling statewide. The State specifically promised New York City at least $25 million of this authorization. The Executive's 30-day amendments to the SFY 2001-02 budget proposal authorize the payment of this $25 million for municipal recycling to New York City. This proposal puts the State's commitment into law so that New York City can receive its fair share. The City is reflecting this payment in 2002.

Funding for PINS Mandate

Parents, guardians and schools may petition the Family Court to determine if a teen is a Person in Need of Supervision (PINS) which is defined as "a person less than 18 years of age who is truant, incorrigible, ungovernable or habitually disobedient and beyond the lawful control of a parent." During the course of a PINS case, youths may be placed in the 24-hour custody of a foster care agency. While PINS cases are open, the costs for foster care are not reimbursable by the Federal government. As a result, localities and the State pay the entire cost of foster care for youths during PINS cases. Because the Family and Children's Services Block Grant caps State foster care funding, localities bear the burden of paying for any increase in the number of youths in PINS cases. Although youths in PINS cases are considered foster children, their cases are unique to the foster care system, and as a result, PINS youths tend to require a more expensive, higher-level of care than the traditional foster boarding home. PINS youths are not placed in foster care due to abuse or neglect by a parent or guardian, but instead are displaying behavior problems that might include failure to attend school or the commission of low-level criminal offenses.

Last year, State law was changed, raising the age for PINS cases from 16 to 18. The City estimates that 370 additional PINS youths will enter the City's foster care in 2002 as a result of this law. Due to the high cost for their care and their uniqueness to the foster care system, PINS cases should be funded separately from the block grant and be open-ended. The State and localities should share the costs for this population in an equitable manner. Since the block grant may be superceded in the coming fiscal year, any changes (including a form of the block grant for foster care) must include at least a $10 million State reimbursement for PINS expenses, which would be $7 million in the first year.

Reduction in Personal Income Tax Administrative Costs

Over the past four years, the State has raised the City's charge for administration of its personal income tax (PIT) by over $20 million. Since SFY 1997-98, the total budget for the NYS Department of Taxation and Finance has increased by 15.7 percent. In contrast, during this same time period, the State's charge to the City for PIT administration has increased by 65 percent. In SFY 2000-01 the City paid over $30 million in PIT administrative charges. Given the repeal of the commuter tax, the PIT administrative charges should be reduced. New York City non-residents formerly made up 21 percent of City filers, therefore the administrative charges should be decreased by 21 percent, or $7 million annually. In addition, the State should reduce its charges by an additional $13 million, which would reflect a reasonable cost for these services and save the City $20 million annually. The City should not pay an increase in administrative costs when in fact the volume of filers has decreased.

CONTRACT BUDGET

The Contract Budget is presented as part of the 2002 Executive Budget submission. The Contract Budget includes all projected expenditures for contracts as defined in Section 104 of the City Charter, including those of small dollar value that do not require registration by the Comptroller's Office. These include purchase orders and open market orders as well as contracts.

As defined in Section 104, the Contract Budget includes contracts that are personal service, technical or consulting in nature. Contracts for the purchase of supplies, materials and equipment are not included.

The 2002 Executive Contract Budget contains approximately 19,000 contracts totaling over $5.8 billion. Approximately two-thirds of the total contract budget dollars will be entered into by the Department of Social Services, the Administration for Children's Services, the Department of Homeless Services and the Board of Education. The Administration for Children's Services has over $1.4 billion in contracts, 77 percent of which represents contracts allocated for Children's Charitable Institutions ($622 million) and Day Care ($492 million). Of the over $1.2 billion in Board of Education contracts, approximately 41 percent are allocated for pupil transportation contracts ($518 million).

Agencies in preparing their contract budgets were requested to categorize their contracts into 50 specific contract objects. The distribution of these contracts is summarized as follows:

	Est. # of Contracts	Dollars (Millions)	% Total Dollars
Social Service Related and Health Services . . . . • Home Care, Child Welfare, Employment Services, Public Assistance, Day Care, Family Services, Homeless Programs, AIDS, Senior Citizen Programs, Health, Mental Hygiene, & Prison Health, etc.	4,404	$3,377	57.7%
Youth and Student Related Services . . . . • (including Transportation of Pupils and Payments to Contract Schools)	1,425	1,021	17.5
Other Services . . . . • Custodial, Security Services, Secretarial, Cultural Related, Employee Related, Economic Development, Transportation, etc.	3,782	777	13.3
Professional Services/Consultant . . . . • Accounting, Auditing, Actuarial, Education, Investment Analysis, Legal, Engineering & Architectural, System Development & Management Analysis, etc.	4,692	356	6.1
Maintenance & Operation of Infrastructure . . . . • Lighting, Streets, Buildings, Parks, Water Supply, Sewage and Waste Disposal,etc.	2,062	218	3.7
Maintenance of Equipment . . . . • Data Processing, Office Equipment, Telecommunications & Motorized Equipment, etc.	2,599	100	1.7
TOTAL	18,964	$5,849	100.0%

Borough Presidents' Proposed Reallocations

In accordance with section 245 of the New York City Charter, the Borough Presidents may propose modifications to the Preliminary Expense budget during the Executive Budget process. Any recommended modifications should not result in an increase to the total appropriations proposed in the Preliminary Budget. If increases within a borough are recommended, offsetting reductions in other appropriations within the borough must also be recommended. The Queens and Manhattan Borough Presidents submitted reallocation proposals.

The Queens Borough President proposed reallocating $78 million. Among the suggested restorations are $7.8 million to the Queens Public Library, $14.3 million to Cultural Affairs, $30.7 million for Youth programs, $3 million to deal with domestic violence, $11.5 million to seniors, $4.2 million for housing programs and $3.23 million to Parks. The proposed funding sources come from a projected increase in the 2001 budget surplus and the Cultural Challenge Initiative. A specific response to each reallocation proposal is provided in a separate document, FY 2002 Executive Budget Responses to the Queens Borough President's Proposed Reallocations to the FY 2002 Preliminary Expense Budget.

The Manhattan Borough President submitted a reallocation proposal of $930 million. Among the suggested restorations is $828 million to the Board of Education, $22.9 million for the City University of New York, $21.1 million for Youth programs, $13.3 million for seniors, $12.8 million for the New York Public Library and $10.4 million to Cultural programs. The proposed funding sources come from a proposal to reinstate the 12.5 percent Personal Income Tax Surcharge, the budget surplus, savings on claim payments and civilianization of administrative functions at the Police Department. A specific response to each reallocation proposal is provided in a separate document, FY 2002 Executive Budget Responses to the Manhattan Borough President's Proposed Reallocations to the FY 2002 Preliminary Expense Budget.

COMMUNITY BOARD PARTICIPATION IN THE BUDGET PROCESS

New York City's 59 community boards provide a formal structure for local citizen involvement in the budget process as well as other areas of City decision making. Each board represents up to 250,000 residents in a community district. The Charter mandates that the community boards play an advisory role in three critical areas: changes in zoning and land use, monitoring the delivery of City services in the community district and participating in the development of the City's capital and expense budgets.

Each community board receives an annual budget to pay for a district manager, support staff and other operating expenses. In 2002 the uniform base budget for each community board is $163,358. This excludes the cost of office rent and heat, light and power which are in a separate unit of appropriation. To help defray the relocation costs for those community boards planning to move offices in 2002, funds for the cost of the move and the one-time cost of telephone installation are also included in the rent unit of appropriation. To help community boards insure the contents of their offices, community boards are insured by the Citywide Central Insurance Program. Collective bargaining funds will be added to each board's budget when appropriate.

Each Borough President appoints board members for staggered two year terms. City Council members in proportion to each member's share of the district's population nominate half the appointments. The fifty volunteer members of the community board either live or work in the district.

Each year agencies that deliver local services, prior to preparing their departmental estimates, consult with community boards about budget issues and the needs of the districts. The boards then develop and prioritize their capital budget requests (up to 40) and expense budget requests (up to 25). For 2002 community boards submitted 2,048 capital requests to 29 agencies and 1,843 expense requests to 41 agencies. Almost two-thirds of the community board capital budget requests seek improvements to streets, sewers and parks. Community board expense budget requests concentrate on Citywide programs and personnel increases such as added street cleaners, park workers and other service employees.

Boards also rank agencies' local service programs by their importance to the community. For the upcoming year community boards ranked 85 programs within 26 agencies. The top five programs are community youth programs, services to the elderly, parks maintenance, police patrol and, after school/summer school programs. Historically, local services have been the highest ranked.

District specific budget information is available in the following geographic budget reports, which accompany the release of the 2002 budget.

Register of Community Board Budget Requests for the Executive Budget, Fiscal Year 2002 - lists the funding status for all community board proposals in priority order within community district. Also available in Council district and agency sorts.

Geographic Report for the Executive Expense Budget for Fiscal Year 2002 - details the expense budgets of fourteen agencies that deliver local services by borough and service district. Includes 2002 Executive Budget information as well as 2001 current modified budget and headcount data (as of April 17, 2001).

Executive Capital Budget for Fiscal Year 2002 - details the Mayor's Capital Budget by project within agency including two geographic sorts of the Capital Budget. One presents budget data by community district and borough. The other presents the budget by borough within project type.

Geographic Fiscal Year 2002 Executive Budget Commitment Plan - presents information on capital appropriations and commitments by community board, including implementation schedules projected for each month of 2001, and the succeeding four years for all active project identifications by budget line.

Geographic Project Detail Data Report, FY 2002 Executive Budget – describes for each project within a budget line in the Commitment Plan the schedule of funding from 1998 through 2001 and all projects with proposed financial support from 2002 through 2005, sorted by community board. Unique to this document is information regarding the specific location, scope summary and capital assets of each project. For projects supported by the community boards, this report crosswalks the budget lines and project details within the community board tracking code.

Tax Reduction Program

The tax reductions enacted during the past 7 1/2 years have played an important role in the City's revival and continuing economic prosperity. Business tax reform has once again made the City competitive and contributed to the creation of a record 99,000 private sector jobs in 2000, while sales tax reductions and property tax relief have benefited consumers and property owners. This budget expands on these reductions with further tax relief, including an additional cut in the 14 percent personal income tax surcharge, the complete elimination of the commercial rent tax and a complete elimination of the sales tax on clothing and footwear. Additionally, the current co-op/condo property tax abatement and the Lower Manhattan Commercial Revitalization Program are extended, and the hotel tax $2 flat fee per room is repealed. In 2002, the tax reductions in this budget total $494 million, increasing to $1,264 million in 2005.

Tax Reduction Program
($ Millions)

	2001	2002	2003	2004	2005
Already Enacted					
• Expiration of PIT 12.5% Surcharge	($821)	($807)	($858)	($913)	($973)
• Hotel Tax Cut	(26)	(27)	(28)	(29)	(30)
• Commercial Rent Tax Reductions	(413)	(428)	(434)	(439)	(440)
• Unincorporated Business Tax Reforms & Credits	(54)	(56)	(57)	(58)	(58)
• Commercial Revitalization Program	(45)	(41)	(32)	(22)	(15)
• SCRIE/SCHE Enhancements	(6)	(6)	(6)	(6)	(6)
• Co-op/Condo Property Tax Relief	(170)	—	—	—	—
• Business Tax Reform	(130)	(133)	(137)	(142)	(146)
• Sales Tax - Miscellaneous Exemptions	(45)	(47)	(47)	(47)	(47)
• Sales Tax - Exemptions on clothing & footwear under $110	(244)	(250)	(256)	(263)	(270)
• Resident UBT/PIT Credit	(43)	(49)	(55)	(55)	(55)
• Real Property Transfer Tax Exemption for Assumable Mortgages	(2)	(2)	(2)	(2)	(2)
• Elimination of the Vault Charge and the Tax on Coin Operated Amusement Devices	(8)	(8)	(8)	(8)	(8)
• Commuter Tax Repeal	(535)	(436)	(495)	(519)	(547)
• College Tuition Deduction/Credit (PIT)	—	(5)	(9)	(14)	(18)
• Marriage Penalty Reduction (PIT)	—	(7)	(21)	(28)	(29)
• Sales Tax Exemption on Utility Transmission & Distribution	(2)	(5)	(19)	(54)	(139)
• Sales Tax Exemption on Web Hosting & HDTV Equipment	(11)	(13)	(13)	(13)	(13)
• Bank Mutual Fund Companies	(1)	(1)	(1)	(1)	(1)
• PIT 14% Surcharge Cut (effective January 2001)	(94)	(185)	(196)	(209)	(227)
• Borough Development Program	—	(10)	(11)	(14)	(13)
• STAR (Personal Income Tax)	(415)	(560)	(607)	(636)	(661)
• STAR (Property Tax)	(89)	(110)	(132)	(135)	(135)
Subtotal	**($3,154)**	**($3,186)**	**($3,424)**	**($3,607)**	**($3,833)**
Proposed					
• PIT 14% Surcharge Cut (effective July 2001)	—	($180)	($191)	($207)	($226)
• Elimination of the Commercial Rent Tax	—	(121)	(270)	(432)	(470)
• Extension of Co-op/Condo Property Tax Relief	—	(185)	(194)	(204)	(214)
• PIT Credit for "S" Corporations	—	—	(26)	(53)	(56)
• Earned Income Tax Credit	—	—	—	(48)	(48)
• Repeal of Hotel Tax $2 Flat Fee	—	—	(19)	(39)	(40)
• Elimination of the Sales Tax on Clothing & Footwear	—	—	—	(27)	(105)
• Business Tax Reform	—	—	—	—	(75)
• Lower Manhattan Revitalization Program - Extension (Excluding World Trade Center)	—	(8)	(19)	(31)	(30)
Subtotal	—	**($494)**	**($719)**	**($1,041)**	**($1,264)**
Total Tax Reduction Program	**($3,154)**	**($3,680)**	**($4,143)**	**($4,648)**	**($5,097)**

The 2002 Executive Budget tax reduction proposals are as follows:

- **25 percent cut in the personal income tax surcharge:** The personal income tax paid by City residents is subject to a “temporary” 14 percent surcharge that is imposed on the base rate. This proposal calls for an additional 25 percent reduction in the 14 percent surcharge on July 1, 2001 and renewal at the reduced rate in 2002 with an average benefit to taxpayers of $80. The 14 percent surcharge was previously cut and restructured on January 1, 2001 with a 50 percent reduction in the surcharge on taxable income below $50,000 for single filers, $90,000 for joint filers and $60,000 for head-of-household filers. The reduction in the surcharge averaged 25 percent. The 14 percent surcharge was originally enacted in 1991 and has required periodic renewal since 1993. It is currently scheduled to expire on December 31, 2001. The proposal will save City resident taxpayers $180 million in 2002, $191 million in 2003, $207 million in 2004 and $226 million in 2005.

- **Elimination of the commercial rent tax**: Currently all commercial tenants in the other boroughs and tenants paying under $150,000 in annual rent in Manhattan are completely exempt from the commercial rent tax. The exemption was recently increased from $100,000 to $150,000 effective December 1, 2000, saving taxpayers $19 million annually. Tenants paying over $150,000 annually in rent pay a 3.9 percent effective tax. Additionally, tenants with rents between $150,000 and $190,000 receive a partial credit that lowers their liability. This proposal eliminates the tax completely by the end of fiscal year 2003. Beginning June 1, 2001, the effective rate will be reduced to 2.6 percent from the current 3.9 percent rate. Thereafter, the effective tax rate will be further reduced to 1.3 percent on June 1, 2002. The commercial rent tax will be completely eliminated on June 1, 2003. These actions will save taxpayers $121 million in 2002, $270 million in 2003, $432 million in 2004 and $470 million in 2005, when fully implemented.

- **Extension of co-op and condo property tax relief:** An abatement program was implemented in 1997 to reduce the disparity in property tax burden between owners of cooperatives and condominiums (Class 2) and single family homes (Class 1). This program allowed a partial abatement of Class 2 real property taxes over a three-year period starting in 1997. In 1999, the abatement was equal to 17.5 percent of the tax for residential units with an average assessed value over $15,000 and 25 percent of the tax for residential units with an average assessed value of less than $15,000. It was extended in 1999 through 2001. This abatement program will be extended at the 2001 level, with total benefits to taxpayers of $185 million in 2002, $194 million in 2003, and $204 million in 2004 and $214 million in 2005.

- **PIT credit for “S” corporations:** Effective January 1, 2002, resident shareholders of subchapter S corporations will be eligible for a sliding scale credit against the personal income tax for their distributed share of the subchapter S corporate tax liability. The structure of the credit will be similar to the current credit for owners of unincorporated businesses enacted in 1997. Total savings to resident City taxpayers will be $26 million in 2003, $53 million in 2004 and $56 million in 2005.

- **Earned income tax credit:** Effective January 1, 2003, the City will allow a refundable earned income tax credit (EITC) against the City personal income tax of up to five percent of the current Federal EITC for tax years 2003 and thereafter. This credit will benefit an estimated 600,000 taxpayers with an average credit of $80. The savings to City taxpayers will be $48 million in 2004 and thereafter. The refundable portion of the credit will be paid through the expenditure of TANF funds.

- **Repeal of hotel tax $2 flat fee:** The hotel room occupancy tax consists of both a flat fee ranging from $0.50 to $2 on rooms priced under $40 and $2 on rooms over $40, plus a 5.0 percent tax levied on the room charge. In addition, for the repeal of this fee, the taxation of Bed and Breakfast establishments will be reformed. Effective December 1, 2002, the repeal of this flat fee will reduce taxes by $19 million in 2003, $39 million in 2004 and $40 million in 2005.

- **Sales tax exemption:** Effective March 1, 2004, the 4.0 percent sales tax exemption on clothing and footwear under $110 will be extended to all clothing and footwear purchases. This will save consumers an additional $27 million in 2004 and $105 million in 2005.

- **Business tax reform:** Further reform and reduction of the general corporation and unincorporated business taxes will save City businesses $75 million in 2005.

- **Lower Manhattan Revitalization Program - extension:** This targeted tax relief program for pre-1975 buildings that provided tax incentives through property tax abatements and exemptions expired on March 31, 2001. This proposal will extend the real estate tax abatement, commercial rent tax exemption and the energy cost savings program through March 31, 2004 in lower Manhattan. In order to focus tax relief on those buildings most in need of benefits, the program's extension will exclude the World Trade Center. The total savings to taxpayers due to the extension of this program is estimated to be $8 million in 2002, $19 million in 2003, $31 million in 2004 and $30 million in 2005.

ECONOMIC OUTLOOK

Overview

The U.S. economy is at a delicate junction in the economic cycle. Signs of the slowdown that began in the second half of 2000 have intensified, and hopes of a rapid turnaround have dwindled. So far, however, only the manufacturing sector has contracted, due to a build-up in inventories and over-capacity. Outside of manufacturing, growth has decelerated but several key indicators are still showing resilience. Most importantly, consumption spending continues at a healthy level even as the drop in the equity markets has wiped out almost $5 trillion from consumer wealth. The housing market has also until now sustained the downturn without much damage, buffered by the Fed's recent cuts in interest rates.

The national outlook, therefore, calls for real GDP (Gross Domestic Product) to grow 1.7 percent in 2001 with consumption spending at three percent, just enough to avert a recession. Non-residential fixed investment spending will drop to three percent after a decade of remarkable growth which brought its share of overall GDP from 10 percent in 1993 to 15 percent in 2000. Corporate profits will also take a severe hit in 2001 and are expected to be down 6.1 percent. Overall job growth will fall to under 1 percent, with gains in the service-producing sectors offsetting steep losses in manufacturing. The economy will pick up in 2002, but only gradually, as the drag from the capital build-up subsides. GDP is expected to grow by just over 3 percent in 2002 before resuming growth of about 4 percent per year in 2003-2005. Moderate employment growth throughout the forecast period should keep inflationary pressures contained despite concerns over rising medical prices and the recent spikes in utility prices, particularly in some regions of the nation.

At this point, with U.S. growth slowing, the manufacturing sector in a recession, an energy crisis in the country's largest state, and a stock market well off its peak, the outlook is tenuous. However, low unemployment and inflation, a relatively healthy housing market and a proactive Federal Reserve continue to suggest that a recession can be averted. Of course as in any period of economic slowdown, the risks grow to both the U.S. and the local economy.

The City's economy is also expected to experience a significant slowdown in growth from the boom of recent years, which saw unprecedented private sector employment gains of almost 100,000 jobs in 2000. The City's higher reliance on the service sector will enable it to grow at a faster rate than the U.S. in 2001, with employment expected to grow 1 percent, a gain of almost 33,000 private sector jobs. The impact of the slowdown, however, will fall more heavily in 2002.

In 2002, in addition to the slowdown at the national level, the City's economy will also be impacted by a forecast drop in Wall Street profits from a record high of $21 billion in 2000 to $5.5 billion in 2001. As a result, FIRE employment in 2002 is expected to decline by 10,000 jobs, 6,000 in the important securities sub-sector. Overall employment, therefore, rises just 7,000 in 2002 as the loss of these highly paid jobs ripples throughout the economy. Job growth then picks up to 42,000 jobs on average per year in 2003-2005 as the economy gradually rebounds.

The recent drop in the stock market and the anticipated decline in New York Stock Exchange member-firm profits will also have a significant impact on overall bonus payouts. Overall bonus payouts in the FIRE sector are expected to fall precipitously and are down fifty percent in 2001. Wage income as a result grows by only 2½ percent per year in 2001-2002, down from over 11 percent in 2000, though outside of FIRE the slowdown will be less pronounced. As profits on Wall Street rebound along with the economy, wage income is also forecast to pick up, to about 5½ percent growth per year in 2003-2005. Finally, the economic slowdown is expected to only have a minimal impact on the real estate market. The commercial real estate market is heading into this slowdown in much better shape than in past slowdowns, when speculative building resulted in an oversupply. In the latest expansion, the amount of new inventory added has been minimal.

* *All economic data are on a calendar year basis while all tax revenue data are on a fiscal year basis ending June 30.*

Therefore, outside of a slight correction in the relatively small secondary market, which has been impacted most by the dot-com job losses, the commercial office market should remain healthy, with vacancy rates remaining low and asking rents remaining high.

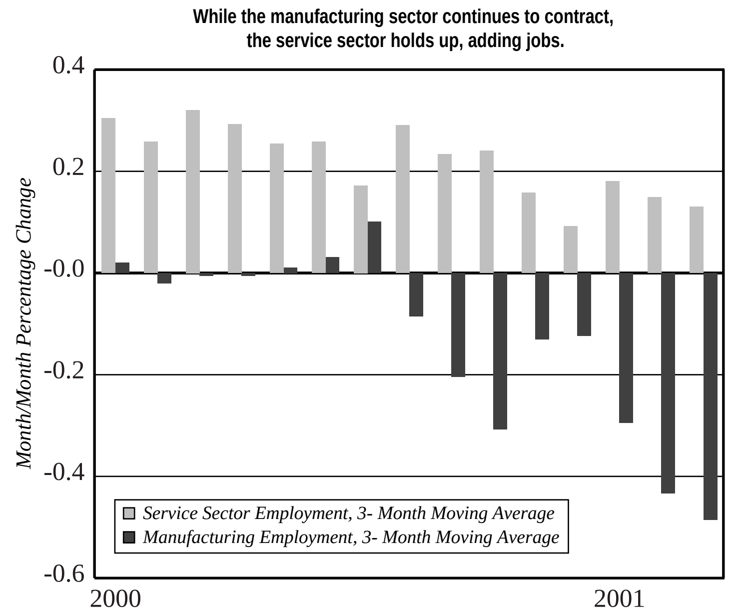
The U.S. Economy

The slowdown in growth that began in the second half of 2000 continues to cast a long shadow on the outlook for the U.S., and with some indicators showing further signs of deterioration, the possibility of a rapid turnaround appears unlikely. So far, manufacturing has borne the brunt of this slowdown. Employment in this sector has declined by over 400,000 in the past twelve months, a loss of about two percent. The NAPM (National Association of Purchasing Managers) index, a comprehensive barometer of manufacturing activity, was up slightly in March to 43.1 percent but remains deep in recessionary territory. Moreover, any hope of an export-led recovery has dissipated with the news that growth in the Japanese economy continues to falter (early estimates indicate a further contraction in Q2 2001) while growth in Europe continues to be anemic at best. Adding to these woes is concern over the significant build-up of capacity in the high-tech sectors of the economy, punctuated by layoff announcements in bellwether firms once perceived as perpetual engines of job growth, like Lucent, Cisco, Intel, and Motorola.

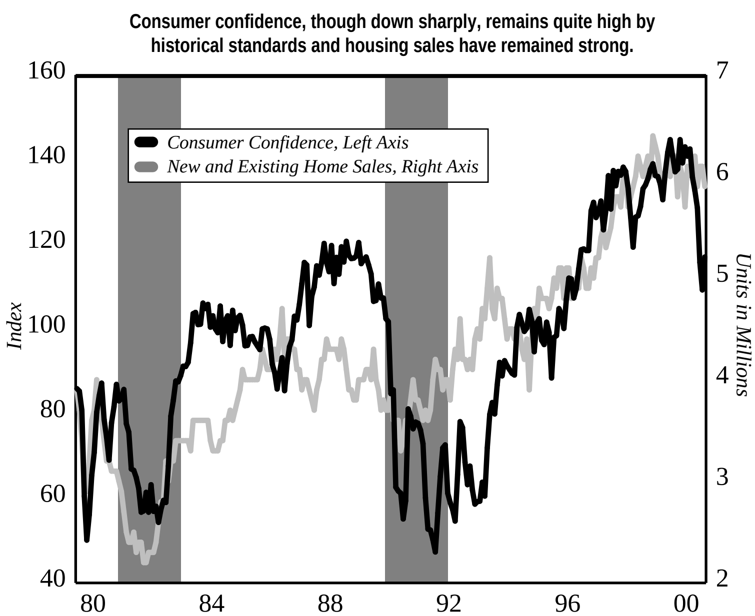
Outside of manufacturing, other sectors of the economy continue to show signs of growth, albeit at a lower rate. Services employment in the U.S. is up 2.5 percent in the first quarter over Q1 2000. Sales of new and existing homes, though down from their highs, are still averaging a quite robust 6 million units on an annual basis. Most importantly, consumers have so far shown remarkable resilience. March data, in fact, showed consumer confidence (Conference Board) edging back up and retail sales in the early part of the year have held up even in the face of a sharp correction in the stock market which wiped out an estimated $5 trillion in household wealth.

Given the pockets of strength outside of the manufacturing sector, the economy is expected to avert a recession though growth is expected to stall this year. Specifically, the sharp pullback in real GDP (Gross

SERVICE SECTOR AND MANUFACTURING SECTOR EMPLOYMENT IN THE U.S.



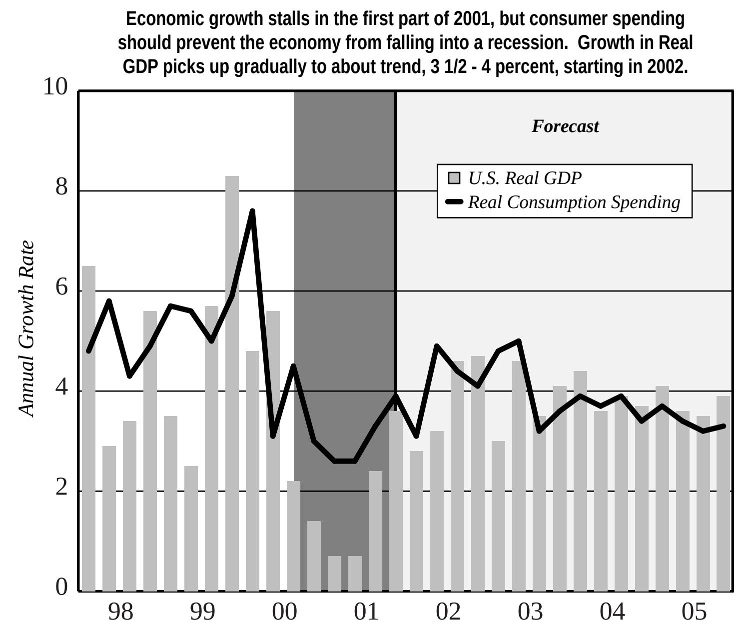
CONSUMER CONFIDENCE AND HOME SALES



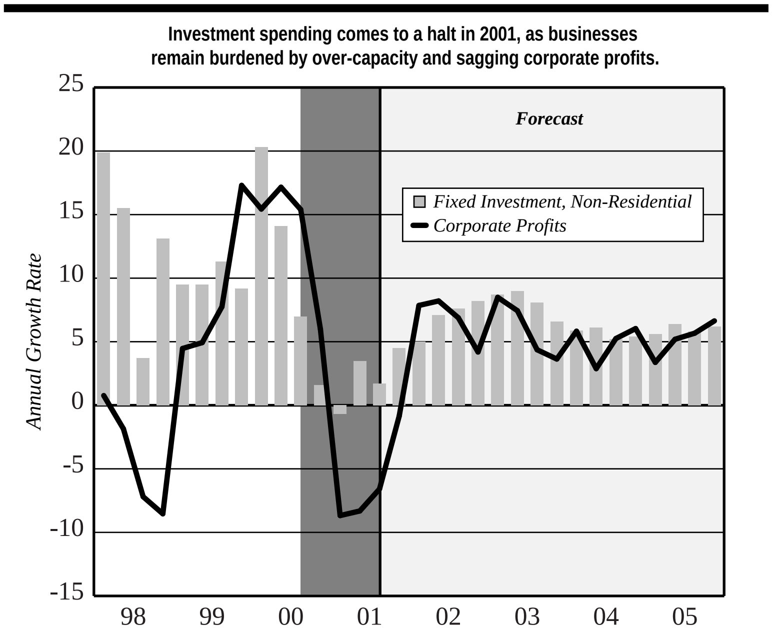
Domestic Product) that occurred in Q4 2000, down to just 1.0 percent growth, will continue in the first half of 2001, with GDP flat or barely up. Growth picks up, only moderately, to just above two percent, in the latter part of this year as the recent inventory correction runs its course and the effects of the Fed's rate cuts on the economy become more pronounced. Growth is expected to resume at a trend rate of about 3½ percent in 2002 and then continues to pick up slightly to 4 percent in 2003-2005.

This forecast of real GDP growth relies heavily on consumption spending to sustain the economy. Growth in consumption is expected to hold up at 3.1 percent in 2001, down significantly from the five percent rate of 1998-2000, but sufficient to avert a recession. As employment growth resumes in the outyears, consumption spending picks up, to about four percent in 2002-2005. The effect of the sharp drop in the stock market and the considerable amount of debt that consumers have accumulated over the last years (with consumer installment debt rising to over twenty percent of disposable income) will no doubt curb consumption spending. So far, however, low unemployment and inflation have continued to sustain consumer spending.

REAL GDP AND REAL CONSUMPTION SPENDING



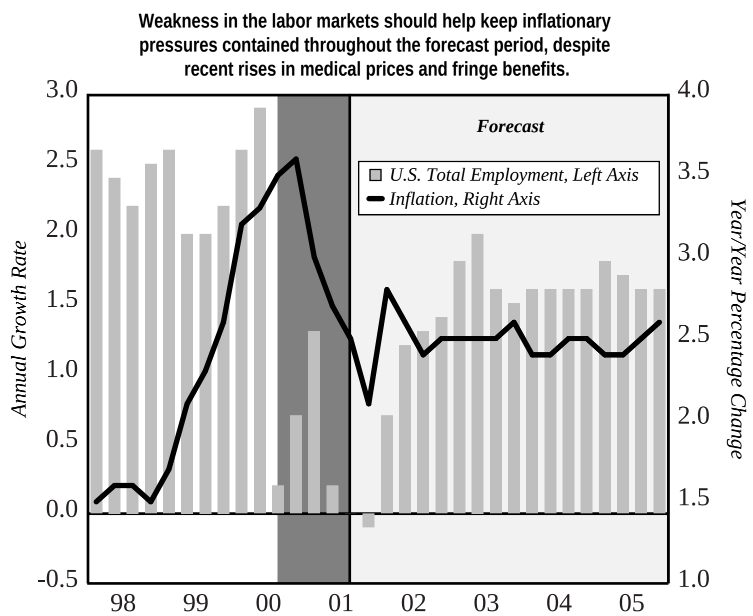
NON-RESIDENTIAL FIXED INVESTMENT AND CORPORATE PROFITS



On the business side, firms are expected to cut back on capital spending purchases after years of double-digit growth rates which in some instances have resulted in over-capacity. In fact, non-residential fixed investment has increased from 10 percent of overall GDP in 1993 to almost 15 percent in 2000. With corporate profits sagging (profits drop six percent in 2001), growth in non-residential fixed investment falls to only 3.2 percent in 2001. In 2002-2005 investment picks up gradually, with growth rising to around six percent on average per year. This is down considerably from the 12 percent rate in 1997-2000, but is in line with corporate profits which also average growth of about six percent per year in 2002-2005. The pace of the recovery for both profits and investment, however, will be conditional on the ability of firms to deplete excess inventories in the near-term and resume operating at sustainable capacity levels.

In terms of overall employment, total job growth in 2001 is expected to fall below 1 percent, down from the 2½ percent rate of the past five years. Losses in manufacturing, which is slated to contract about 3 percent, will be offset by gains in the service-producing sectors (which include, in addition to services, trade and FIRE) of the economy. Job growth picks up in 2002-2005, averaging 1½ percent per year. Although rising medical costs continue to raise some concern, the softness in the labor market, combined with productivity gains of about 2½ percent, should help keep inflationary pressures contained at about 2½ percent as well. Wages are anticipated to grow at a sturdy 4 percent rate on average per year in 2001-2005, which, combined with the forecast for employment growth, implies that personal income will rise by about 5½ percent on average per year.

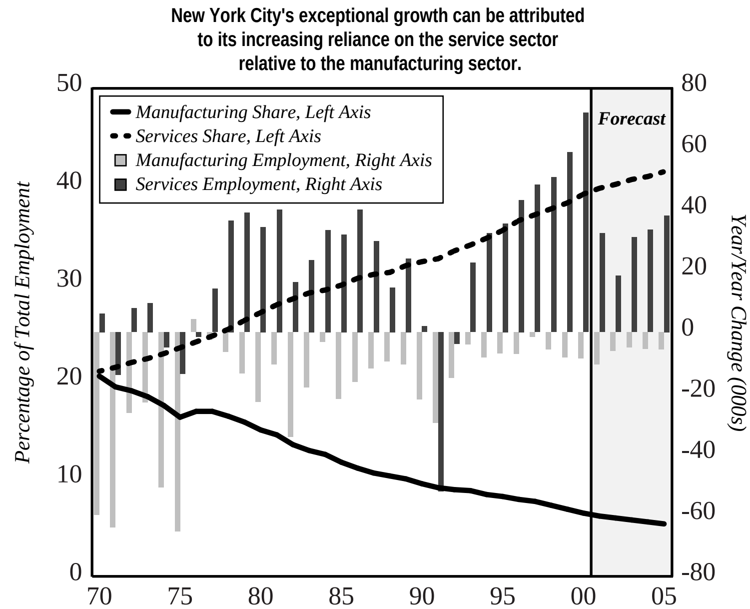
U.S. EMPLOYMENT AND INFLATION



At this delicate junction in the business cycle, the forecast is not without uncertainties and caution is certainly warranted. As with all turning points the economy's ultimate course is difficult to foresee. As mentioned, this forecast hinges on the belief, based on the most recent data, that consumption spending will keep the economy afloat. This could turn out to be a tenuous assumption if job losses were to mount or if the stock market were to plummet further (both of which cannot be ruled out), dealing a devastating blow to the economy.

The New York City Economy

EMPLOYMENT IN NEW YORK CITY



Even in the face of a national slowdown, a major correction in the equity markets and the loss of many of its dot-com jobs, New York City's diversified economy continued to grow in the early months of this year, albeit at a slower pace than 2000, when almost every major measure of economic activity -- employment, Wall Street, and the real estate market -- set new records.

In 2000, New York City registered its strongest year of employment growth in over 50 years of documented data. The private sector increased by an astounding 99,300 jobs in 2000, or 3.3 percent, exceeding growth in the U.S. by over 50 percent.[1] The private sector's strength was due in large part to the City's increasing reliance on the service sector relative to the manufacturing sector, a trend that is more pronounced in the City than at the national level.

The service sector, which accounted for 39 percent of City employment in 2000 compared to only 31 percent in the U.S., increased by 71,700 jobs in 2000. Within services, business services, which includes computer programming, advertising, and personnel supply firms, was once again the leader, contributing more than half of the new service sector jobs. The legal and social services sectors added 2,300 and 7,500 jobs, respectively, and after more than a decade of continual job increases, the medical services sector was essentially flat in 2000.

Manufacturing was down sharply, losing 8,600 jobs, or 3.4 percent, but because it accounts for 6.5 percent of total employment in the City as compared to 14 percent in the U.S., the impact on overall employment was mitigated. Of the jobs lost, 2,200 were in durable manufacturing, and more than 6,400 were in non-durable. Trade gained 20,600 jobs in 2000, with over 19,200 in retail trade. This marks the highest annual gain for the retail sector in over 40 years, and the sixth consecutive year of gains in excess of 10,000 jobs. Driven by a booming residential and commercial real estate market, the construction industry followed 1999’s record-high 11,700 new jobs with another healthy year in 2000, adding 7,900 jobs. The TCPU (transportation, communications, and public utilities) sector grew by 3,300 jobs. Within the FIRE (finance, insurance, and real estate) sector, which added 4,300 jobs, the securities industry added 11,500 jobs, while banking continued a decade of declines by shedding more than 6,500 jobs.

The forecast slowdown in employment growth for the U.S. in 2001-2002 and its sectoral impact will also affect the City, though the job slowdown will fall more heavily in 2002. The private sector is expected to add almost 33,000 jobs in 2001 and a mere 7,000 jobs in 2002. As in the nation, almost all job gains in 2001 will come from the service sector, which is expected to add 32,000 jobs, 16,000 of which come from

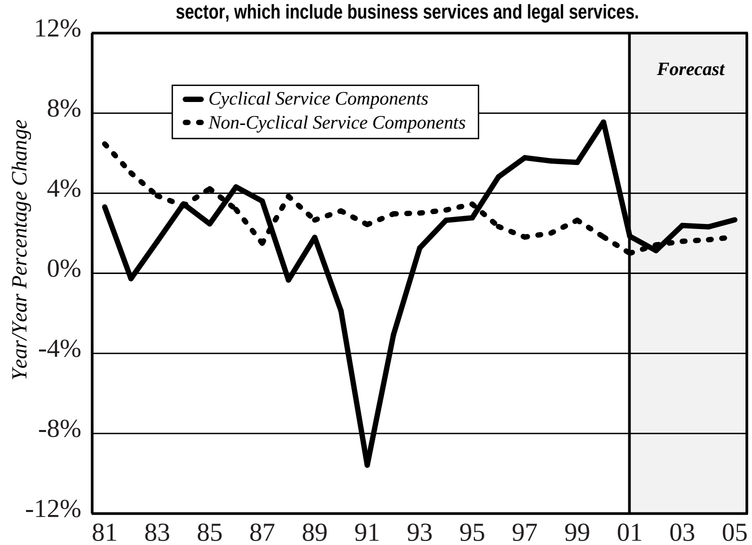
1. Employment data for 2000 were revised upward by the Department of Labor, from an originally reported gain of 77,300 private sector jobs to 99,300.

business services. This represents less than half of 2000's gains. Growth in services will slow even more in 2002 with only 18,000 new jobs added, as the cyclical components of the sector -- business services, legal services and consulting and management services -- weaken. The non-cyclical components, including medical services, social services and educational services, however, will continue to expand. With the elimination of many e-tailing companies, growth in trade will slow to 5,000 jobs in 2001 and contract by 2000 jobs in 2002. TCPU and construction are expected to have modest average gains in 2001 and 2002 of 3,000 and 5,000 jobs, respectively. The national manufacturing recession will continue to take its toll on manufacturing, with an average of 8,000 jobs eliminated per year in 2001 and 2002.

In addition to the deteriorating conditions in the national economy, employment in the City will also be impacted by a significant fall in Wall Street profits from $21 billion in 2000 to $5.5 billion in 2001. The FIRE sector is expected to lose 16,000 jobs from 2001 Q2 through 2002 Q3. Specifically within FIRE, securities employment is expected to fall by almost 10,000 over the same period. Given the high wage in the FIRE sector, a loss of this magnitude will have an adverse effect on the other sectors of the economy, with an additional 16,000 jobs lost in these other sectors.

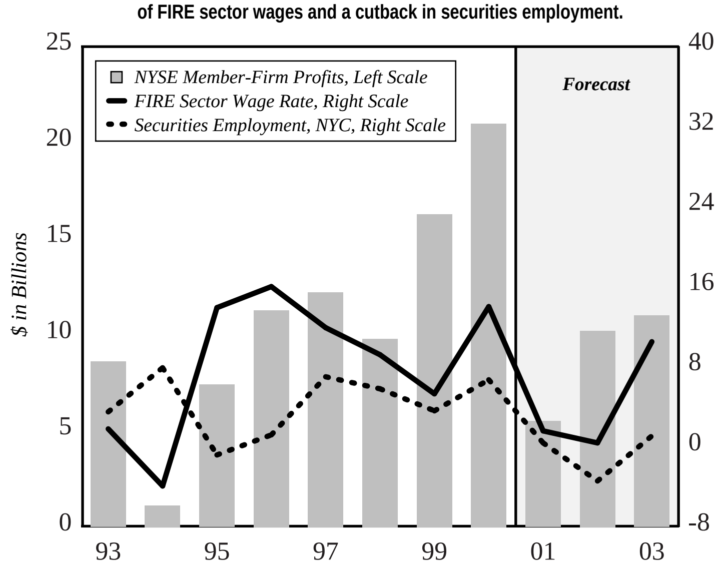
SERVICE SECTOR: CYCLICAL VS. NON-CYCLICAL

Employment in the service sector is expected to slow in 2001 and 2002 after growing by 4.5 percent per year for the past 3 years. The drop will come from the cyclical components of the service sector, which include business services and legal services.



PROFITS, SECURITIES EMPLOYMENT AND FIRE WAGES

The slowdown in the U.S., coupled with a stock market correction, leads to a sharp decline in NYSE member-firm profits in 2001, a decline of FIRE sector wages and a cutback in securities employment.

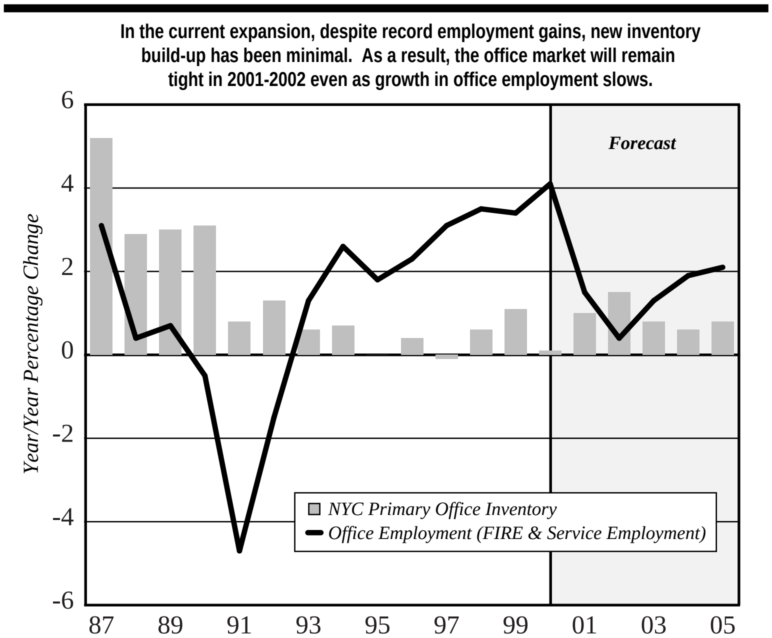


In 2003-2005 job growth picks up, though at a moderate rate. The service sector increases by an average of 34,000 jobs per year. Trade is forecast to grow just over 5,000 jobs per year while TCPU and construction add 2,000 and 5,000 jobs per year, respectively. By 2004, FIRE is expected to resume growth of about 5,000 jobs per year. The losses in manufacturing will subside somewhat to about 5,000 jobs lost per year, leaving only a select base of manufacturing jobs in the the City. In summary, private sector employment grows approximately 42,000 jobs per year in 2003-2005, with government employment practically unchanged.

The impact on the City's economy of the slowdown in employment in 2001-2002 will be accentuated by a decline in wages in the lucrative FIRE sector. Revenues on Wall Street are forecast to decline in 2001 as the battered stock market has signalled an end to the lucrative dot-com IPO market and trading commissions, which have so far held up in the first months of 2001, are also expected to slow. With New York Stock Exchange member-firm profits expected to fall from a record $21 billion in 2000 to $5.5 billion in 2001, normal year-end bonus payouts are forecast to drop more than 50 percent. Eventually, however, job cuts and lower interest rates should help firms reduce costs and as a result, profits should begin to rebound in 2002, rising to a respectable $10 billion, and holding essentially steady in the outyears.

Since the FIRE sector accounts for over 30 percent of the earnings in the City (despite accounting for only 13 percent of the employment), the drop in bonuses and the associated spending will have a ripple effect on the other sectors as well. Overall wage income, which grew by 11 percent in 2000, will slow to 2½ percent growth in 2001-2002. The anticipated recovery in Wall Street profits in 2002 will boost year-end bonuses, pushing wage income growth up to almost 5½ percent per year in 2003-2005. Outside of the FIRE sector, private sector wage income which grew by 10 percent in 2000, will increase by 5½ percent per year through 2005. With inflation expected to remain tame in the 2½-3 percent range, real wage rates grow at 1-1½ percent.

INVENTORY AND OFFICE EMPLOYMENT



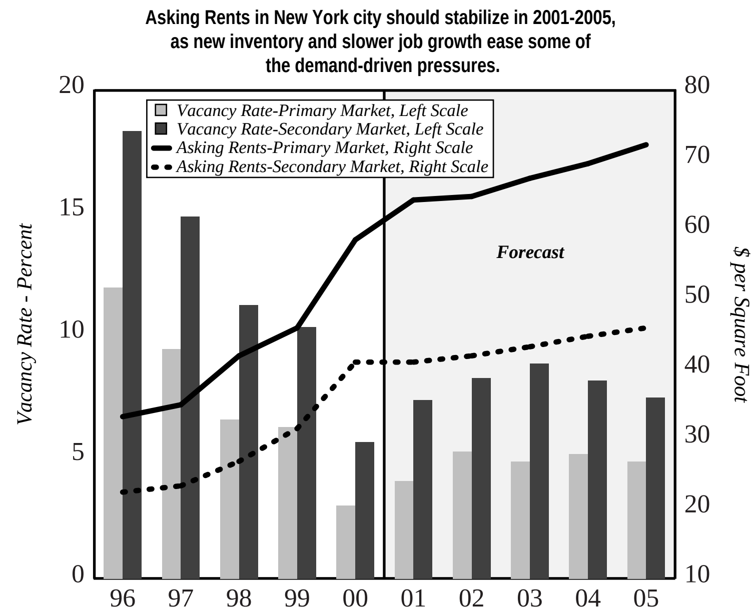
Note: 1995 data are adjusted for a reclassification of office buildings.

While 2000 was quite spectacular in nearly all aspects of the City's economy, few benefited as much as Manhattan's commercial building owners. As overall vacancy rates fell below 4 percent in the City, landlords in almost every neighborhood were able to raise asking rents nearly 30 percent, an increase of roughly $13 per square foot in the primary market to over $60 per square foot, and a $9 per square foot increase to $40 per square foot in the secondary market[2]. Although the impressive employment growth of the past three years is expected to subside, the City's office market is expected to hold up well, unlike the downturn of the early 1990s. First, the forecast slowdown in employment is minor compared to the massive losses the City suffered in 1990-1993. Second, in contrast to the 1980s when over 40 million square feet of office inventory was added in the City, creating a severe over-supply, developers have been very cautious about building in this latest boom. In fact, since 1995 only 3 million

2. *Office market data are compiled using statistics published by Cushman & Wakefield.*

square feet have been added and there are only around 8 million square feet of pre-leased inventory in the pipeline, with an expected delivery by 2003.

VACANCY RATES AND ASKING RENTS IN THE PRIMARY AND SECONDARY OFFICE MARKET



Vacancy rates in the primary market, consequently, are expected to rise only slightly in 2001 and 2002 before stabilizing in 2003-2005 at around 5 percent. Asking rents also level off, with some landlords in the tonier buildings perhaps offering minor concessions like free rent for some months or construction cost incentives as demand tapers off slightly. In the secondary market, because of a higher concentration of the high-tech companies which have already begun to give back a substantial amount of space, vacancy rates will climb to over 7 percent in 2001 and over 8 percent by 2002. Rents are expected to fall back slightly in 2001 and then resume average growth of 3 percent per year in 2002-2005. The run-up in the secondary market, where in some cases rents for new spaces in up-and-coming office markets like Chelsea and Hudson Square approached primary asking rents, has ended.

Despite an overall slowdown in the national economy from an incredible run in 1999-2000, the City is expected to continue to grow, yet at a moderate pace. The lower reliance on the manufacturing sector, a diverse service and financial sector and stable real estate market should enable the City to weather the national slowdown.

Executive Budget 2002
Forecasts of Selected United States and New York City Economic Indicators
Calendar Years 1999-2005

	1999	2000	2001	2002	2003	2004	2005	1970-2000*
NATIONAL ECONOMY								
Real GDP								
Billions of 1996 Dollars	8,876	9,320	9,480	9,783	10,169	10,575	10,973	
Percent Change	4.2	5.0	1.7	3.2	3.9	4.0	3.8	3.2
Non-Agricultural Employment								
Millions of Jobs	128.8	131.4	132.3	133.2	135.3	137.5	139.7	
Change from Previous Year	2.9	2.6	0.9	0.8	2.1	2.1	2.2	
Percent Change	2.3	2.1	0.7	0.6	1.6	1.6	1.6	2.1
Consumer Price Index								
All Urban (1982-84=100)	166.7	172.3	176.8	181.3	185.8	190.4	195.1	
Percent Change	2.2	3.4	2.6	2.6	2.5	2.4	2.5	5.1
Wage Rate								
Dollars Per Year	34,713	36,296	37,971	39,592	41,310	42,987	44,696	
Percent Change	4.2	4.6	4.6	4.3	4.3	4.1	4.0	5.3
Personal Income								
Billions of Dollars	7,790	8,283	8,674	9,102	9,639	10,181	10,759	
Percent Change	5.4	6.3	4.7	4.9	5.9	5.6	5.7	7.9
Before-tax Corporate Profits								
Billions of Dollars	823	926	869	927	983	1,032	1,085	
Percent Change	8.5	12.5	-6.1	6.7	5.9	5.0	5.2	8.5
Unemployment Rate								
Percent	4.2	4.0	4.9	5.3	5.1	5.0	4.8	6.3 (avg)
10-Year Treasury Bond Rate								
Percent	5.6	6.0	4.9	5.2	5.6	5.7	5.8	8.2 (avg)
Federal Funds Rate								
Percent	5.0	6.2	4.7	4.6	5.3	5.5	5.5	7.4 (avg)
NEW YORK CITY ECONOMY								
Real Gross City Product**								
Billions of 1996 Dollars	407	448	453	449	475	496	514	
Percent Change	4.1	10.1	1.0	-0.8	5.7	4.4	3.8	3.0
Non-Agricultural Employment								
Thousands of Jobs	3,621	3,721	3,753	3,760	3,792	3,839	3,885	
Change from Previous Year	92.8	99.8	32.0	7.4	31.6	47.0	46.3	
Percent Change	2.6	2.8	0.9	0.2	0.8	1.2	1.2	-0.0
Consumer Price Index								
All Urban NY-NJ Area (1982-84=100)	177.0	182.5	186.9	192.1	197.1	201.1	207.6	
Percent Change	1.9	3.1	2.4	2.8	2.6	2.5	2.8	5.1
Wage Rate								
Dollars Per Year	54,083	58,027	59,723	61,141	64,506	67,397	70,010	
Percent Change	3.7	7.3	2.9	2.4	5.5	4.5	3.9	6.4
Personal Income								
Billions of Dollars	279	303	311	320	338	356	373	
Percent Change	7.5	8.5	2.9	2.7	5.9	5.3	4.8	6.7
NEW YORK CITY REAL ESTATE MARKET								
Manhattan Primary Office Market								
Asking Rental Rate***								
Dollars Per Sq Ft	45.92	58.52	64.19	64.73	67.19	69.32	72.01	
Percent Change	9.7	27.4	9.7	0.8	3.8	3.2	3.9	N.A
Vacancy Rate***								
Percent	6.2	3.0	4.0	5.2	4.9	5.1	4.9	N.A

* *Compound annual growth rates for 1970-2000. Compound growth rate for Real Gross City Product covers the period 1978-99; for NYC wage rate, 1975-1999; for NYC personal income, 1970-1998.*
** *GCP estimated by OMB.*
*** *Office market data are based on statistics published by Cushman & Wakefield.*

TAX REVENUE

Overview

Tax revenue is forecast to increase 4.2 percent in 2001, but declines in 2002 by 2.9 percent.

The robust national recovery and booming financial markets that have marked the latter stages of this national expansion came to an end in calendar year 2001. Nationally, real GDP growth of 5.6 percent in Q1 slipped to 1.0 percent by Q4. Securities industry profits hit a record of $21 billion in 2000, but much of that was on the strength of an unprecedented $8 billion profit quarter seen as the year began; subsequently, profits slipped back to $3 billion by the last quarter of the year. Locally, the New York City economy also began the year on a strong note with employment growth averaging 36,000 jobs a quarter for the first half of the year, but falling to 7,500 jobs a quarter during the second half of the year. A careful analysis of the tax collection information to date suggests that this economic weakening will soon manifest itself in the City's tax collections, although the record bonuses on Wall Street have, to a great extent, obscured the evidence. In 2001, the personal income tax is forecast to grow 11.1 percent (common rate and base), due to a strong bonus payout, but business tax collections (general corporation tax, unincorporated business tax and bank tax) are expected to rise by only $8 million, reflecting the current weakness in business conditions and the liquidations of overpayments made last year when business tax collections grew 19.0 percent (common rate and base). Sales tax is growing strongly at 7.4 percent (common rate and base) in the City, but outside the City collections have already begun to weaken. Finally, mortgage and transfer tax collections, while holding up reasonably well so far, are still off from peak levels achieved last year, dropping 9.2 percent. In all, non-property taxes are forecast to increase 2.6 percent. Adjusting for the annualization of the clothing exemption, the mid-year reduction in the personal income tax surcharge, the increase to the STAR program personal income tax reduction and an increase in Transitional Finance Authority (TFA) retention, results in a common rate and base growth in non-property taxes of 6.3 percent.

2001 and 2002 Tax Revenue Forecast
($ Millions)

Tax	2001 Forecast	2002 Executive Budget	Increase/(Decrease) From 2001 to 2002 Amount	Growth
Real Property	$8,136	$8,643	$507	6.2%
Commercial Rent	355	364	9	2.5
Mortgage Recording	366	325	(41)	(11.2)
Real Property Transfer	439	404	(35)	(8.0)
Personal Income†	5,398	4,766	(632)	(11.7)
General Corporation	1,806	1,490	(316)	(17.5)
Banking Corporation	357	359	2	0.6
Unincorporated Business	776	778	2	0.3
Sales and Use	3,651	3,710	59	1.6
Utility	260	258	(2)	(0.8)
All Other	749	761	12	1.6
Subtotal	$22,293	$21,858	($435)	(2.0)
STAR Aid	504	670	166	n.a.
Tax Audit Revenue	399	487	88	22.1
Tax Reduction Program	0	(494)	(494)	n.a.
Total	**$23,196**	**$22,521**	**($675)**	**(2.9%)**

† *Excludes revenue for TFA debt service of $427.1 million in 2001 and $502.6 million in 2002.*

* *The April 4, 2001 report, "Tax Revenue Forecasting Documentation" discusses the tax forecasting techniques used in this Executive Budget.*

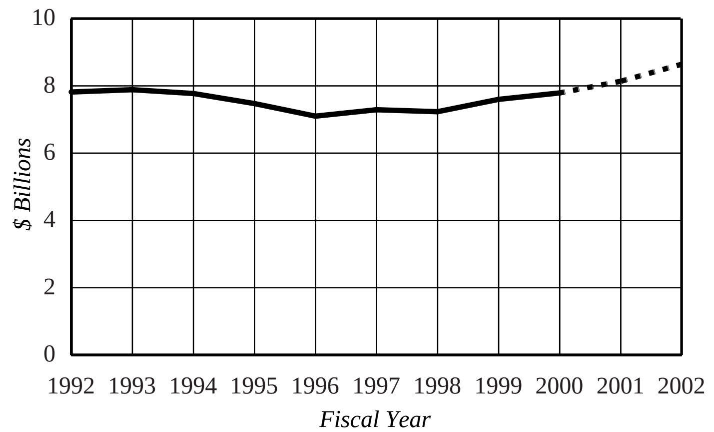
Property tax collections are forecast to grow 4.4 percent in 2001 after an increase of 2.5 percent in 2000. The levy in 2001 is up 4.2 percent, compared to 3.4 percent growth last year and accounts for most of the increase in property tax collections seen this year, or $356 million. Also boosting collections in 2001 is an increase in lien sale proceeds of $122 million. Part of these increases were offset by increases in tax expenditures, particularly the STAR program which increased $30 million, and an increase in refunds of $26 million.

The non-property taxes are forecast to decline 6.7 percent in 2002 due to the economic weakness forecast for the year, an increase in TFA retention of $75 million and the annualization of tax reductions initiated in prior years. The full-year impact of the January 2001 reduction in the personal income tax surcharge reduces revenue by $91 million, while the annualization of the final phase of the STAR program reduces personal income tax revenue by $145 million. On a common rate and base, the non-property taxes are forecast to drop 4.3 percent. The forecast drop in securities industry profits from $21 billion in calendar year 2000 to $5.5 billion in 2001, together with a 6.1 percent drop in corporate profits nationally, reduces business tax revenue by $312 million from the 2001 level. A drop of 1.7 percent in wage income for fiscal year 2002, a result of the reduction in Wall Street bonuses accompanying the severe drop in profits, reduces personal income tax withholding by $84 million, while a 28 percent decline in capital gains realizations, based on the recent declines in stock values, reduces revenue by $280 million. Finally, with reductions in securities industry profits leading to cutbacks in securities bonus payouts, sales tax growth drops to a below trend rate of 1.9 percent (common rate and base), while the real property transfer tax and mortgage recording taxes decline 8.0 percent and 11.2 percent, respectively. Despite the fall-off in non-property tax growth, real property tax growth, based on one of the strongest assessment rolls in years, rises by 6.2 percent, reducing the drop in tax revenue (before audits, STAR aid and the tax reduction program) to 2.0 percent.

REAL PROPERTY TAX

The real property tax is projected to account for 38.3 percent of tax revenue in 2002, or $8,643 million.

REAL PROPERTY TAX 1992-2002



Tax Base and Administration: In December 1981, Chapter 1057 of the Laws of 1981, commonly referred to as S.7000A, amended Article 18 of the Real Property Tax Law, significantly restructuring the tax beginning in 1983. Prior to that time, a single tax rate was applied to all taxable real property, regardless of type or use. With the enactment of S.7000A, real property was classified into one of four classes: Class 1, consisting of one-, two- and three-family residential property and small condominiums; Class 2, consisting of all other residential property including multi-family cooperatives and condominiums; Class 3, consisting of utility real property; and Class 4, consisting of all other real property, such as office buildings, factories, stores, lofts and vacant land.

All properties in the City are reassessed each year between June and January. In mid-January a tentative assessment roll is produced and taxpayers are notified of their new assessment level. Taxpayers may protest this tentative assessment level by applying to the Tax Commission for a hearing. Owners of Class 2, 3 and 4 properties must file their applications before March 1; Class 1 property owners must file by March 15. The assessment may be protested because the underlying property is misclassified, or because it is unlawful, unequal or excessive. Adjustments resulting from this process or from Department of Finance (DOF) changes by notice are integrated into the final assessment roll, which is normally released in late May.

Properties are not assessed at full market value, but at some proportion of market value. The Class 1 assessment percentage has varied over time. It was 18 percent of market value in 1983, but has dropped over time to eight percent currently. The Class 2 and Class 4 assessment percentage was reduced to 45 percent from 60 percent in 1985. Class 3 properties are assessed either by DOF or by the State of New York Office of Real Property Services (ORPS). Prior to 1994, locally assessed property (plant and equipment, known as real estate of utility corporations, or REUC) was assessed at 50 percent. Special franchise property*, assessed by ORPS, used the State equalization ratio, which fell to 22 percent in 1993. In 1994, a uniform 45 percent assessment ratio was adopted for all types of Class 3 property.

The law also established restrictions on annual assessment increases. Assessments of Class 1 properties may not increase by more than six percent annually and 20 percent over five years. Class 2 assessment increases for rental buildings of less than 11 units, and since 1994, cooperatives and condominiums of less than 11 units as well, are limited to eight percent a year and 30 percent over five years. For all other Class 2 and Class 4 properties there are no annual restrictions on assessment increases. Instead, market value changes are reflected in changes to <u>actual</u> assessments and are phased in over five years for tax purposes. Both increases and decreases are phased in. The interim value during the phase-in period is represented by the <u>transitional</u> assessment. The <u>billable</u> or taxable assessment amount in any given year is the lower of the actual or transitional assessment. Increases that are the result of new construction, demolition, alterations or change in taxable status (physical changes) are taxable immediately and are not subject to the assessed value caps or the phase-in requirement. There are no statutory limitations on annual assessed value changes in Class 3.

* *The right to locate, maintain and operate property in the public domain; special franchises cover not only tangible property like pipelines, cables and other equipment on, below, or over public property, but also the intangible right to use the public right-of-way.*

Legislative History: Since 1985, a number of administrative and legislative changes have been made to the taxable base and to the assessment practices. Legislation enacted in 1985 changed the definition of telecommunications utilities' (Class 3) taxable property to include central office equipment of competitors of New York Telephone (now part of Verizon) and AT&T which had previously been exempt or taxed at lower effective rates. Telephones and other station equipment were also removed from the taxable base to reflect the increasing volume of privately owned equipment. The 1985 legislative amendments expired on December 31, 1986 and were replaced in July 1987 by State legislation which implemented a four-year phase-out of taxation on central office and telecommunication equipment at 25 percent per year, beginning in 1990.

Legislation in 1986 reclassified condominiums of three stories or less and built as condominiums from Class 2 to Class 1.

In 1987, the State Court of Appeals unanimously upheld Local Law No. 63 of 1986, allowing the City to require that owners of income-producing properties with actual assessed value in excess of $40,000 file annual income and expense statements. Most Class 4 properties and Class 2 properties with more than 10 residential units (or six residential units and one retail store) were affected. Affected taxpayers (except those who purchase property on or after August 1) must file annual income and expense statements with DOF by September 1. Failure to file means denial of a Tax Commission hearing and possible penalty assessment. Statements need not be filed for condominium or cooperative properties which are completely residential, or for properties which are wholly tax-exempt or completely owner occupied and operated. Co-ops and condos with professional or commercial space must file income and expense statements for that space. Also in 1987, assessment increases for residential rental properties with seven to ten units were restricted to eight percent annually and 30 percent over five years.

Legislative changes enacted in 1989 reclassified certain types of properties beginning with the 1991 assessment roll. Vacant land in a residential zone or adjacent to residential property with the same owner was transferred from Class 4 to Class 1 (except in Manhattan below 110th Street). Class 3 land and buildings were transferred to Class 4, leaving Class 3 only with plant and equipment. Class 2 condominiums with no more than three residential units, provided such property had previously been classified in Class 1, were transferred from Class 2 back to Class 1. As of the 1992 final roll, mixed-use residential/commercial buildings (with "Mom and Pop" stores), formerly in Class 4, were assessed as residential if more than 50 percent of the building was residential. Such properties were shifted either into Class 1 (if not more than three units) or Class 2 (if more than three units). One-family homes on cooperatively-owned land ("bungalows") were also reclassified from Class 2 to Class 1. Almost 1,500 summer cottages in Queens and the Bronx were affected by this shift.

Beginning with the fiscal year 1997 roll, telephone company central office equipment and station equipment (except public telephones) installed in public rights-of-way were exempt from real property taxation. Also starting in 1997, owners of cooperative and condominium properties began to receive a reduction in their real estate tax burden. In the case of properties where the average assessment is $15,000 or less per unit, a tax abatement of 2.0 percent, 16.0 percent and 25.0 percent was granted in 1997, 1998 and 1999, respectively. For properties where the valuation is greater than $15,000 per unit on average, the tax abatement in 1997, 1998 and 1999 was 1.375 percent, 10.75 percent and 17.5 percent, respectively.

The State enacted School Tax Relief (STAR) program which began in the 1998-99 school year (fiscal year 1999) is designed to provide property tax relief to one-, two- and three-family homes, and to co-ops and condominiums where the property serves as the primary residence of the owner. An enhanced exemption is available for senior citizens with incomes less than $60,000. During the first year, the exemption was limited to properties owned by eligible senior citizens. The exemption is based on a fixed market value exemption adjusted for differences between local and statewide median home prices, levels of assessment and the portion of the real estate tax that represents the school tax (for New York City this portion is fixed at 50 percent).

Class Shares and City Discretion: The City adopts property tax rates annually for each of the four classes of property. Under the provisions of the Real Property Tax Law, the total levy is apportioned to each of the four classes by the "class shares" (the portion of the total levy allocated to each class). Once the class levies are set, the City Council sets the tax rate by dividing the levy for each class by the billable assessed value for the class.

As originally enacted, S.7000A required that the class shares for the 1981 roll be certified as base proportions. These base proportions were to be modified periodically by ORPS for relative changes in market

Discretionary Adjustments [1] and Class Shares

	Class 1		Class 2		Class 3		Class 4	
	Discretionary Shift (%)	Class Share	Discretionary Shift (%)	Class Share	Discretionary Shift (%)	Class Share	Discretionary Shift (%)	Class Share
1983	(3.88)	0.141	(2.85)	0.263	4.80	0.180	1.25	0.416
1984	(0.58)	0.139	0.00	0.260	0.00	0.180	0.53	0.421
1985	(3.22)	0.134	(0.37)	0.259	(1.28)	0.178	1.83	0.429
1986	(9.15)	0.129	(0.68)	0.255	(2.02)	0.182	1.96	0.434
1987	(4.95)	0.125	2.69	0.254	(4.60)	0.166	1.76	0.455
1988	(2.81)	0.122	0.60	0.255	(4.51)	0.157	2.07	0.466
1989	(4.36)	0.116	0.58	0.256	(4.95)	0.150	2.49	0.478
1990	(5.00)	0.111	0.23	0.257	(4.49)	0.139	2.44	0.493
1991	(5.00)	0.109	(2.18)	0.258	(4.50)	0.103	3.19	0.530
City Council's discretion to adjust class shares no longer applicable beginning in 1992.								
1992	—	0.115	—	0.280	—	0.078	—	0.527
1993 [2]	—	0.113	—	0.290	—	0.066	—	0.532
1994	—	0.116	—	0.308	—	0.058	—	0.518
1995 [3]	—	0.119	—	0.316	—	0.059	—	0.505
1996 [3]	—	0.122	—	0.326	—	0.062	—	0.490
1997 [3]	—	0.125	—	0.336	—	0.064	—	0.475
1998 [3]	___	0.127	___	0.339	___	0.069	___	0.465
1999 [3]	___	0.130	___	0.332	___	0.071	___	0.467
2000 [3]	___	0.133	___	0.341	___	0.074	___	0.452
2001 [3]		0.135	___	0.345	___	0.076	___	0.444

(1) From 1983-1991, City Council had authority to reallocate the tax levy among the classes, as long as the resulting share was within five percent of the prior year's share (before taking into account physical change).

(2) In 1993, State law capped the maximum increase in current base proportion over 1992's share to two percent instead of five percent. Class 2 exceeded the two percent ceiling and the excess was distributed to Class 1 and Class 3.

(3) State law capped the maximum increase in current base proportion over the prior year's shares at 2.75 percent for 1995 and 1996 and 2.50 percent for 1997, 1998, 1999 and 2000 instead of five percent. For 1995 - 1997 Classes 1, 2 and 3 exceeded the revised cap. In 1998, 1999 and 2000, Classes 1 and 3 exceeded the revised cap. All of the excess was distributed to Class 4 for 1995-2000. In 2001, the State law capped the maximum increase in current base proportion over prior year's shares at 2.0 percent. Class 1 and 3 exceeded the cap. All of the excess was distributed to Class 4.

values among the four classes as well as for physical change. While the adjustment for physical change took place each year, the first market value adjustment was not scheduled until 1987. At that time legislation postponed the implementation of market value changes until calendar year 1989 (for use in fiscal year 1990). This legislation also substituted the 1984 class shares for 1981 base proportions in calculating market value changes. Legislation passed in the spring of 1989 amended S.7000A, changing the mechanics of the market value adjustment and further postponing it until 1992 in order to prevent a significant shift in tax burden towards Class 1 taxpayers in fiscal year 1990. From 1983 to 1991, the City apportioned the tax levy by using the 1981 proportions, as adjusted annually for physical change. In addition, during this period the City Council had discretion in setting class shares as long as each class's share was within five percent of the previous year's share.

Since 1992, class shares have been adjusted annually for relative changes in market value (subject to a "cap" of five percent over the prior year's share) in addition to physical change. The resulting shares are called adjusted base proportions. In 1993 and 1995-2001, State legislation lowered the five percent cap.

Components of the Tax Levy: The 2000 real property tax is the primary source of revenue for the General Debt Service Fund. Under the State Constitution, the City's ability to levy a real property tax for the payment of principal and interest on the City's long-term debt is unlimited. There is a limit, however, on the amount of real property tax that can be raised for operating purposes. This operating limit is equal to 2.5 percent of the average full value of taxable real estate for the current and prior four years, less payments for City short-term debt and business improvement district levies. In addition, total debt outstanding including business improvement district debt may not exceed 10 percent of the five-year average full value. ORPS estimates the full value as of January 1 for each of the five years of the average. The 1999 market value survey, which reflected the second year increase in real estate market values since 1989, was incorporated into the calculation of 2001's operating limit.

Real Property Tax Operating Limit

Fiscal Year	Operating Limit ($ Millions)	Unused Margin ($ Millions)	Unused Margin (Percent)
1983	$2,718.1	$15.1	0.6%
1984	3,181.6	209.7	6.6
1985	3,589.1	407.6	11.4
1986	4,010.5	361.7	9.0
1987	4,432.0	476.0	10.7
1988	4,969.5	537.2	10.8
1989	6,808.5	1,812.2	26.6
1990	7,789.1	2,387.8	30.7
1991	9,109.3	2,892.9	31.8
1992	10,631.8	4,369.0	41.1
1993	11,945.0	5,475.1	45.8
1994	13,853.8	7,932.9	57.3
1995	13,380.2	7,832.6	58.5
1996	8,633.4	3,451.2	40.0
1997	7,857.3	2,924.0	37.2
1998	7,599.7	1,665.5	21.9
1999	7,170.3	862.6	12.0
2000	7,268.7	45.5	0.6
2001	7,573.1	140.4	1.9

The levy is also divided into a levy for education and for 'other' or non-education operating purposes. Veterans receive a partial exemption on their assessed value for the purpose of calculating the tax they pay for 'other' operating purposes. They are, however, required to pay their full share of the levy for education purposes.

Tax Rates: From 1983 through 1992, with the tax levy increasing at a rate in excess of the growth in billable assessed value, the average tax rate rose from $9.120 to $10.591. In 1992, there was a significant shift in class shares as a result of the introduction of the market value adjustment mechanism. Class 1, 2 and 4's tax rates increased significantly while Class 3's rate declined, reflecting a sizeable drop in its share. Although there was a commitment to freeze the average tax rate at $10.591 per $100 of assessed value after 1992, class tax rates continued to change due to the market value adjustment. Class 3's rate declined considerably in 1994, mainly as a result of a change in the assessment percentage which caused the class's billable assessed value to increase dramatically while the Class 3 share decreased proportionally less. The increase in billable assessed value which did not reflect market value change did not yield additional tax levy, and as a result the "freeze" tax rate of $10.591 fell to $10.366. In 1998, the 2.50 percent cap further limited the effect of the market value adjustment on the share of the levy attributable to Class 1 and 3. Consequently, Class 1's tax rate, which would have exceeded $11 per $100 of assessed value under a five percent cap, increased only to $10.849. Class 3's tax rate increased to $8.282. The tax rates for Class 2 and 4 fell slightly, to $11.046 and $10.164, respectively. In 1999, the 2.50 percent cap limited the Class 1 rate increase to only $0.11. The Class 2 rate declined $0.31 and was unaffected by the 2.5 percent cap. Class 4 ended up with a $0.07 rate increase as a result of shifted tax burden from Class 1 and Class 3. In 2000, the lower cap limited the rate increases for Class 1 and 3 to $0.21 and $0.60, respectively. The Class 2 tax rate was unaffected by the cap and rose by $0.11. Class 4's potential rate drop was restricted under the lower cap which limited the decrease to $0.25. In 2001, the lower cap limited the rate increases to Class 1 and 3 to $0.09 and $1.14, respectively. The Class 2 tax rate was unaffected by the cap and dropped by $0.004 while Class 4's rate changes were restricted under the lower cap, and the class saw a rate decrease of $0.22.

Class Tax Rates*

	Class 1	Class 2	Class 3	Class 4	Average
1983..............	$8.950	$8.950	$9.109	$9.294	$9.120
1984..............	9.100	9.057	9.237	9.323	9.206
1985..............	9.100	9.150	9.051	9.460	9.255
1986..............	9.100	9.150	9.051	9.460	9.256
1987..............	9.330	9.150	9.172	9.460	9.315
1988..............	9.330	9.150	9.942	9.460	9.434
1989..............	9.452	9.272	11.289	9.582	9.703
1990..............	9.452	9.229	12.903	9.539	9.797
1991**...........	9.840	9.154	15.079	9.924	10.135
1992.............	10.888	9.885	13.083	10.631	10.591
1993.............	10.888	9.910	12.794	10.698	10.591
1994.............	10.900	10.369	7.404	10.724	10.366
1995.............	10.694	10.552	7.702	10.608	10.366
1996.............	10.725	10.807	7.922	10.402	10.366
1997.............	10.785	11.056	7.840	10.252	10.366
1998.............	10.849	11.046	8.282	10.164	10.366
1999.............	10.961	10.739	8.800	10.236	10.366
2000.............	11.167	10.851	9.398	9.989	10.366
2001.............	11.255	10.847	10.540	9.768	10.366

* *Tax Rate per $100 of assessed value.*

** *Does not include funding for the "Safe Streets, Safe City" program, a mid-year tax increase of 8¢ for Class 1, 7.4¢ for Class 2, 12.1¢ for Class 3 and 8¢ for Class 4.*

Real Property Tax Collections and Delinquency
($ Millions)

Fiscal Year	Tax Levy [1]	Tax Collection on Current Year Levy [2]	Tax Collection as a Percentage of Tax Levy	Prior Year (Delinquent Tax) Collections	Refunds	Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of end of Fiscal Year [3]	Delinquency as a Percentage of Receivable/ Tax Levy	Lien Sale [4]
1989	$6,233.0	$5,913.4	94.9%	$108.4	($78.9)	($166.7)	($152.7)	2.45%	—
1990	6,872.4	6,507.1	94.7	109.6	(74.1)	(135.0)	(230.2)	3.35	—
1991[5]	7,681.3	7,199.2	93.7	149.7	(62.7)	(166.4)	(315.7)	4.11	—
1992	8,318.8	7,748.4	93.1	193.7	(124.3)	(200.2)	(370.2)	4.45	—
1993	8,392.5	7,766.1	92.5	227.7	(107.2)	(215.2)	(411.2)	4.90	—
1994	8,113.2	7,520.3	92.7	223.1	(199.1)	(189.5)	(403.4)	4.97	$200.6
1995	7,889.8	7,377.4	93.5	210.8	(164.2)	(130.8)	(381.6)	4.84	223.1
1996	7,871.4	7,306.9	92.8	240.6	(399.7)	(275.5)	(289.1)	3.67	169.1
1997	7,835.1	7,371.3	94.1	146.8	(271.4)	(179.4)	(284.4)	3.63	43.9
1998	7,890.4	7,414.2	94.0	148.2	(345.1)	(199.1)	(277.1)	3.51	21.7
1999	8,099.3	7,519.0	92.8	127.7	(167.2)	(304.1)	(276.2)	3.41	119.1
2000	8,374.3	7,768.1	92.8	149.2	(189.4)	(345.7)	(260.5)	3.11	62.2
2001[6]	8,730.3	8,030.0	92.0	137.0	(215.0)	(429.7)	(270.6)	3.10	184.3

(1) As approved by the City Council.
(2) Quarterly collections on current year levy. Amounts for fiscal year 1994, 1995 and 1996 are adjusted to eliminate the effects of the 1994 and 1995 sales of delinquent tax receivables.
(3) These figures include taxes due on certain publicly-owned property and exclude delinquency on shelter rent and exempt property restored in 1995 and 1996.
(4) Net of defective lien reserve and repurchase of prior year defective liens.
(5) Does not include supplemental levy of $61.7 million raised in mid-year for the "Safe Streets, Safe City" program.
(6) Forecast.

Reserve for Uncollectible Taxes: The property tax levy, approved by the City Council each year, includes a reserve for uncollectible taxes. Uncollectible taxes fall into three general categories: delinquency, cancellations of tax liability due to reductions in assessed value and tax expenditures for a number of housing and economic development programs. The improvement in delinquency rates since 1996 is partly due to the sale of real property tax liens, which prompted delinquent taxpayers to settle their arrears. Current and prior year tax liens of $206 million in 1996, $100 million in 1997, $79 million in 1998, $145 million in 1999 and $232 million in 2000 have been sold. Remissions in assessed value, granted by the City Tax Commission during the summer hearings after the final assessment roll is produced, are reflected in the reserve for cancellations. These actions represent most of the value of cancellations, which also include reductions resulting from court decisions and Law Department settlements.

Each year the City forgoes revenue that it could collect under the basic tax structure in order to protect certain taxpayers or to create an economic incentive for taxpayers to take certain actions that would be beneficial to the City as a whole. The foregone revenue is commonly referred to as a tax expenditure. Generally, tax expenditures are considered to be a targeted preference to a specific group or activity, a clear exemption to the tax law and specific to New York City.

Real property tax exemptions and abatements, which totaled $1,636 million in 2000, can be grouped into three general categories: economic development, residential and other, which includes utility exemptions. Economic development exemptions are granted under the City's Industrial and Commercial Incentive Program (ICIP), the Commercial Revitalization Program and by City and State development corporations. The New York City Housing Authority is the single largest source of residential exemptions. The remainder of residential tax relief is provided by a variety of legislatively mandated exemption and abatement programs. The other exemptions are for certain utility properties, public authority properties and special incentives. The Commercial Revitalization Program provides substantial tax relief and is aimed at spurring economic activity by encouraging the conversion and/or renovation of obsolete commercial buildings. DOF, which administers many of the City's taxes and maintains records on these expenditures, has aided in the estimation of their value (see the table following titled: "Estimated Value of Real Property Tax Exemptions and Abatements").

The reserve for refunds covers reimbursement to taxpayers who have overpaid their tax liabilities, or whose liabilities were reduced after payment was made. The level of refunds which had risen dramatically in the mid-90s, reaching a peak of $400 million in 1996, has decreased to $215 million in 2001, as a result of reductions in *certiorari* settlements.

Property Tax Revenue
($ Millions)

	1996	1997	1998	1999	2000	2001*f*	*2002f*
Levy	$7,871.4	$7,835.1	$7,890.4	$8,099.3	$8,374.3	$8,730.3	$9285.0
Current Year Reserve*	(640.7)	(463.8)	(476.0)	(580.1)	(606.2)	(700.3)	(600.0)
Prior Year Collections	100.3	146.8	148.2	127.7	149.2	137.0	128.0
Refunds	(399.7)	(271.4)	(345.1)	(167.2)	(189.4)	(215.0)	(220.0)
Sub-Total	$6,931.3	$7,246.7	$7,217.5	$7,479.7	$7,727.9	$7,952.0	$8,593.0
Receivables/ Lien Sale Proceeds **	169.1	43.9	21.7	119.1	62.2	184.3	50.0
Total	**$7,100.4**	**$7,290.6**	**$7,239.2**	**$7,598.8**	**$7,790.1**	**$8,136.3**	**$8,643.0**

* *Includes cancellations, delinquency, net credits, abatements, exempt property restored, shelter rent and STAR.*
** *Net of defective lien reserve and repurchase of prior year defective liens.*
f=forecast

Forecast: The real property tax revenue forecast for 2001 is $8,136 million, a $44 million increase from the Financial Plan level. The increase resulted primarily from a reduction in the refund forecast of $15 million and an increase to the prior year delinquent tax collections amounting to $10 million, offset by $1 million increase in reserve for uncollectibles. Further, the City expects to receive an additional $20 million in proceeds from a larger pool of tax liens sold in its regular Spring tax lien sale.

The 2002 property tax revenue forecast is based on the tentative roll which was published on January 12, 2001. Total billable assessed value on the tentative roll increased by $6.4 billion to $90.7 billion, growth of 7.5 percent. The strength in total billable assessed value reflects market value growth of 11.4 percent, which was strong for all classes. Class 1 properties showed a market value increase of 13.7 percent while Class 2 increased by 10.8 percent. The market value growth for both Class 1 and Class 2 properties in Manhattan registered the highest growth, at 15.5 percent and 13.8 percent, respectively. Class 3 properties registered market value growth of 1.3 percent while Class 4 market value increased by 9.6 percent over last year. Class 4 growth was fueled by a 10.7 percent market value growth in Manhattan primary office buildings in addition to secondary office buildings growth of 16.6 percent. This reflects existing strong demand for office space with no significant increase in supply. The final roll, to be released in May, is estimated to be about $1.0 billion

Estimated Value of Real Property Tax Exemptions and Abatements 1993-2000
($ Millions)

	1993	1994	1995	1996	1997	1998	1999	2000
Economic Development Exemptions								
I.C.I.B/I.C.I.P.	$147.1	$119.7	$107.1	$105.7	$99.3	$111.9	$132.5	$177.7
Battery Park City Authority*	127.8	124.5	113.7	94.2	87.2	81.6	79.5	79.8
Industrial Development Agency*	37.7	37.3	52.6	48.5	47.2	47.8	61.5	66.0
Urban Development Corp.	79.8	77.9	78.3	77.0	76.9	80.0	84.5	107.6
Economic Development Corp.*	18.5	2.8	4.3	3.7	3.4	4.1	7.4	3.9
World Trade Center*	100.2	95.8	80.7	79.8	64.0	54.7	61.5	59.0
Teleport, Port Authority	1.6	1.2	0.9	2.2	1.1	1.3	1.5	6.7
Madison Square Garden	8.8	9.1	9.0	8.8	8.7	8.6	8.7	8.3
Commercial Revitalization Program	—	—	—	—	1.3	3.6	7.0	14.1
Subtotal	$521.4	$468.3	$446.6	$419.9	$389.1	$393.6	$444.1	$523.1
Residential Exemptions								
Public Housing, Housing Authority*	$294.9	$312.2	$295.2	$281.7	$264.0	$255.3	$241.2	$244.0
Private Housing, Publicly Assisted								
J-51 (exemption)	109.3	88.4	70.8	67.9	59.5	54.6	54.9	60.8
J-51 (abatement)	110.9	112.7	113.8	108.7	105.4	104.6	105.7	99.5
421-a New Multiple Dwelling	171.0	142.2	117.2	103.4	96.5	87.9	78.9	111.3
421-b New Private Housing	13.3	12.0	10.9	10.3	9.9	9.5	9.8	11.7
Other**	247.9	242.0	287.4	270.3	257.7	252.1	234.2	236.6
Senior Citizen Homeowner Exemption	12.0	13.8	15.1	17.2	18.2	19.8	21.1	26.7
Senior Citizen Rent Increase Exemption (abatement)	60.2	60.7	59.8	91.9	54.1	61.0	62.5	63.5
Division of Alternative Management Programs	2.2	3.1	3.9	3.7	4.0	4.3	4.6	5.8
Veteran Exemption	12.6	9.8	10.1	9.1	10.0	11.0	16.1	18.5
Co-op/Condo Abatement	—	—	—	—	9.0	91.8	152.7	170.2
Subtotal	$1,034.3	$996.9	$984.2	$964.2	$888.3	$951.9	$981.7	$1,048.6
Other Exemptions								
NY Power Authority	$50.9	$30.8	$31.8	$34.5	$35.5	$38.5	$41.3	$49.4
Jamaica Water Supply	6.2	6.6	6.8	7.2	7.4	7.8	8.2	9.5
Trust for Cultural Resources	3.6	5.0	5.1	4.8	4.8	5.7	5.7	5.8
Subtotal	$60.7	$42.4	$43.7	$46.5	$47.7	$52.0	$55.2	$64.7
TOTAL	**$1,616.5**	**$1,507.6**	**$1,474.5**	**$1,430.6**	**$1,325.1**	**$1,397.5**	**$1,481.0**	**$1,636.4**

Source: Department of Finance

* *Net of Payments in Lieu of Taxes (PILOTs) and other miscellaneous payments.*

** *"Other" includes miscellaneous State-assisted housing, housing development fund companies, limited dividend housing companies, redevelopment companies, limited profit housing companies and the Urban Development Action Area Program, net of Payments in Lieu of Taxes (PILOTS).*

Notes:

- *The revenue estimates of assessed value exemptions and abatements are calculated by multiplying the exempted (or abated) assessed value by the applicable statutory tax rate for each fiscal year.*
- *Urban Development Corp., J-51, 421-a and "Other" Residential include commercial and residential properties.*
- *Totals may not add due to rounding.*

lower than the tentative roll level as a result of Tax Commission actions, DOF changes by notice and the completion of exemption processing. The 2002 levy is expected to increase by $555 million over 2001 to $9,285, an increase of 6.4 percent. The estimate for the 2002 levy maintains the 2001 average tax rate of $10.366.

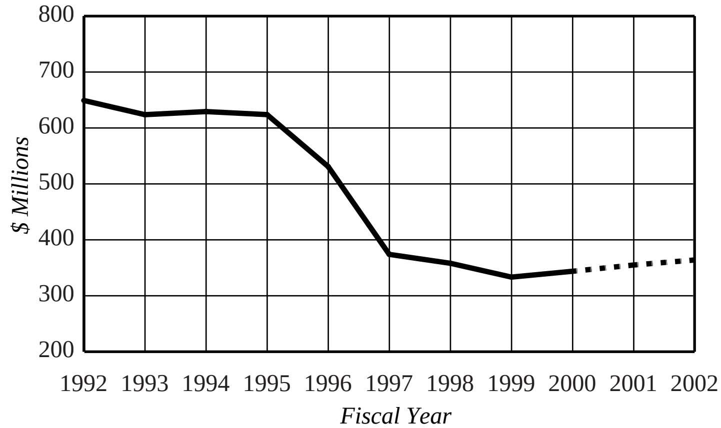
In 2002, revenue from the property tax is forecast at $8,643 million, an increase of $53 million from the financial plan level and 6.2 percent growth over the prior year. The increase in the 2002 forecast reflects a $25 million increase in the levy, an increase in the net lien sale proceeds of $13 million, an increase in prior year delinquency collections of $5 million and a reduction in the refunds forecast of $10 million. The value of STAR exemptions is forecast to increase from $89 million to $110 million.

COMMERCIAL RENT TAX

The commercial rent tax is projected to account for 1.6 percent of tax revenue in 2002, or $364 million.

Tax Base and Rate: The commercial rent or occupancy tax is imposed under Chapter 7 of Title 11 of the New York City Administrative Code, on the rental of space in New York City for commercial or professional purposes. The tax is levied only on tenants who rent space in Manhattan south of 96th Street at an effective rate of 3.9 percent. Tenants whose base rents are less than $150,000 per year do not pay tax; those whose base rents are in excess of $150,000 but less than $190,000 receive a sliding-scale credit.

COMMERCIAL RENT TAX 1992-2002



Legislative History: The commercial rent tax was first imposed on June 1, 1963 at a rate of five percent on base rents of $2,500 and over. On June 1, 1970, a graduated rate schedule was adopted:

Base Rent	Tax Rate
$0 to $2,499	2.50%
$2,500 to $4,999	5.00
$5,000 to $7,999	6.25
$8,000 to $10,999	7.00
$11,000 or over	7.50

In 1977, the City began a tax reduction program that effectively reduced the tax rate by 20 percent over four years. The maximum rate was reduced to 6.75 percent as of June 1, 1977, to 6.375 percent in 1980 and to six percent in 1981. Effective June 1, 1981, a tenant whose annual base rent was less than $5,000 was exempt from the tax. The base rent exemption was increased to $8,000 on June 1, 1984 and to $11,000 on December 1, 1984.

In 1985, the City instituted a tax reduction program which lowered the commercial rent tax for taxpayers in certain locations. As of January 1, 1986, the base rent for taxable premises located in Manhattan north of 96th Street and in the Bronx, Brooklyn, Queens and Staten Island was reduced by 10 percent. The base rent was reduced by 20 percent as of June 1, 1987, and by 30 percent as of June 1, 1989 for a total reduction worth $34 million in 1995. In 1994, a 25 percent tax credit was granted to taxpayers located in Manhattan below 96th Street whose base rent was between $11,000 and $14,000, and to those located north of 96th Street in Manhattan and in the other boroughs whose base rent was between $15,715 and $20,000. The cost of this credit was $2.5 million. In 1995, this credit expanded to a full exemption for taxpayers with base rent up to $21,000 in central and lower Manhattan and up to $30,000 elsewhere. The estimated cost of this exemption was $28 million.

Beginning in 1996, the base rent exemption was raised to $31,000 in central and lower Manhattan and $44,286 elsewhere, at an estimated cost of $28 million. In addition, primary tenants became eligible to deduct the rent received from sub-tenants, even if the sub-tenant was exempt from tax. This legislation also raised the base rent exemption for tenants located in Manhattan south of 96th Street to $40,000 in 1997, and allowed a sliding scale of credit for base rents ranging between $40,000 and $59,999, and completely eliminated the commercial rent tax in the rest of the City. However, legislation passed in 1995 accelerated the effective date of these changes to September 1, 1995. The 1995 legislation further allowed tenants to reduce rent subject to the tax by 15 percent for the tax period March 1, 1996 to May 31, 1996, and by 25 percent for tax years beginning on or after June 1, 1996, bringing the effective tax rate down to 5.1 percent as of March 1, 1998 and to 4.5 percent as of June 1, 1998.

For tax years beginning on or after June 1, 1997, tenants with annual base rents of less than $100,000 were made exempt from tax, and a sliding scale of credit was allowed for base rents ranging between $100,000 and $140,000. From September 1, 1998, tenants were allowed to reduce their base rent subject to tax by 35 percent, bringing the effective tax rate further down to 3.9 percent.

Effective December 1, 2000, the base rent exemption was further increased to $150,000 with a sliding scale of credit up to $190,000. The estimated cost of this increase is $8 million in 2001.

Under the Commercial Revitalization Program, qualifying tenants in the lower Manhattan abatement zone are eligible for a three- or five-year special reduction to their commercial rent tax liability. The tax reduction period is determined by the number of employees the tenant employs, the length of the initial lease term and the lease execution date.

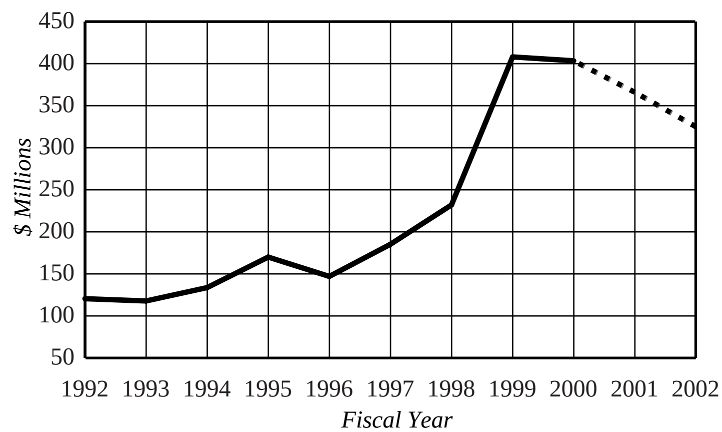
Forecast: The 2001 commercial rent tax revenue forecast has been decreased $8 million to $355 million, growth of 3.2 percent over 2000. The 2002 commercial rent tax revenue forecast has been decreased $18 million to $364 million, growth of 2.5 percent over 2001. These forecast changes result from the part-year and full-year costs of the recently enacted increase in the base rent exemption. Before the impact of this and earlier tax reductions, revenue is forecast to grow 3.2 percent in 2001 and 2.5 percent in 2002 on continued high occupancy and firm asking rents.

MORTGAGE RECORDING TAX

The mortgage recording tax is projected to account for 1.4 percent of tax revenue in 2002, or $325 million.

Tax Base and Rate: The mortgage recording tax is imposed on the recording of real estate mortgages in New York City. The tax rate ranges from 1.0 percent for mortgages securing a debt of under $500,000 to 1.75 percent for commercial mortgages securing a debt of $500,000 or more. In addition, the State imposes a 1.0 percent tax, half of which is dedicated to the Metropolitan Transportation Authority (MTA) and the State of New York Mortgage Agency (SONYMA).

MORTGAGE RECORDING TAX 1992-2002



Mortgage Recording Tax Rates

Distribution of Revenue	All Mortgages Under $500,000	Mortgages of $500,000 or More on 1, 2 & 3 Family Homes	Commercial Mortgages of $500,000 or More
State Taxes			
NYC General Fund	0.500%	0.500%	0.500%
MTA/SONYMA	0.500	0.500	0.500
City Taxes			
NYC General Fund	1.000	1.125	1.125
NYCTA, Paratransit and Franchised Bus Operators	—	—	0.625
Total	**2.000%**	**2.125%**	**2.750%**

Legislative History: The City's mortgage recording tax revenue is composed of two separate taxes, one levied by the State and the other a City tax established by local law under State authority. The State mortgage recording tax was established in 1906 at a rate of 0.5 percent on the amount of the mortgage. The tax was imposed statewide, with the law calling for the proceeds to be paid to county treasurers in counties outside of New York City, and in the case of New York City, to the general fund.

In 1969, a surcharge of 0.25 percent of the amount of the mortgage was added to the statewide tax. Inside the MTA region, the proceeds from the tax were required to be paid to the MTA. Counties outside the MTA region were given the option to suspend the surcharge by local law.

In 1979, another 0.25 percent surcharge was imposed, with the funds dedicated to SONYMA. Taxpayers, however, were allowed to credit payments of this surcharge against their liability for the State general corporation tax, personal income tax or banking corporation tax. In 1987, the State Legislature amended this second surcharge so that the MTA receives tax revenue from mortgages made on one- to six-family homes within the MTA region. In addition, the credit provision was altered to allow taxpayers to take payments as a deduction against taxable income rather than as a credit against liability.

The New York City mortgage recording tax dates from 1971, when the rate was set at 0.5 percent on the amount of the mortgage. In 1982, the tax was increased for mortgages securing a debt of $500,000 or more. For these large mortgages, the rate on one-, two- and three-family homes was increased to 0.625 percent; on other large mortgages, the rate was increased to 1.25 percent. Half of the collections from large nonresidential mortgages were paid to the City's general fund, and the other half was dedicated to the New York City Transit Authority (NYCTA), the City paratransit system and certain private bus operators franchised by the City.

Effective July 1, 1989, several "loophole-closing" provisions were enacted with regard to the City and State mortgage recording taxes. The provisions: (1) permit the aggregation of related mortgages for the purpose of determining whether the higher rates apply; (2) require payment of the City's tax if the lien of a mortgage recorded outside the City is "spread" to realty located in the City; (3) treat an assignment of rents, given as security for an indebtedness, as a mortgage for purposes of the tax; (4) eliminate the practice of securing new debt under a previously recorded, but since repaid, mortgage by requiring that a certificate of discharge be issued when a mortgage has been repaid; (5) limit the "condominium credit" to initial sales of condominium units only if the first unit in the project is sold within two years from the recording date of the construction or blanket mortgage, or if the proceeds of a blanket mortgage were used to purchase the condominium property or, if the purchase occurred no more than two years before the declaration of the condominium; and (6) increase the rate of interest payable on underpayments and overpayments and increase nonpayment penalties.

Effective August 1, 1990, the New York City mortgage recording tax was raised across-the-board by 0.5 percent. Total revenue dedicated to the general fund from both State and City mortgage taxes is based on a tax rate of 1.5 percent for mortgages under $500,000 and 1.625 percent for all mortgages of $500,000 or more. The combined City and State mortgage recording tax rates for mortgages recorded in New York City are 2.0 percent for mortgages under $500,000, 2.125 percent for residential mortgages of $500,000 or more, and 2.75 percent for large commercial mortgages.

Beginning in 1996, credit line mortgages (i.e. mortgages which allow a series of advances, repayments, and readvances) under $3 million are not subject to additional mortgage recording taxes. Previously, this advantage was available only to credit line mortgages on owner-occupied one- to six-family homes. Readvances under other mortgages remain taxable.

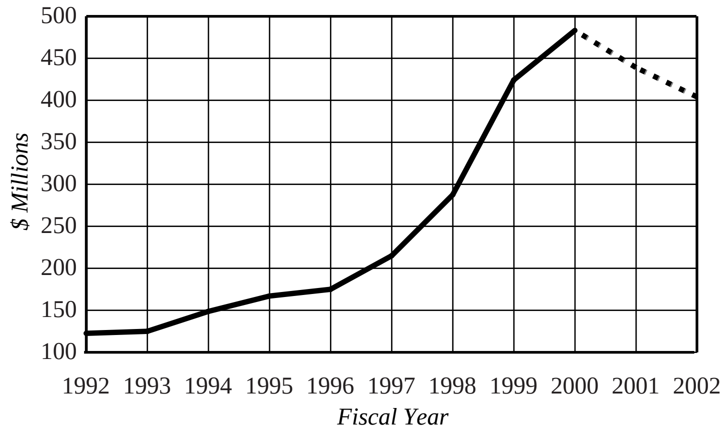
Forecast: The mortgage recording tax revenue forecast has been raised $44 million to $366 million in 2001, a decline of 9.3 percent from the near record collections seen in 2000 when residential real estate activity and refinancings peaked during the first quarter of calendar year 2000. As interest rates rose significantly through the year, collections from such activity further slowed. Dramatic reductions in interest rates in calendar year 2001 thus far have led to an increase in refinancings. Despite this, the continuing economic slowdown is expected to keep collections from residential transactions below the high levels seen in 1999 and 2000. Collections are forecast to continue declining through 2002 as the national slowdown is felt locally. Residential activity is forecast to rebound in 2003 through 2005, with growth of 10.0 percent, 4.7 percent, and 5.9 percent, respectively, as economic recovery coupled with low interest rates stimulates demand for residential mortgages.

New York City witnessed record high commercial real estate activity in 1999 and 2000. As the commercial market slows in tandem with the national economy, collections from commercial mortgages are forecast to decline 5.3 percent in 2001. Mortgage recording tax receipts in 2002 are expected to decline 16.2 percent to $135 million as investors delay large real estate transactions until the economy resumes growth. Commercial activity is forecast to rebound in 2004, resulting in average growth in commercial mortgage recording tax collections of 5.0 percent through 2005.

REAL PROPERTY TRANSFER TAX

The real property transfer tax is projected to account for 1.8 percent of tax revenue in 2002, or $404 million.

REAL PROPERTY TRANSFER TAX 1992-2002



Tax Base and Rate: The real property transfer tax is imposed on each deed at the time of transfer from the seller to the buyer. The tax is payable by the grantor, normally the seller. If the grantor is exempt from the tax, it is payable by the grantee. The rate is 1.0 percent of the sales price for residential properties of $500,000 or less. For residential properties of more than $500,000 and for commercial sales of $500,000 or less, the rate levied is 1.425 percent. For large commercial transactions, the tax is 2.625 percent of the sales price or consideration. These rates went into effect August 1, 1989. Of the tax collected from large commercial transactions, 38.1 percent goes to a special fund for the New York City Transit Authority (NYCTA), the City paratransit system and certain private bus operators franchised by the City. This amounts to a rate of one percent of the consideration on these transactions. The State also imposes a real estate transfer tax on deed recordings at a rate of 0.4 percent. Current State and local tax rates on transfers in New York City are presented below.

Real Property Transfer Tax Rates

Distribution of Revenue	Residential Sales of $500,000 or Less	Commercial Sales of $500,000 or Less and Residential Sales over $500,000	Commercial Sales over $500,000
State Tax			
NYS General Fund*	0.400%	0.400%	0.400%
City Tax			
NYC General Fund	1.000	1.425	1.625
NYCTA, Paratransit and Franchised Bus Operators	—	—	1.000
Total	1.400%	1.825%	3.025%

* *The State real estate transfer tax includes an additional tax of one percent on residential transfers valued at over $1 million.*

Legislative History: The real property transfer tax became effective in 1959. In 1982, the tax was raised from the initial rate of one percent to two percent for transfers with a sale price of $500,000 or more, with the revenue from the rate increase dedicated to the NYCTA, paratransit and certain private bus operators franchised by the City. At the same time, the base of the tax was expanded to include leasehold transfers and to disallow the deduction for continuing liens.

Legislation further expanded the base beginning in 1987 by including transfers of a majority interest in an entity which owns real property in New York City (the "Pan Am" tax). Only the value of the property is taxable, not the value of the entire interest. This change was enacted to prevent avoidance of the tax when a transfer takes place but formal ownership of the property remains unchanged. Initial transfers of cooperative apartment units and all transfers of cooperative apartment units used for business purposes were also made subject to the "Pan Am" tax.

In August 1989, general fund revenue was increased by raising the transfer tax rate from 1.0 percent to 1.425 percent for commercial transactions of $500,000 or less and residential transactions of more than $500,000. For commercial sales with consideration greater than $500,000, the tax rate rose from 1.0 percent to 1.625 percent. The same legislation expanded the tax base to include resales of residential cooperative apartments, the remaining category of untaxed cooperative transactions.

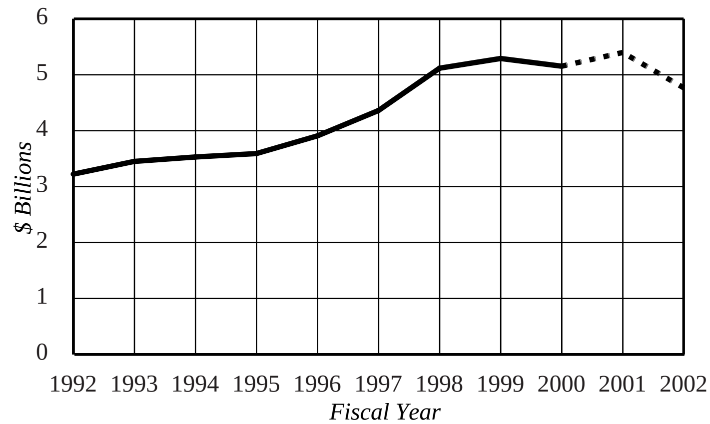
In June of 1994, a State law was passed which provided a temporary 50 percent reduction in the rate of the real property transfer tax for certain transfers to newly organized Real Estate Investment Trusts (REITs). This provision is now permanent. In addition, a 50 percent reduction is applicable to transfers to pre-existing REITs occurring between July 13, 1996 and August 31, 2002, provided the transferor receives and retains for at least two years an ownership interest in the REIT. Starting July 1, 1997, a deduction on the real property transfer tax payable on the transfer of a one- to three-family home, or an individual residential co-op or condo unit, is allowed for the amount of any mortgage assumed by the transferee.

Forecast: The real property transfer tax revenue forecast has been raised $22 million to $439 million in 2001, a decline of 9.2 percent over 2000. The decline in collections is mostly attributable to a slowdown in commercial real estate activity. Collections from commercial transactions are forecast to slow to $170 million in 2001, a decline of 18.6 percent from 2000's record highs. This slowdown parallels the national economic slowdown and follows the increases in interest rates beginning in the third quarter of calendar year 1999 through the third quarter of calendar year 2000. Real property transfer tax revenue from residential activity is expected to reach $269 million in 2001, down only 1.8 percent from the record high levels of 2000. Collections from residential activity are expected to fall in 2002 to $246 million, a decline 8.5 percent, and then rebound in 2003 as economic conditions stabilize and improve. Commercial real estate activity is forecast to decline even further in 2002 as businesses scale back their investments in expensive commercial real estate. Both commercial and residential real estate transaction activity is expected to pick up slightly in 2003 as interest rates remain low and the national economy continues to improve.

PERSONAL INCOME TAX

The personal income tax is projected to account for 21.2 percent of tax revenue in 2002, or $4,766 million.

PERSONAL INCOME TAX 1992-2002



Note: Personal income tax revenue after Transitional Finance Authority retention.

Tax Base and Rates: The personal income tax is imposed on the taxable income of resident individuals, estates and trusts. The starting point for determining taxable income is Federal adjusted gross income (AGI). This amount is adjusted for statutory modifications to yield New York AGI. Taxable income is derived by subtracting the New York deduction and New York exemptions from New York AGI. Taxpayers may claim the New York standard deduction or the New York itemized deduction (Federal amount subject to New York modifications). High income taxpayers are subject to percentage reductions in their New York itemized deductions. Finally, taxpayers are allowed a flat exemption amount for each dependent. There are different tax rate schedules for single, head of household, married taxpayers filing jointly and married taxpayers filing separately. These separate schedules were introduced in 1987. The current top marginal rate is 3.65 percent. In addition to the base tax, taxpayers who make extensive use of tax preferences are liable for a tax of 2.5 percent on their New York minimum taxable income.

From 1971 through June 30, 1999, an earnings tax was levied on nonresidents' New York City source income at a rate of 0.45 percent on wages and 0.65 percent on net earnings from self-employment. From 1966 through 1970, the earnings tax was levied at 0.25 percent on wages and 0.375 percent on net earnings from self-employment. The tax was eliminated by the State Legislature, effective July 1, 1999.

2001 Rate Schedule

	Over	But Not Over	Pay	Plus	Of the Amount Over
Rate Schedule for Single Filers	$ 0	$12,000	$ 0	2.73%	$ 0
If net income is:	12,000	25,000	328	3.32	12,000
	25,000	50,000	759	3.37	25,000
	50,000		1,601	3.65	50,000
Rate Schedule for Joint Filers	$ 0	$21,600	$ 0	2.73%	$ 0
If net income is:	21,600	45,000	590	3.32	21,600
	45,000	90,000	1,365	3.37	45,000
	90,000		2,882	3.65	90,000
Rate Schedule for	$ 0	$ 14,400	$ 0	2.73%	$ 0
Head of Household Filers	14,400	30,000	393	3.32	14,400
If net income is:	30,000	60,000	911	3.37	30,000
	60,000		1,922	3.65	60,000

Legislative History: New York City has imposed a personal income tax on residents and nonresidents since 1966 at various rates. The values of the dependent or personal exemptions and standard deductions have also varied as shown in the following table.

New York Dependent or Personal Exemptions and Standard Deductions, 1966-2001

Tax Year	Exemption	Standard Deduction
2001	None for taxpayers, $1,000 for each dependent	$7,500 for individual, $10,500 for head of household, $13,400 for joint filers, and $3,000 for dependent taxpayers
1997 - 00	None for taxpayers, $1,000 for each dependent	$7,500 for individual, $10,500 for head of household, $13,000 for joint filers, and $3,000 for dependent taxpayers
1996	Same as above	$7,400 for individual, $10,000 for head of household, $12,350 for joint filers, and $2,900 for dependent taxpayers
1995	Same as above	$6,600 for individual, $8,150 for head of household, $10,800 for joint filers, and $2,800 for dependent taxpayers
1989 - 94	Same as above	$6,000 for individual, $7,000 for head of household, $9,500 for joint filers, and $2,800 for dependent taxpayers
1988	Same as above	$5,000 for individual, $6,000 for head of household, $8,500 for joint filers, and $2,800 for dependent taxpayers
1987	$900 *(Available for taxpayers and each dependent)*	$3,600 for individual, $4,600 for head of household, $5,300 for joint filers, and $2,800 for dependent taxpayers
1986	$850	$2,600 for individuals, $3,000 for married couples and heads of households
1985	Same as above	$2,500 for individuals, $2,750 for married couples and heads of households
1982 - 84	$800	17% of AGI subject to a minimum of $1,500 ($2,000 for married couples) and a maximum of $2,500
1981	$750	Same as above
1980	Same as above	16% of AGI subject to a minimum of $1,400 ($1,900 for married couples) and a maximum of $2,400
1979	$700	Same as above
1978	$650	Same as above
1976 - 77	Same as above	15% of AGI subject to a minimum of $1,000 ($1,500 for married couples) and a maximum of $2,000
1966 - 75	$600	For all taxpayers 10% of AGI or $1,000, whichever is less

For 1982 through 1984, the City imposed a temporary surcharge on the personal income tax of every City resident, estate and trust. For calendar years 1982 and 1984, taxpayers with City adjusted gross income below $15,000 paid no surcharge. Taxpayers with adjusted gross income between $15,000 and $20,000 paid a surcharge of 2.5 percent of their tax liability, and taxpayers with adjusted gross income above $20,000 paid a five percent surcharge. For tax year 1983, the surcharge rates were doubled.

In 1985, New York State enacted a tax cut to be phased in over three years. Standard deductions and personal exemptions were raised, marginal tax rates were reduced, the real property tax credit was increased and a new benefit for married taxpayers called the "family adjustment" was introduced. Only changes to the standard deductions and the personal exemption flowed through to City tax liability. The standard deduction became a flat amount instead of being calculated as a share of adjusted gross income. It was to increase from $2,500 in 1985 to $2,800 in 1987 for single taxpayers and from $2,750 in 1985 to $3,800 in 1987 for married couples and head of household filers. The personal exemption was to increase from $800 to $900. The final year of this program, 1987, was superseded by subsequent tax reform legislation.

The Tax Reform Act of 1986 substantially altered the Federal personal income tax code. The definition of gross income, the deductions and exemptions allowed in the computation of taxable income, and the rates applied to such income were altered. Because State law conforms to Federal definitions of income and deductions, the State tax base was significantly broadened. In response, New York State altered its tax code in April 1987. The State legislation phased in a tax cut and a restructuring of the tax over five years beginning in tax year 1987.

Both the Federal and State changes significantly altered the definition of City taxable income. Since the City's personal income tax base was broadened, the City would have received a "windfall" if it had taken no action. The New York City Tax Reduction Act of 1987 was enacted to return this windfall to taxpayers and reduce income taxes for fiscal year 1988 by an additional $75 million. The City's five-year tax cut plan was designed to conform to State actions and combined new rate schedules and a low-income credit with the modified definition of taxable income. In 1987 the City introduced new rate schedules for single taxpayers, joint filers, and heads of households. Each schedule had six brackets rather than the 14 used in 1986. At the same time the top rate was reduced to 4.1 percent. By 1991 the legislation would have reduced the top rate to 3.4 percent and the number of tax brackets to four. A 0.5 percent credit for net capital gains income and a two-earner married couple deduction were transitional measures only in effect during tax year 1987.

The most significant changes to the law were large increases in the standard deduction and the introduction of a household credit to replace the low-income exclusion. For a joint filer with two dependents, these changes raised the threshold below which no tax is due from $11,000 in calendar year 1986 to $14,025 in 1987, $15,550 in 1988, and $16,046 in 1989 and 1990. Imposition of the 14 percent increase in 1991 lowered the threshold to $15,484 from 1991 to 1994. The taxable threshold increased again in 1995 to $16,691 and in 1996 to $17,499, as a result of increases in the standard deduction. An increase in the base rates in 1997 lowered the threshold to $15,001 from 1997 to 1998. The taxable threshold grew to $16,164 in 1999 as a result of the STAR program. The taxable threshold grew to $17,831 in 2000, the result of the full-year impact of the STAR program. In 2001, the taxable threshold grew to $19,999, the result of the last year of the STAR tax cut, the cut in the 14 percent surcharge and the increase in the joint filer standard deduction.

Finally, progressivity was also enhanced by placing limitations on the amount of itemized deductions allowable for New York purposes. For single filers with New York adjusted gross income over $100,000 and joint filers with New York adjusted gross income over $200,000, itemized deductions were reduced up to 20 percent in 1988 and up to 50 percent beginning in tax year 1989.

As part of New York State's budget for fiscal year 1990-91 the last two years of the five-year tax reduction program were postponed. The legislation retained the 1989 tax rate schedule, standard deductions and the household credit for 1990. The scheduled phase-in of tax rates and deductions was to be completed by 1994. In order to avoid distortions in tax burdens which would result from coupling the City's 1990 rate schedule with the State's 1989 deductions, the City also retained its 1989 rate schedule for tax year 1990. Changes to the City rate schedules were made for tax years 1991 through 1994 in proportion to changes the

State made to the standard deductions. For tax years 1991 through 1994, changes to the State's tax rate schedule, standard deductions and household credit were deferred. Consequently, the City retained the rate schedule in effect in 1990 for tax years 1991 through 1994.

Effective for tax years 1990, 1991, and 1992, the City imposed a temporary income tax surcharge on City residents. The top rate was increased to 3.91 percent from 3.4 percent. Single taxpayers with AGI below $15,000, married taxpayers with AGI below $25,000, and heads of households with AGI below $16,500 were not subject to the surcharge. In February of 1991, the "Safe Streets, Safe City" program was signed into law. Part of the program's funding came from the extension of this surcharge for tax years 1993 through 1996. The surcharge subsequently was extended through tax year 1998, and was then allowed to expire.

Personal Income Tax Increases
($ Millions)

	1997	1998	1999	2000	2001	2002
Components of the 12.5 Percent Surcharge:						
Criminal Justice Account	$ 90	$185	—	—	—	—
General Fund	320	297	368	—	—	—
12.5 Percent Surcharge Total	$410	$482	$368	—	—	—
14 Percent Increase [1]	$486	$566	$585	$560	$552	$456

(1) Reduced to 10.5 percent on average, as of Janaury 1, 2001.

Beginning in tax year 1991, the City imposed a three-year 14 percent income tax increase on City residents, increasing the top rate from 3.91 percent to 4.46 percent through tax year 1998. Low income taxpayers were not exempt from the increase. The increase has been extended four times, in 1993, 1995, 1997 and 1999. Legislation in 1999 extended the increase through tax year 2001.

Federal tax law changes, to which State law conformed, have also altered the City's income tax. Effective for tax years beginning in 1991, taxpayers with AGI exceeding $100,000 were subjected to percentage reductions in their Federal itemized deductions. The $100,000 threshold is adjusted annually for inflation. Regulations issued by the State provide that the Federal limitation also applies in calculating New York State taxable income. Another Federal law change, to which the State conformed, revised rules governing payment of estimated taxes by certain high-income filers. Beginning in tax year 1992, these taxpayers were no longer allowed the "safe harbor" of submitting the same tax paid the previous year; estimated payments needed to equal at least 90 percent of their current year liability. This required taxpayers to calculate tax liability on a quarterly basis and "pay-as-you-go." The Omnibus Budget Reconciliation Act of 1993 again revised Federal rules governing estimated tax payments and the State enacted conforming legislation for the State and City for tax year 1994. The new rules repealed the "pay-as-you-go" requirement and allowed all taxpayers with New York adjusted gross income over $150,000 to pay estimated taxes based on either the safe harbor of 110 percent of the previous year's liability or 90 percent of current year liability. The legislation also reduced the period within which refunds must be made without payment of interest from 90 to 45 days after the due date for final returns.

As part of New York State's budget for fiscal year 1995-96, the State enacted an enhanced version of the 1987 tax cut which had been on hold since 1990. For tax years 1995 through 1997, the State reduced its tax rates, increased standard deductions and the earned income credit, and reduced the number of tax brackets. The City rates effective for 1997 and 1998 reflected the City Tax Reduction Act of 1987, the 12.5 percent surcharge effective 1990 through 1998 and the 14 percent increase enacted in 1991.

In July of 1997, the State's Tax Appeals Tribunal issued a ruling changing the calculation of State itemized deductions for certain high-income taxpayers subject to the Federal limitation on itemized deductions. The new calculation decreases the amount of State and City taxes subtracted from Federal itemized deductions for these taxpayers, increasing State itemized deductions and lowering their taxable income. This is estimated to reduce City liability by approximately $20 million per liability year.

As part of New York State's budget for fiscal year 1997-98, the State enacted the School Tax Relief program (STAR) to provide education aid and tax relief to localities. In addition to reductions in the property tax, the STAR program reduces City personal income tax liability through both a rate cut and a refundable credit for resident filers. The top marginal rate for residents declines in steps from 4.46 percent in 1998 to 3.65 percent in tax year 2001. The State reimburses the City for the foregone personal income tax revenue. As part of New York State's budget for fiscal year 1998-99, the State accelerated the STAR program credit against the City resident personal income tax for senior citizens. Beginning with tax year 1998, seniors receive a credit of $125 if they file jointly and $62.50 if they use other filing statuses. Non-seniors received a credit of $12 in tax year 1998, and the credit increases to $125 for joint filers and $62.50 for other filers by tax year 2001.

State Sponsored Personal Income Tax Reductions
($ Millions)

	1999	2000	2001	2002	2003	2004	2005
STAR Program:							
Credit	($85)	($131)	($191)	($256)	($256)	($256)	($256)
Rate Cut	—	(69)	(224)	(304)	(351)	(380)	(405)
STAR Program Total	($85)	($200)	($415)	($560)	($607)	($636)	($661)

Also in 1997, the State enacted legislation enabling the City to establish a credit against the resident personal income tax for owners of unincorporated businesses for a portion of their distributive share of unincorporated business tax liability, effective beginning with tax year 1997. The credit is based on a sliding scale, and ranges from 65 percent of unincorporated business tax liability for taxpayers with NYS AGI of $42,000 or less, down to 15 percent of liability for taxpayers with NYS AGI of $142,000 or more.

Beginning in 1998, personal income tax cash flow to the City has changed with the introduction of the Transitional Finance Authority (TFA). The TFA gives the City an additional financing vehicle to meet capital commitments beyond the constitutional debt limit, which is based on the market value of real property. The new authority has first claim on personal income tax revenue to meet its debt service and administrative costs, with the remaining personal income tax revenue to be distributed to the City by the end of each month.

On May 17, 1999, the State Legislature passed, and on May 27, 1999 the Governor signed into law a selective repeal of the City's nonresident earnings tax, limiting the nonresident earnings tax to commuters who live outside of New York State, effective July 1, 1999. Recognizing that this selective application of the City nonresident earnings tax posed possible constitutional problems, the legislation provided that if the exemption of State residents from the tax was found unconstitutional, the entire tax would be repealed effective July 1, 1999. After passage, individuals from New Jersey and Connecticut, and the State of Connecticut filed complaints against New York State, arguing that selective imposition of the nonresident earnings tax violated the Privileges and Immunities Clause, the Commerce Clause, and the Equal Protection Clause of the United States Constitution. Additionally, the City filed a complaint against New York State seeking a declaration that the legislation violated the home rule provisions of the New York State Constitution. The New York Supreme

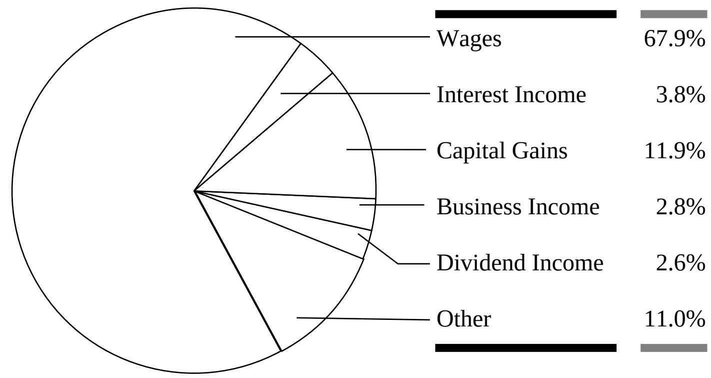
Court and the Appellate Division found that the law violated the Privileges and Immunities Clause and the Commerce Clause of the United States Constitution. The courts also ruled against the City, finding that the law did not violate State constitutional home rule requirements. The decisions were appealed by the State and City to the Court of Appeals, the State's highest court. On April 4, 2000, the Court of Appeals upheld the lower court's decisions. This decision activated the provision in the State's legislation to extend the repeal to out-of-state nonresidents, retroactive to July 1, 1999.

As part of New York State's budget for fiscal year 2000-2001, the State took several actions which reduced both State and City liability. In order to reduce the marriage penalty, the State increased the standard deduction for married families filing jointly from $13,000 to $13,400 in tax year 2001, to $14,200 in tax year 2002, and to $14,600 thereafter. The State also enacted a college tuition benefit, granted either through a refundable credit (which does not affect the City return) or an itemized deduction (which does), for college tuition expenses paid by resident taxpayers on behalf of the taxpayer, the taxpayer's spouse, or dependents who enroll or attend a qualified institution of higher learning. The credit and deduction are available for undergraduate study. The allowable itemized deduction is limited to $10,000 of tuition expenses and is phased in over four years. For 2001, 25 percent of the tuition expense is deductible, reaching 100 percent in 2004.

Distribution of Liability: A sample of 1998 tax returns reveals that the majority of resident returns were filed by taxpayers with adjusted gross income less than $50,000 (see charts on this page). However, the 24 percent of

COMPONENTS OF INCOME

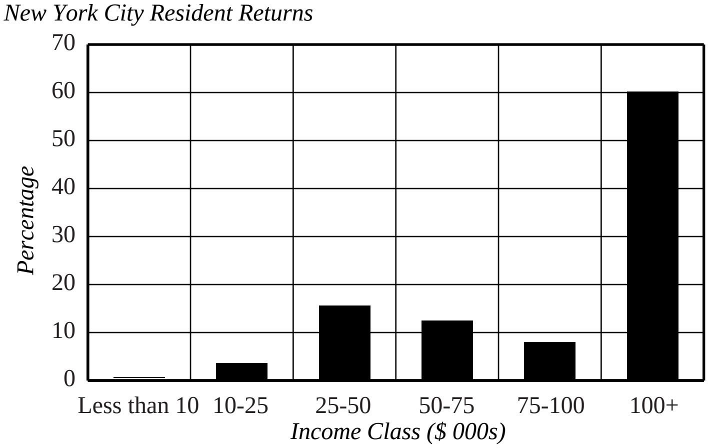
New York City Resident Returns—Tax Year 1998



Source: NYC Department of Finance, Office of Tax Policy

SHARE OF LIABILITY

Tax Year 1998
New York City Resident Returns



Source: NYC Department of Finance, Office of Tax Policy

NUMBER OF FILERS

Tax Year 1998
New York City Resident Returns

Source: NYC Department of Finance, Office of Tax Policy taxpayers with income greater than $50,000 paid 81 percent of the tax. Wage income was 68 percent of total reported income on resident returns. Capital gains realizations and interest income were the second and third largest sources of income, accounting for approximately 12 percent and four percent, respectively, of total reported income. Generally, higher income taxpayers earned most of the nonwage income in the City.

Administration: The New York City personal income tax has been administered by New York State since 1976. All collection information received is from the New York State Department of Taxation and Finance. Daily collection and refund reports are produced by the Accounting Bureau and sent to the City. At the end of the month the City receives a letter from the State Comptroller verifying the final amount of personal income tax revenue by component due to the City for that month. Each month the State charges the City for the administration of the tax. The charge is based on State expenditures for data entry, processing of tax returns and taxpayer services which can be attributed to the City. For 2000 the administrative charge paid by the City was $34 million.

Withholding Tables: Withholding tables are adjusted to reflect changes made to tax rates, standard deductions or the dependent exemption. To implement the New York City Tax Reduction Act of 1987, withholding tables were adjusted in October 1987, October 1988 and October 1989. To implement the temporary surcharge, withholding tables were changed in October 1990 and again in October 1991 to reflect the implementation of the 14 percent increase. Withholding tables were changed in January 1999 to reflect the expiration of the 12.5 percent surcharge and again in July 1999 to reflect a reduction in rates due to implementation of the STAR program. Effective January 1, 2000, the City nonresident withholding tables were changed to reflect a reduction in nonresident rates from 0.45 to 0.25 percent on wages, and from 0.65 to 0.375 percent on net earnings from self-employment. The lower rates applied to out-of-state nonresidents only, as in-state nonresidents were exempt from the nonresident earnings tax from July 1, 1999 on. The nonresident earnings tax repeal did not apply to out-of-state nonresidents until April 4, 2000. Effective January 1, 2001, withholding tables were changed to reflect the reduction of the 14 percent surcharge and the last installment of the STAR program.

Forecast: The personal income tax revenue forecast has been increased $207 million to $5,398 million in 2001. In 2002, the forecast has been reduced by $67 million to $4,766 million. The forecast reflects the effects of the STAR program tax cut, the nonresident earnings tax repeal, and a 25 percent, on average, reduction in the 14 percent surcharge, effective January 1, 2001. Moreover, the forecast reflects reductions in personal income tax collections deposited in the general fund due to the TFA retention of $427 million in 2001 and $503 million in 2002. Adjusted for these reductions, the personal income tax is forecast to grow 11.1 percent in 2001 and to decline 6.1 percent in 2002, after record growth of 22.0 percent in 2000.

The national economic expansion and the concurrent strength of the local economy have fueled robust growth in personal income tax revenue in recent years. Historic City employment gains posted in calendar years 1997 through 2000, and record profitability on Wall Street leading to record bonus payouts, boosted personal income tax withholding. The rising tide of asset appreciation has sent the amount of capital gains realizations soaring, adding strength to estimated payments and final returns. In all, personal income tax collections on a common rate and base grew 15.9 percent on average from 1997 through 2000, and are forecast to grow 11.1 percent in 2001.

Withholding is forecast to grow 13.8 percent on a common rate and base in 2001 based on growth in the average wage of six percent, strong employment gains and a bonus payout on record New York Stock Exchange member-firm profits of $21 billion in calendar year 2000. July through November withholding collections grew 21.8 percent, very high growth for a non-bonus period, while during the December through March bonus period, withholding collections grew 6.3 percent on a common rate and base, a strong showing considering the 35.2 percent growth posted the prior year. During the remaining quarter of the year, withholding is forecast to grow 15.9 percent on a common rate and base.

Installment payments on liability year 2000 grew 17.8 percent on a common rate and base after growth of 27.1 percent in 1999. With nonwage income growth in calendar year 2000 moderate (dividends, interest, and rent increases 6.7 percent), and capital gains realizations expected to be sustained at the very high 1999 level, up an estimated 66 percent from the level of just two years prior, installment payment growth is likely being driven by taxpayers taking advantage of the safe harbor provision governing estimated payments.

Settlement payments (final returns, extensions, State/City offsets, and refunds) on liability year 2000 are forecast to be $42 million lower than liability year 1999 on a common rate and base. The full-year impact of the STAR rate cut and credit increase in tax year 2000 reduces the tax year 2000 settlement. However, the repeal of the nonresident earnings tax raises the settlement in tax year 2001, eliminating refunds normally paid out to nonresident filers.

For 2002, the personal income tax revenue forecast has been reduced $67 million to $4,766 million, a decline of 11.7 percent. This unprecedented reduction in revenue can be explained by both legislated reductions and economic weakness forecast for calendar year 2001. On the statutory side of the ledger, the forecast reflects the full-year impacts of the final STAR program tax cut (a reduction of $145 million from 2001), the annualization of the January 2001 reduction of the 14 percent surcharge ($91 million), and an increased TFA retention of $75 million. The weaker economy also reduces revenue. A reduction in Wall Street bonuses reduces wage income and cuts withholding by $85 million. A 28 percent reduction in capital gains realizations shrinks liability by an additional $281 million.

Withholding growth in 2002 declines 2.1 percent on a common rate and base, tracking the decline in the FIRE wage rate (10.7 percent) in 2002 and the reduction in the FIRE bonus payout ($11.4 billion) on calendar year 2001 profits. Installment payments are forecast to decline 5.3 percent in 2002 on a common rate and base, reflecting a slowdown in nonwage income growth (dividends, interest and rent growth of 0.7 percent) and the decline in capital gains realizations for tax year 2001. The forecast slowdown in total liability is expected to decrease settlement payments by $24 million on a common rate and base in liability year 2001 over 2000.

Personal income tax revenue is forecast to average 7.2 percent growth from 2003 through 2005, as wage and nonwage income sources rebound with the national economy and capital gains realizations recover with stabilized equity markets.

Personal Income Tax Collections By Component
($ Millions)

	1999	2000	2001f	2002f
Withholding	$3,936	$4,046	$4,219	$3,990
Estimated Payments [1]	1,195	1,296	1,356	1,233
Final Returns	438	474	420	250
Other [2]	402	267 [3]	356 [3]	255
Gross Collections	$5,971	$6,083	$6,351	$5,728
Refunds	(534)	(683)	(526)	(459)
Net Collections	$5,437	$5,400	$5,825	$5,269
Less TFA Retention	(144)	(247)	(427)	(503)
Total	$5,293	$5,153	$5,398	$4,766

(1) Includes extension payments.

(2) Offsets, charges, assessments less City audits.

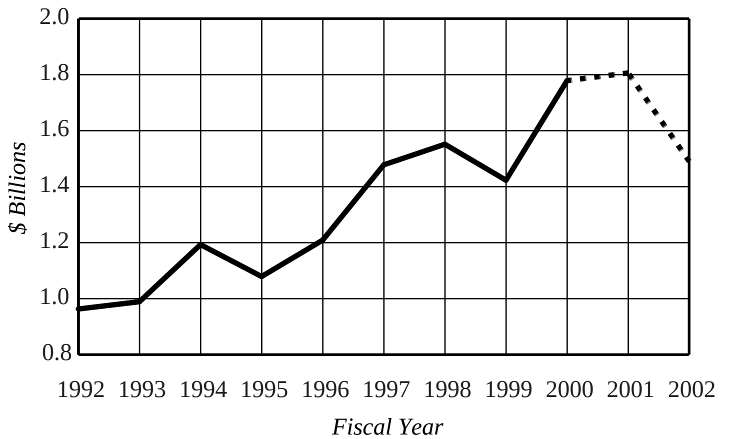
(3) In 2000, gross collections are reduced by a liability accrual of $114 million from 2001 for the commuter taxes withheld from New York State nonresidents for the period July 1, 1999 through April 2000. 2001 is likewise increased.

f= Forecast. Totals may not add due to rounding.

GENERAL CORPORATION TAX

The general corporation tax is projected to account for 6.6 percent of tax revenue in 2002, or $1,490 million.

GENERAL CORPORATION TAX 1992-2002



Tax Base and Rate: New York City's general corporation tax was first enacted in 1966 and is imposed on all corporations, domestic and foreign, for the privilege of doing business, employing capital, owning or leasing property or maintaining an office in New York City. Banking companies are subject to the banking corporation tax and therefore do not pay the general corporation tax. Insurance firms, nonprofit corporations and residential mortgage insurance corporations (REMICs) are exempt from the general corporation tax. For taxable years beginning on or after January 1, 1998, the general corporation tax also does not apply to an alien corporation whose activities in New York City are limited solely to investing or trading in stocks, securities or commodities for its own account.

To determine tax liability, a corporation is required to make three alternative calculations and compare these to a fixed minimum tax of $300. The tax due is the largest of the four amounts. The three alternative tax calculations are: (1) net income: 8.85 percent of the firm's entire net income allocated to the City; (2) capital: 0.15 percent of the firm's business and investment capital allocated to the City; and (3) income–plus–compensation: 2.655 percent of the sum of allocated net income plus the compensation paid to individual shareholders owning at least five percent of the firm. There is an additional tax on subsidiary capital allocated to the City, at the rate of 0.075 percent. The sum of the liability paid on the highest of the four alternative bases and the tax on subsidiary capital is the firm's total tax liability.

The starting point for determining the net income base, 78 percent of corporate liability in tax year 1997, is Federal taxable income, which must be modified to account for differences between New York City and Federal treatment of various items, including depreciation, tax-exempt interest and net operating loss deductions. This modified income must be divided between business income and investment income, and then allocated between income derived from New York City activities and income derived from activities outside of the City. Business income is defined as the firm's entire net income less its investment income (dividends and interest from nonsubsidiary operations). Investment income is allocated according to the amount of capital employed in New York City by the issuing corporation. The allocation formula used by most firms for business income is the average of the following ratios: (1) New York City tangible property to total property; (2) New York City receipts to total receipts; and (3) New York City payroll to total payroll. Manufacturing firms are allowed to "double weight" the receipts factor for tax years beginning on or after July 1, 1996. Slightly over half of the general corporation tax paid on the net income basis is from firms which allocate business income because they have operations both inside and outside of New York City.

The income–plus–compensation base accounted for approximately 15 percent of corporate tax liability in tax year 1997. The purpose of this alternative base is to tax firms which may lower their taxable income by disguising dividends (which are not deductible) as salaries and other forms of compensation (which are deductible). The starting point for determining this base is New York City allocated net income, to which must be added back the compensation paid to shareholders owning more than five percent of the corporation's outstanding stock. After a statutory deduction of $40,000, the firm applies the 8.85 percent rate to 30 percent of this base (hence the 2.655 percent effective tax rate).

The alternative tax on allocated capital accounted for approximately three percent of all corporate tax liability. This base is designed to tax firms which have low net income, either because of temporary financial difficulties or because of extensive use of tax preferences, such as deductions and net operating loss carryforwards. To determine the tax obligation under this base, a firm must compute the value of its business and investment assets, deduct liabilities against those assets and, if eligible, allocate a portion of the business capital and investment capital to the City using the same allocation formulas described previously. The 0.15 percent rate is then applied.

The additional tax on subsidiary capital (defined as a corporation of which over 50 percent of the outstanding voting stock is owned by the taxpayer) is imposed because entire net income excludes income derived from subsidiary operations. Subsidiary capital is allocated according to the amount of capital employed in New York City and taxed at a rate of 0.075 percent. All taxpayers are eligible to allocate subsidiary capital.

Legislative History: Prior to 1977, the tax rate on net corporate earnings was 10.05 percent. In 1977, the rate was reduced to 9.5 percent and, in 1978, the rate was again lowered to 9.0 percent where it remained until 1987, when it was reduced to 8.85 percent.

In response to business tax reform initiatives at the Federal and State levels, New York City has altered the general corporation tax. The Federal Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982 substantially altered Federal business taxes by instituting the Accelerated Cost Recovery System (ACRS) and more liberal leaseback provisions. Under the provisions of ACRS, property could be rapidly depreciated in the first few years of service. Since the general corporation tax uses the Federal definition of net taxable income as the starting point in determining tax liability, firms depreciating property under ACRS would have been able to drastically lower their New York City tax obligation. To avoid a substantial loss of revenue, the City uncoupled from the Federal ACRS in 1982 and required firms to depreciate assets under the Asset Depreciation Range. In 1985, however, the City joined with New York State in allowing New York State assets to be depreciated under ACRS. In 1994, ACRS was extended to property placed in service outside New York State.

The Federal Tax Reform Act of 1986 substantially broadened the State and City corporate base by limiting or eliminating various deductions (such as entertainment expenses and natural resource depletion allowances) and accelerating taxable income by requiring corporations to recognize income earlier than under previous law. In order to return the business tax “windfall” which was expected to result from this change, New York State passed the Business Tax Reform and Rate Reduction Act (BTRRRA) in 1987. The City also took steps to return the windfall by lowering its corporate tax rate by 0.15 percentage points, to 8.85 percent, effective for tax year 1987. In July of 1988, the State Legislature passed a bill to conform the City tax law to changes made as part of BTRRRA. As part of this legislation, which became effective in tax year 1988, the City: (1) exempted residential mortgage insurance corporations (REMICs) from the tax; (2) established a ceiling on the alternative capital base of $350,000; (3) amended the definitions of subsidiary, investment and business capital to allow for the deduction of long-term debt; (4) required leased personal property to be included in the formula for calculating the business allocation percentage; (5) eliminated the deduction for franchise, income or similar taxes paid to other states and localities; and (6) repealed the interest add-back rule which required that 90 percent of the interest paid to a shareholder owning more than five percent of issued capital stock be added back to income when computing entire net income.

In June of 1989, the City’s tax law was amended again. This time it was to conform to changes which were made to the Article 9-A tax as part of the State’s fiscal year 1989-90 tax program. As part of this legislation, which generally became effective in tax year 1989, the City: (1) increased the flat fee minimum tax from $125 to $300; (2) eliminated net operating loss carrybacks; (3) limited tax benefits for merger and acquisition activity; (4) repealed the transportation tax, moving these taxpayers to the general corporation tax;

(5) amended the provision which allowed taxpayers to exclude from entire net income 50 percent of dividends from nonsubsidiary corporations by disallowing the deduction when the shares of stock are held for less than 45 days; (6) disallowed the option to use the business allocation percentage or the investment allocation percentage based upon whether the taxpayer was predominantly a business corporation or an investment corporation; and (7) clarified the rules for issuer's allocation percentage of a corporate issuer of stock.

Effective July 1, 1990, the general corporation tax was amended by local law to conform the filing schedule for estimated payments to the schedule used at the Federal and New York State levels. Estimated payments by calendar year corporations are now due in September and December.

The Federal Omnibus Budget Reconciliation Act of 1993 enacted a host of tax law changes including a number of provisions affecting corporate taxes which flow through to the City tax. Among the major provisions are a mark-to-market inventory valuation rule change for securities dealers, a reduction in the business meals and entertainment deduction and an increase in the capital investment limit allowed for small businesses.

In 1994, New York State enacted legislation which allowed for the formation of a new type of business entity in New York State, a limited liability partnership or company (LLC). LLCs have some of the limited liability aspects of corporations and the tax treatment of partnerships for Federal, State and local tax purposes. LLCs pay a fee to the State, and those conducting business in the City are subject to the City unincorporated business tax. Over time, the number of corporations is expected to decline as new businesses increasingly opt for the LLC business form. The shift of filers from the general corporation tax base to the unincorporated business tax base is forecast to decrease the corporation tax collections by an estimated $122 million in 2002 and $145 million by 2005.

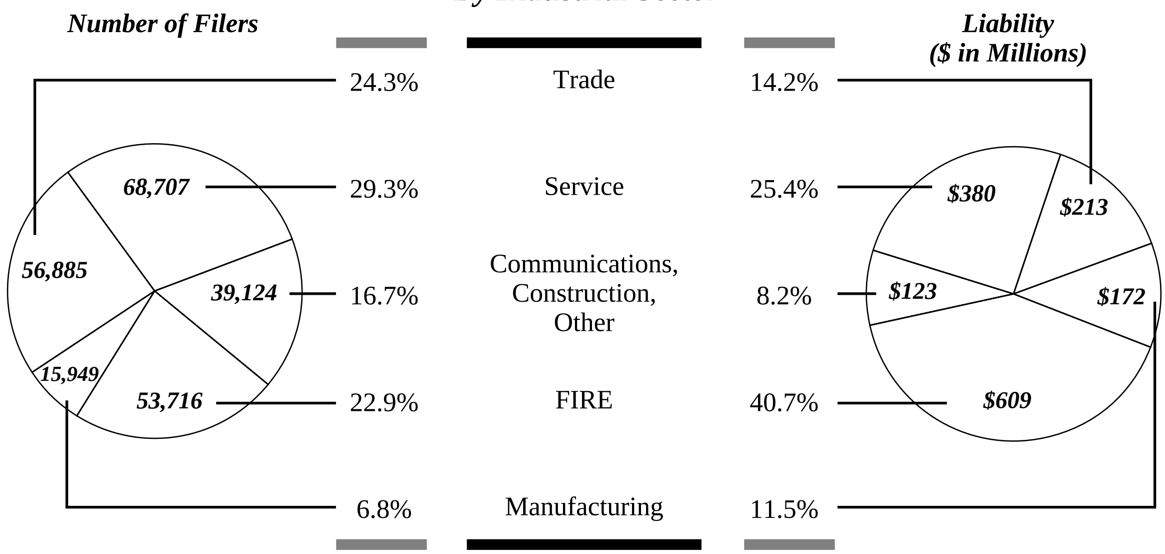
The income-plus-compensation alternative tax computation of the general corporation tax has been modified by phasing out the portion of the tax that applies to compensation paid to corporate officers and by increasing the per-firm statutory deduction. For tax years beginning on or after July 1, 1996, 25 percent of officers' compensation was exempted from the tax. For tax years beginning on or after July 1, 1997, the statutory deduction per firm was raised from $15,000 to $30,000. For tax years beginning on or after July 1, 1998, 50 percent of officers' compensation was exempted from the tax and the statutory deduction per firm was raised from $30,000 to $40,000. For tax years beginning on or after July 1, 1999, a 100 percent exemption for officers' compensation applies. Compensation paid to individual shareholders owning at least five percent of the firm remains fully subject to the alternative tax.

For tax years beginning on or after July 1, 1996, "the place of business" requirement for allocation of taxable income for the general corporation tax has been repealed. Under City tax law, a business operating in the City with a place of business outside the City is allowed to apportion its business income according to a three-factor formula based on the share of its total property, payroll and receipts in New York City. The right to apportion income was previously not available to firms that sold goods or services throughout the country or the world, but only had a City business location. These firms were required to pay tax on all taxable income. All taxpayers conducting business outside the City are now allowed to allocate income with the elimination of the "place of business" requirement.

For tax years beginning on or after July 1, 1996, manufacturing firms are allowed to "double weight" the receipts factor in the allocation formula for the general corporation tax. This enables City located manufacturers to allocate more of their income outside the City, thus reducing their City business income taxes and aiding their competitiveness.

GENERAL CORPORATION TAX *(Tax Year 1997)*

By Industrial Sector



Source: NYC Department of Finance, Office of Tax Policy

Industrial Mix of General Corporation Tax Revenue: The importance of the finance, insurance and real estate sector (FIRE) and the service sector (business, medical, advertising and amusement industries) to the New York City economy is clear. Together these two sectors account for approximately 66 percent of corporate tax liability and 52 percent of all filers. The trade sector accounts for almost 14 percent of liability and 24 percent of filers while the manufacturing sector represents 12 percent of liability and seven percent of filers. The remaining eight percent of liability is generated by communications, construction and other firms who make up 17 percent of corporate filers.

Historically, growth and decline in corporate tax revenue have paralleled the declining and expanding fortunes of the FIRE sector. Within the FIRE sector, it is the securities and commodities subsector that drives liability and consequently swings total corporate tax liability (the other FIRE subsectors include insurance companies, credit agencies, holding companies and real estate firms). The securities and commodities subsector contains a relatively small number of filers that generate a very high share of corporate tax liability. In tax years 1996 and 1997, the securities and commodities subsector accounted for only one percent of corporate tax filers, but generated 18 percent of corporate tax liability.

An understanding of FIRE sector payment swings, as driven by earnings in the securities and commodities subsector, sheds light on the movement in overall corporate tax liability. Following the stock market crash in October of 1987, FIRE sector liability declined precipitously in 1988, then remained flat through 1990. However, in 1988, the rest of the corporate tax base grew just enough to offset the decline in FIRE sector liability, yielding a total liability growth of just over one percent. With the local economy stagnating in 1989 and 1990, non-FIRE liability began to fall as well, leading to year-over-year declines in total liability. In 1991 and 1992, however, a strong rebound in FIRE sector liability mitigated the somewhat deepening recession’s corrosive impact on non-FIRE corporate liability. By 1993, a then record increase in profitability sent FIRE sector payments to a new level, helping push overall liability up by double-digit rates. In 1994, financial firms that made investment decisions assuming a continuation of the four-year decline in long- and short-term interest rates saw heavy losses when the Federal Reserve began raising rates in February, 1994. The price of longer-term bonds fell precipitously, leading to large drops in bond trading income. At the same time short-term rates jumped, pushing up expenses. These two trends combined to shrink profitability and consequently tax liability. In 1995, FIRE sector liability rebounded with pre-tax profits from New York Stock Exchange member firms reaching $7.4 billion over the $1.1 billion earned in calendar year 1994. The rebound in FIRE sector profits stemmed from a reversal of events which depressed earnings in calendar year 1994. The Federal Reserve stopped raising interest rates and actually eased the Federal Funds rate twice in 1995, having achieved a much touted soft landing. The financial markets responded with a strong recovery, leading to impressive gains across all securities industry market segments. Record profits in the securities industry in 1996 increased FIRE sector liability by 34 percent while total corporate liability grew by over 19 percent. The securities industry continued its successful trend in 1997 and equity markets in the U.S. had a banner year with equity prices as measured by the Dow Jones Industrial Average (DJIA) posting a 23 percent gain. This followed a 26 percent rise in 1996 and a 34 percent advance in 1995. Corporate tax liability increased by 6.4 percent in tax year 1997.

Forecast: The 2001 general corporation tax forecast has been raised by $83 million to $1,806 million, growth of 1.5 percent over the prior year. The forecast for 2002 has been reduced by $28 million to $1,490 million, a decline of 17.5 percent from the 2001 level.

The 2001 and 2002 forecasts include reductions of $118 million and $122 million, respectively, relating to the effects of the limited liability company (LLC) business form which is expected to reduce the number of corporate filers, as well as reductions of $127 million and $130 million in 2001 and 2002, respectively, relating to the business tax reform measures passed in 1996. On a common rate and base, general corporation tax revenue is forecast to increase 4.3 percent in 2001 and decrease 14.9 percent in 2002.

Through March, general corporation tax collections have increased 7.6 percent from the prior year period. Growth in current collections reflects the strength of the national and local economy for most of calendar year 2000. The securities industry had another record year of earnings, with New York Stock Exchange (NYSE) member-firm pretax profits totaling $21 billion for the full year. General corporation tax liability in the FIRE sector is estimated to have increased by over 20 percent in calendar year 2000. The lion’s share of the profits occurred in the first half of the year, however. As the year progressed, uncertainty about the prospects for continued economic expansion, and hence future earnings started to unravel the long bull market. Equity indices started to slump, the boom in underwriting ground to a halt and investment banking and trading revenues started to decline sharply. The profitability slowdown has recently been reflected in tax payments with the December and March payments down 1.5 percent and 1.1 percent, respectively, after growth in June and September of 20.9 percent and 30.4 percent, respectively. Profit growth in the non-FIRE sector of the City’s economy was also strong in calendar year 2000 with corporate tax liability in this sector estimated to have increased by 9.5 percent. National before-tax corporate profits increased 12.5 percent, real gross city product is estimated to have grown by 10.1 percent and a total of 95,000 private non-FIRE jobs were added in calendar year 2000.

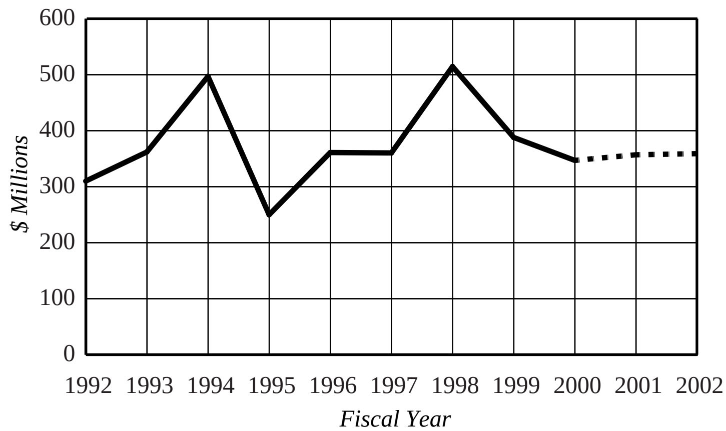
In 2002, general corporation tax revenue is forecast to decline 17.5 percent, reflecting profitability declines brought about by the financial market correction and the national economic slowdown. The pronounced drop in NYSE member-firm profits forecast in calendar year 2001 is estimated to reduce FIRE sector corporate liability by $363 million from the prior year level. The decline of 6.2 percent in national corporate profits is forecast to reduce non-FIRE corporate tax liability by 1.8 percent in calendar year 2001. These liability revisions reduce forecast corporate tax payments in fiscal year 2002 over $200 million from the prior year. Modest growth is projected for both the securities industry and national before-tax corporate profits from calendar year 2002 through 2005, leading to 4.9 percent growth, on average (common rate and base), in the outyears of the plan.

BANKING CORPORATION TAX

The banking corporation tax is projected to account for 1.6 percent of tax revenue in 2002, or $359 million.

Tax Base and Rate: The banking corporation tax is imposed on banking corporations for the privilege of doing business in New York City. Corporations subject to the tax include commercial banks, savings banks, savings and loan associations, bank holding companies and foreign banks. Investment banks, securities brokers and other non-bank financial institutions subject to the general corporation tax are exempt.

BANKING CORPORATION TAX 1992-2002



Banks make three calculations of tax liability, compare the results to a fixed minimum tax of $125 and pay whichever amount is greatest. The three alternative calculations are: (1) nine percent of entire net income allocated to the City (Federal taxable income with certain New York modifications); (2) three percent of alternative entire net income allocated to the City (entire net income adjusted to eliminate the effect of certain tax benefits allowed in the calculation of entire net income); and (3) one-tenth of a mill of each dollar of taxable assets located in the City. Ailing thrifts are exempt from the last alternative, and foreign banks must calculate this base as 0.26 percent of the face value of issued capital stock allocated to the City.

Legislative History: The banking corporation tax has been imposed since 1966. The current law was enacted in 1985 and closely resembles the New York State bank tax law.

In July 1985, State legislation was enacted which restructured the banking corporation tax effective January 1, 1985. Recognizing that the line between bank and non-bank financial institutions had become blurred, the amendments were designed to make the tax more analogous to the general corporation tax. The law lowered the nominal tax rate on allocated entire net income from 13.823 percent (12.134 percent for savings banks) to nine percent for all banking corporations. This rate reduction was coupled with a number of base-broadening provisions. In addition, the separate accounting method of allocating entire net income was replaced by formula allocation, based on payroll, receipts and deposits. The factors included in the formula, with the exception of deposits, are similar to those used by non-banking corporations. The adoption of the three-factor allocation formula also provided consistency in the jurisdictional apportionment of income since these same allocation factors are commonly used in other states.

In addition, the 1985 bank tax law established two new alternative bases: alternative entire net income and taxable assets. Alternative entire net income adds back certain deductions allowed in the calculation of entire net income. These deductions are: (1) 17 percent of interest from subsidiary capital; (2) 60 percent of dividend income and gains and losses from subsidiary capital; and (3) 22.5 percent of the interest income earned on holdings of obligations of the United States, New York State and localities within the State. Taxable assets are the average value of assets reflected on a bank’s balance sheet.

The 1985 changes maintained the 1978 provisions authorizing an exemption for net income generated by the operation of an international banking facility (IBF). Deposits in an IBF are not subject to reserve requirements or interest rate ceilings and the IBF is not required to pay FDIC premiums. State law exempts income generated by an IBF from both State and City taxation. These exemptions were designed to enhance the ability of banks to conduct international business in New York City.

The major difference between the State and City banking corporation tax laws is the treatment of foreign banks under the alternative tax base on assets. For banks organized under the laws of another country, New York State imposes the alternative tax on assets, while New York City imposes the alternative tax on capital stock.

Effective in tax year 1987, the banking corporation tax was uncoupled from Federal bad debt deduction guidelines. The Federal Tax Reform Act of 1986 required that large commercial banks, those with assets over $500 million, deduct only actual loan losses when determining taxable income, rather than deducting an addition to a loan loss reserve account based on a percentage of loans outstanding. These banks were required to recapture into income portions of their outstanding loan loss reserves over a four-year period beginning in 1987. Uncoupling allowed banks to use the more liberal pre-reform bad debt reserve deductions for State and City tax purposes. For thrifts and mutual savings banks, Federal tax reform retained the percentage-of-taxable-income method of deducting bad debts but reduced the excludable percentage from 40 to eight percent.

Effective in tax year 1990, the banking corporation tax was amended, changing the deadline for estimated payments to conform to Federal and State schedules. Estimated payments are now due in September and December for banks with a January through December fiscal year.

The Federal Omnibus Budget Reconciliation Act of 1993 again altered the definition of corporate net income for Federal income tax purposes, the starting point for calculating the City bank tax. The major provision affecting City banks is a mark-to-market inventory valuation change for securities dealers.

As a result of major revisions in the Federal bad debt deduction guidelines applicable to thrifts passed in tax year 1996, the City and the State decoupled from the Federal bad debt deduction guidelines in order to preserve the status quo and to avoid an increase in the City tax liability of thrifts (effective for tax years beginning on or after January 1, 1996). The existing New York methodologies were maintained.

The receipts factors of the income allocation formula of the City's banking corporation tax were amended, effective for tax years beginning on or after January 1, 2000, to permit receipts from management, administration or distribution services performed for regulated investment companies (mutual funds) to be allocated based on the domicile of the mutual fund's shareholders.

Banking Industry Trends: In the 1990s, regulatory reform, technological change and globalization unleashed competitive forces in the banking industry.

For years banks had faced competition from securities firms whose product innovations in debt underwriting, loan syndication and brokerage offerings put pressure on the traditional bank profit centers of commercial lending and retail saving. In response, banks pushed for reform of the Glass-Steagall Act and sought to, expanding on their ability to underwrite some bonds, underwrite securities and offer investment services. Even before the repeal of Glass-Steagall, banks were expanding into the securities industry in the U.S. and abroad through the acquisition of securities firms as subsidiaries. Passage of the Gramm-Leach-Bliley Act in November 1999 effectively repealed Glass-Steagall, allowing banks, insurers and securities firms to affiliate under a financial holding company. This reform has altered the playing field for banks and securities firms. The merger of Citicorp and Salomon Smith Barney under Travelers Group has been consummated, creating one of the largest financial conglomerates in the world. The result is that now banks provide a variety of financial services to the commercial and retail market directly or through subsidiaries, previously available only through securities firms.

At the same time, fueled by technological innovation and the global integration of financial markets, American banks have sought to expand their international presence while foreign banks have increased their presence in the U.S. Deutsche Bank expanded its U.S. presence with the purchase of Bankers Trust in 1999. The following year, Credit Suisse, which already owned First Boston, a U.S. investment banking firm, bought Donaldson, Lufkin & Jenrette, to gain market share in high yield bond underwriting. With an increase in investment banking and mergers and acquisitions in European and Asian markets, American banks and brokerage firms have expanded their presence in these regions by acquiring local financial institutions.

Simultaneously, banks have sought to reduce overcapacity, to achieve global economies of scale and increase automation, in an unrelenting quest for cost reductions. This drive for economies of scale and reduction in overcapacity is seen in many of the recent bank mergers, like J.P. Morgan Chase taking shape from the predecessors of Chase, J.P. Morgan, Chemical and Manufacturers Hanover. With such mergers the order of the day, many bank branches have been closed and consolidated across the country. In New York City alone, this has resulted in a decline of almost 40 percent in bank employment since 1990. The introduction of ATM's and on-line computer banking is another visible indication of this drive to cut costs.

As a result of these changes, large New York City banks now have diverse revenue sources and in many ways behave more like investment firms than traditional banking institutions. Some banks actually earn more of their revenues from investment banking services and fees than interest income. For example, banks' share of lead-managed underwriting deals in the U.S. has increased from less than 13 percent in 1994 to over 50 percent in 2000 for corporate bonds, from 33 percent to over 50 percent for asset-backed bonds, and from three percent to 33 percent for equities.

In recent years, banks for the most part have been highly profitable. A soaring stock market and a strong national economy, with high levels of consumer borrowing, have led to record revenues. This streak of profitability continued into the first half of calendar year 2000, with banks participating in the record levels of underwriting and merger-and-acquisition activity in the U.S. and overseas. In the second half of calendar year 2000, volatility slowed underwriting and pushed some trading desks and venture capital investments quickly from profit to loss. However, operating earnings at most banks for calendar year 2000 were close to or exceeded the prior year's levels, despite the fact that mergers-and-acquisitions charges resulted in year-over-year declines in profits at several banks.

The recent economic slowdown as well as the continuing volatility in equity markets will have a negative impact on bank earnings, even though interest rate cuts in 2001 are already boosting lending activity, particularly consumer lending. Because of the decline in quality of some commercial loans in calendar year 2000 and the current negative economic sentiment, commercial lending is not expected to rebound quickly this year. Non-interest revenues from fees and capital markets activities are also expected to be depressed.

Forecast: The 2001 banking corporation tax forecast has been lowered by $31 million to $357 million, an increase of 2.9 percent from the prior year. The 2002 forecast is unchanged from Financial Plan at $359 million, an increase of 0.6 percent from 2001.

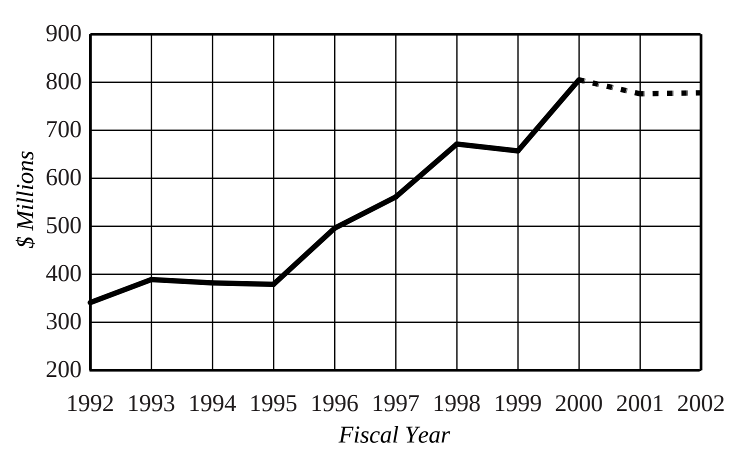
Through March, banking corporation tax collections have increased by 17.3 percent from the prior year period. Most of the growth in collections is due to large commercial banks whose payments have rebounded from the prior year period. Although most of these banks were highly profitable in calendar year 1999 and the first half of calendar year 2000, their quarterly payments had been suppressed by overpayments and credits from prior years. Collections for the remainder of the year are forecast to decline over the prior year with the first estimated payment for tax year 2001 (paid in June) reflecting a difficult environment on Wall Street during the first half of the tax year.

Growth in net revenue would be significantly improved in 2001, but for year-to-date refunds which have increased 95 percent over the prior year. The higher refunds are a result of overpayments by some banks being taken this year as refunds.

Gross collections are forecast to decline in 2002 as a result of reduced profitability in the banking sector in calendar year 2001. Refunds in 2002 are forecast to remain at the high level seen in 2001. Despite the rebound in collections in the first half of 2001, significant overpayments remain on account. Refunds in 2002 have been increased to account for this. Collections are forecast to increase moderately in the outyears of the plan.

UNINCORPORATED BUSINESS TAX

UNINCORPORATED BUSINESS TAX 1992-2002



The unincorporated business tax is projected to account for 3.5 percent of tax revenue in 2002, or $778 million.

Tax Base and Rate: The unincorporated business tax is levied on the business income of all proprietorships and partnerships doing business in New York City. The tax is paid in addition to the City's personal income tax. Unincorporated businesses include trades, professions or occupations conducted by individuals or unincorporated entities, such as partnerships, estates, trusts and limited liability companies (LLCs). The unincorporated business tax rate has been four percent since its imposition in 1966.

Entities engaged in the purchase and sale of property on their own account, except as a dealer holding property primarily for sale to customers in the ordinary course of trade or business, are excluded from the unincorporated business tax base. This exclusion includes the purchase, sale or writing of stock option contracts. The self-trading exemption was expanded for tax years beginning on or after January 1, 1996 to reflect the changing marketplace. Qualifying property now specifically includes not only stocks and securities but also foreign currencies, publicly traded commodities and derivative financial instruments (including options and futures contracts).

Every unincorporated business which operates in New York City must file quarterly declarations of estimated tax if its estimated tax can reasonably be expected to exceed $1,800. Final returns must be filed by every partnership having unincorporated business gross income exceeding $25,000 or having unincorporated business taxable income exceeding $15,000. Unincorporated businesses other than partnerships must file final returns if their unincorporated business gross income exceeds $75,000 or their unincorporated business taxable income exceeds $35,000. The unincorporated business tax base starts with the Federal definition of net profits from business operations plus other business income and is then modified to reflect differences between City and Federal rules. The income is allocated if the business is carried out both inside and outside the City. Income allocation is determined either by a separate accounting method or by a three-factor formula based on payroll, property and gross income.

After income is determined and allocated, a taxpayer is allowed a deduction equal to reasonable compensation for the taxpayer's personal services. This deduction equals the lesser of 20 percent of allocated income or $5,000 per individual or active partner. In addition, taxpayers are allowed to exempt the first $5,000 of income from taxation. The tax rate of four percent is applied to the remaining base. Beginning with tax year 1997, taxpayers whose liabilities are $1,800 or less are entitled to a credit which eliminates their liability. The credit is reduced for taxpayers with liabilities between $1,800 and $3,200, and for liabilities of $3,200 and above no credit is allowed.

Legislative History: New York City has imposed the unincorporated business tax on sole proprietorships and partnerships since 1966. Since its imposition, the tax rate has remained at four percent. Major amendments to the tax became effective in tax years 1971 and 1987 and in City tax programs enacted in July of 1994, 1996 and 1997.

Prior to 1971, exemptions were made for professions where capital was not an income-producing factor and where more than 80 percent of the gross income was derived from personal service. This primarily affected attorneys, doctors, accountants and other professionals. Beginning in tax year 1971, all such professionals were added to the City's unincorporated business tax base.

Two significant amendments were enacted in 1987. The unincorporated business tax credit was raised from $100 to a maximum of $600 and the taxable income threshold for making estimated payments was raised from $2,500 to $15,000. The higher credit removed approximately 30,000 taxpayers from the tax rolls.

In July of 1994, several reforms were enacted. First, the self-trading exemption was broadened to allow firms, which are generally exempt from the unincorporated business tax under this provision, to retain the exemption on their self-trading income if they have gross receipts of $25,000 or less from business activities (normally subject to the tax). Second, owners and operators of real property with income from business activities were able to retain the exemption on income from their real estate activity if the business income was incidental and carried on solely for the benefit of the tenants as in the case of a garage or health club. Finally, partners which are corporations or unincorporated businesses subject to City tax were granted a credit for the share of taxes paid by the partnership in lieu of the exemption for the distribution which existed prior to the change.

Also in July 1994, New York State passed legislation allowing the formation of limited liability companies (LLCs). These business entities have the limited liability of corporations, but the organizational flexibility and tax treatment of partnerships. At the Federal level, LLCs are not taxed as separate entities, but partners are taxed on their share of the income. For New York State tax purposes, LLCs pay a $50 per partner fee, with a minimum fee of $350 and a maximum of $10,000. In New York City, LLCs pay the unincorporated business tax. It is expected that businesses will increasingly opt to form LLCs rather than corporations. As a result, a shift of taxpayers is expected from the general corporation tax base to the unincorporated business tax base. Unincorporated business tax revenues are expected to increase by $56 million in 2001 as a result of this shift, rising to $70 million in 2003.

The City's 1996 tax program made several important changes to unincorporated business tax law. The unincorporated business tax credit was raised from a maximum of $600 to $1,000 over a period of two years. The maximum credit was $800 for tax year 1996, growing to $1,000 for tax years 1997 and after. The level of tax liability at which the credit is phased out was also raised to $1,000 in 1996 and to $2,000 in 1997. To correspond to the new, higher credit, the thresholds for making estimated payments and for filing annual returns were also raised.

Changes were also made to the rules governing the allocation of business income. The "regular place of business" requirement was repealed, allowing businesses to allocate income to sales outside the City, even when they have no regular place of business outside the City. Manufacturers are now allowed to "double weight" the receipts factor when allocating income. All businesses with receipts from the sale of tangible goods, as opposed to services, no longer have to allocate income to the City for goods shipped to points outside the City. Finally, broadcasters and publishers are now allowed to allocate income based upon audience location.

Beginning in 1996, certain unincorporated businesses (including LLCs) treated as corporations for Federal and State tax purposes are subject to City general corporation tax. This law lists several exceptions for businesses subject to unincorporated business tax in 1995, which may elect irrevocably to continue in that status.

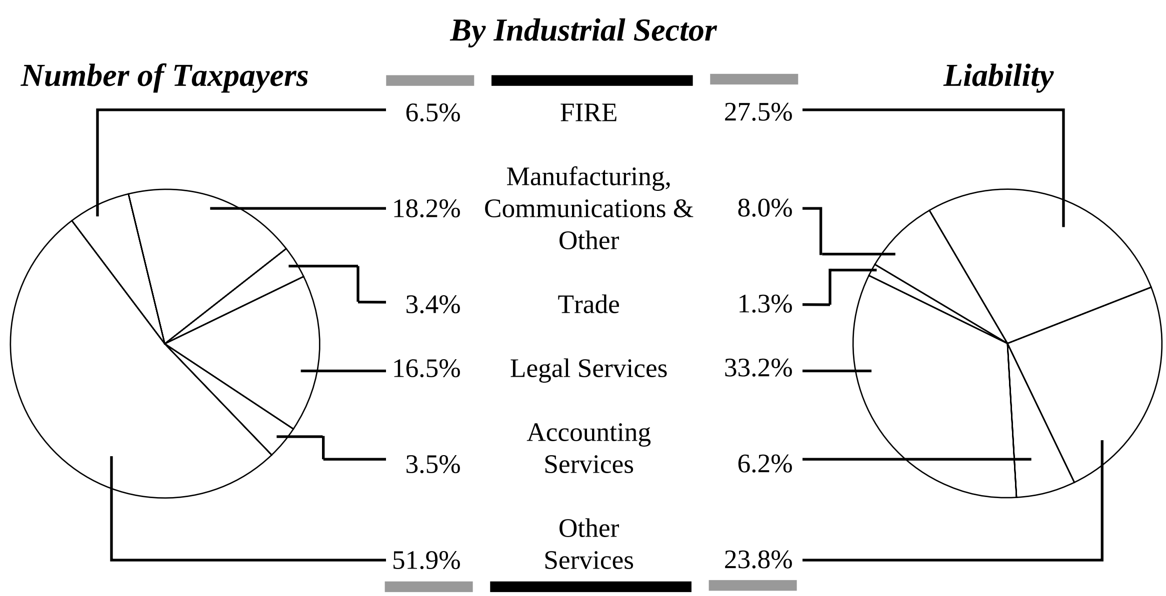
Also in 1996, a number of the tax reform measures passed in July of 1994 were enhanced. The exemptions for other sources of income for "self-trading" entities and for real estate management companies were extended. Provisions were enacted that exempted income from self-trading activities for unincorporated entities that were primarily engaged in trading for their own account or in the ownership, as an investor, of interests in unincorporated entities engaged in unincorporated business activities in the City. This provision is in addition to the self-trading exemption. An unincorporated entity qualifying for the partial exemption is allowed to exclude from its unincorporated business gross income any income and gains from activity qualifying for the self-trading exemption. Prior to the change, any amount of income could "taint" the trading income, causing all of it to be taxed. Further, rules for apportioning investment income subject to tax were conformed to the general corporation tax (issuer's allocation percentage). Additions also were made to the number of financial instruments used by self-traders and a "primarily engaged" test was established, which defines taxpayers as self-trading according to the nature of their assets.

The City's tax program for 1998 revised the unincorporated business tax credit increase granted in the 1996 tax program. For tax years 1997 and after, the maximum credit was lifted to $1,800 with the level of liability at which the credit phases out at $3,200. The new credit eliminates unincorporated business tax for sole proprietors with net income up to $55,000. Partnerships have similar benefits, with the "no tax threshold" varying with the number of partners. In addition, beginning in tax year 1997, unincorporated business owners are able to take a partial credit against their City resident personal income tax liability for their share of the business' unincorporated business tax payments. The credit ranges from a maximum of 65 percent of the unincorporated business tax paid (the distributive share for partners) for personal income taxpayers with NYS AGI of $42,000 or less, to 15 percent for those with NYS AGI of $142,000 or more.

Effective for tax years on or after January 1, 2000, the receipts factor of the income allocation formula of the City's unincorporated business tax was amended to permit receipts from management, administration or distribution services for regulated investment companies (mutual funds) to be allocated based on the domicile of the mutual fund's shareholders.

Distribution and Industrial Mix of Filers: In 1997, there were 196,002 partnership and sole proprietorship filers of which 24,097 paid tax. Sole proprietorships comprised 77.7 percent of all taxpayers

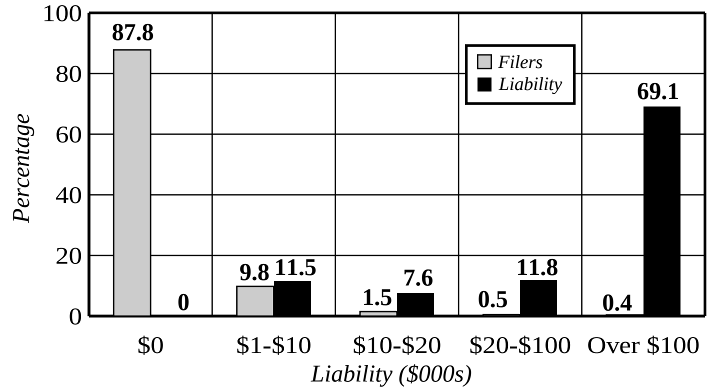
UNINCORPORATED BUSINESS TAX *(Tax Year 1997)*



Source: NYC Department of Finance, Office of Tax Policy but paid only 17.5 percent of total liability. Partnerships accounted for 22.3 percent of all taxpayers and paid 82.5 percent of total liability. Because of the tax credit and exemptions, 87.7 percent of filers in 1997 were exempt from the tax. Proprietorships with net income less than $25,000 (71.2 percent of all filers) paid no unincorporated business tax. The additional exemption for each partner creates higher thresholds for partnerships (16.5 percent of all filers in 1997 were partnerships with no liability). The service sector, made up of the legal, accounting and other subsectors, accounted for 63.2 percent of total unincorporated business tax liability. Legal services and FIRE comprised only 23 percent of taxpayers but incurred 60.8 percent of total liability.

UNINCORPORATED BUSINESS TAX *(TAX YEAR 1997)*

Share of Filers and Share of Liability



Source: NYC Department of Finance, Office of Tax Policy

Forecast: The 2001 unincorporated business tax forecast has been decreased by $33 million to $776 million. This yields a decline in collections of 3.6 percent in 2001. The forecast for 2002 has been decreased by $10 million to $778 million, leaving growth at just 0.3 percent over the prior year.

Unincorporated business tax revenues in recent years have been particularly robust, with average annual growth from 1996 through 1998 reaching 21.2 percent. This unusually high rate of collections growth came in spite of substantial business tax cuts, which returned $50 million to unincorporated business taxpayers in 1998 alone, and stems from the unprecedented strength seen in New York Stock Exchange member-firm profits in recent years. Non-FIRE sector collections have also been robust over the same period due to the unprecedented growth in service sector employment since 1993. In 1999, unincorporated business tax revenues declined 2.2 percent reflecting international financial turmoil in the third quarter of calendar year 1998 which reduced FIRE sector collections. In 2000, unincorporated business tax revenues rebounded 22.6 percent reflecting the robust growth in New York Stock Exchange member-firm profits in tax year 1999 and substantial private sector job gains in 2000, as well as the likelihood of overpayments which are expected to reduce cash payments in 2001.

The 2001 unincorporated business tax forecast is decreased $33 million to $776 million, a decline of 3.6 percent from the prior year. Collections year-to-date through March are up 2.5 percent from the same period in 2000. The forecast decline for the year reflects the expectation that overpayments made in 2000 are reducing cash payments this year. In addition, the first and second installment payments on tax year 2001 to be made in April and June are expected to reflect the equity market correction and the weakened national economy.

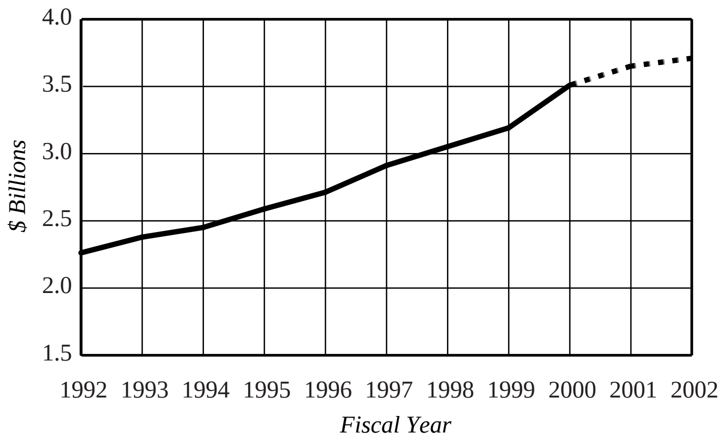
For 2002, the forecast decline in New York Stock Exchange member-firm profits in calendar year 2001 pulls down FIRE sector liability in tax year 2001, suppressing FIRE payments in 2002, while the national economic slowdown restrains payment growth from the non-FIRE unincorporated business taxpayers. In 2003 through 2005 unincorporated business tax revenue is forecast to average 6.9 percent growth, as both New York Stock Exchange member-firm profits and the national economy rebound.

SALES AND USE TAX

The sales and use tax is projected to account for 16.5 percent of total tax revenue in 2002, or $3,710 million.

Tax Base and Rate: The sales tax rate is four percent and applies to: (1) sales and use of tangible personal property and services; (2) sales of gas, electricity, steam, refrigeration, and intrastate telephone and telegraph services; (3) food and beverages sold by restaurants and caterers; (4) hotel and motel occupancies; (5) admission charges to certain places of amusement; and (6) club dues. Exemptions include food (except certain drinks, candies and alcoholic beverages), rent, prescription and non-prescription drugs, newspapers and periodicals, textbooks for college students, and public transportation. These exemptions are designed to reduce the regressivity of the tax. Exemptions are also allowed for purchases of tangible goods and services intended for resale. The tax does not apply at the time of purchase for resale, but rather at the time the items are sold at retail. Other exemptions include fuel sold to airlines, energy used for research and development, transmission and distribution of energy (to be phased in over four years beginning September 1, 2000), certain promotional materials, internet access services, interstate and international telecommunications services, and clothing and footwear purchases under $110. With the State sales tax rate of four percent, and a 0.25 percent sales tax in the Metropolitan Commuter Transportation District, the aggregate sales tax rate in the City is 8.25 percent.

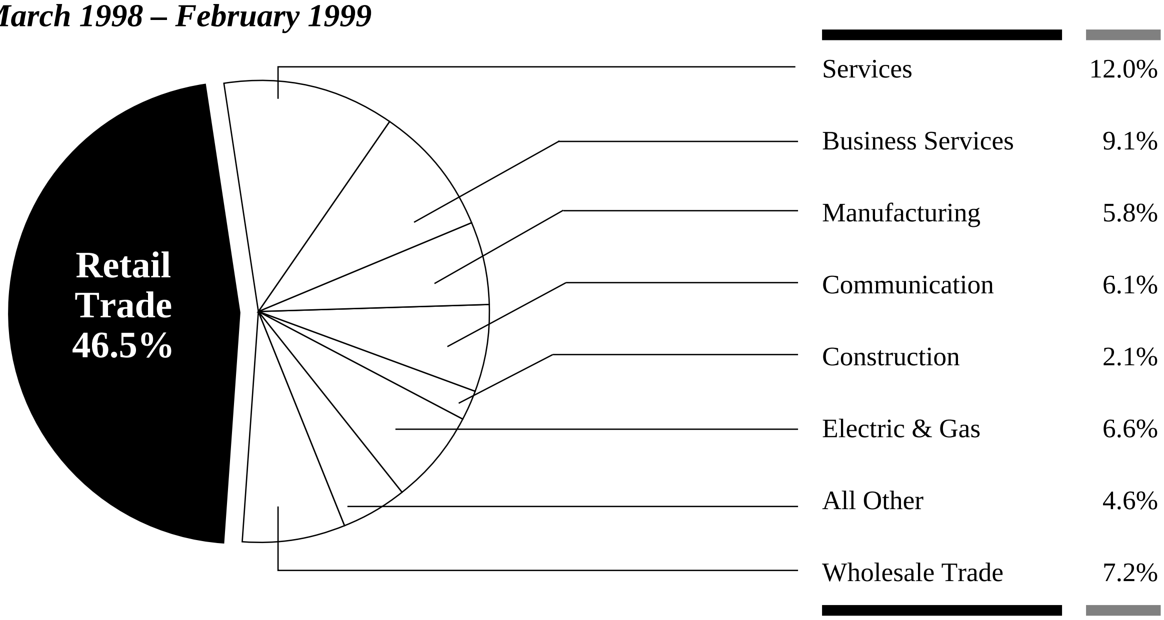
SALES TAX 1992-2002



Retail trade, comprising 46.5 percent of the sales tax base, is the largest expenditure category. Business services and other services combined account for 21.1 percent of the sales tax base. Since 1981 the proportion of business services in the taxable base has increased from 3.7 percent to 9.1 percent, making it the fastest growing component of the base. Various business and utility expenditures make up the remainder of the tax base.

COMPONENTS OF THE SALES TAX BASE

March 1998 – February 1999



1934 New York City imposes a two percent tax on the sales and use of tangible personal property and services.

1959 The tax rate is increased to three percent for most sales and to five percent for restaurant meals and drinks costing one dollar or more.

1963 The basic rate is increased to four percent and the five percent rate on restaurant meals is extended to include catering services.

1965 New York State introduces its own two percent sales tax and begins to collect, administer and enforce the sales tax for all localities. New York City lowers its own tax rate to three percent. Sales tax on any motor vehicle purchased by an out-of-state resident is repealed. (effective date: August 1, 1965).

1969 The State raises its tax rate to three percent.

1970 The City imposes a six percent tax on motor vehicle parking and garaging services (effective date: September 1, 1970).

1971 The State raises its tax rate to four percent.

1974 The City raises its tax rate to four percent (effective date: July 1, 1974).

1975 A four percent Municipal Assistance sales and use tax is levied in lieu of the City's sales tax. The revenue from this tax is pledged to the Municipal Assistance Corporation (MAC) to meet the interest payments on bonds issued by the corporation. Revenue resulting from future expansions of the City's sales tax base does not belong to MAC but flows directly to the City (effective date: July 1, 1975). On July 1, 2008, the sales tax imposed by the City will again be in effect. At that time the City-imposed sales tax takes effect at the rate of three percent.

1975 Protective and detective services and credit reporting and collection services are added to the City's non-MAC tax base (effective date: September 1, 1975).

1976 Barber and beauty shops and health and weight control salons are added to the City's non-MAC tax base (effective date: March 1, 1976).

1977 Sales and use taxes paid on machinery used in the production of tangible personal property, gas, electricity or refrigeration, and steam for sale can be claimed as a credit against the City's general corporation, unincorporated business or utility taxes (effective date: July 1, 1977). For sales after December 1, 1989, the credit is replaced with an exemption, reducing the City's MAC tax base.

1980 An eight percent tax surcharge on motor vehicle parking and garaging services is imposed in the borough of Manhattan and is added to the City's non-MAC tax base (effective date: September 1, 1980), bringing the total City, State and MTA sales tax on parking in Manhattan to 18.25 percent.

1984 Sales tax on electricity or electric service used in the production of tangible personal property by manufacturing, processing or assembling can be claimed as a credit against the unincorporated business or general corporation taxes (effective date: July 1, 1984).

1985 Manhattan residents are exempt from the eight percent parking and garaging surcharge, reducing the City's non-MAC tax base (effective date: September 1, 1985).

1987 Under the Competitive Business Energy Costs Program (CBECP), sales tax on sales of energy to commercial or industrial users is exempted in annual increments of 25 percent per year (effective date: July 1, 1988).

1988 Implementation of the CBECP is delayed until July 1, 1990, when it is due to resume on the original schedule (i.e., 75 percent).

1989 Interior decorating, contract cleaning and maintenance services are added to the City's non-MAC tax base (effective date: December 1, 1989). Service charges on floor covering installations are added to the State and MAC tax bases (effective date: June 1, 1989). The State enhances its revenue enforcement capability to improve revenue collections from interstate mail-order sales, prefabricated building materials purchased from out-of-state manufacturers and used in New York, and catalogues printed out-of-state and mailed by in-state firms (effective date: September 1, 1989). Excise taxes on cigarettes (effective date: June 1, 1989) and tobacco products (effective date: July 1, 1989) are included in the calculation of the sales tax, and are added to the State and MAC tax bases. The City's credit for sales tax paid on machinery and equipment used in the production of tangible personal property is changed to an exemption, reducing the MAC base (effective date: December 1, 1989).

1990 Entertainment services provided or delivered by telephone or telegraph through 500, 700, 800 and 900 telephone numbers, as well as such services delivered by private telephone line, cable or channel are added to the State and MAC tax bases (effective date: September 1, 1990). Protective and detective services, interior decorating, contract cleaning and maintenance services, previously taxed exclusively by the City, are added to the State's tax base (effective date: June 1, 1990). The State and City sales taxes due on automobile and boat leases of duration greater than one year is due in total at the inception of the lease and is no longer spread over the life of the lease (effective date: June 1, 1990). The implementation of the CBECP is delayed indefinitely.

1991 Shipping, transportation, postage and similar delivery charges, telephone answering services, and sales of prewritten software are added to the State and MAC tax bases (effective date: September 1, 1991).

1992 The additional cost of a new alternative fuel vehicle (AFV) above the sales price of a comparable gasoline or diesel powered vehicle and parts and labor charges related to converting a gasoline or diesel powered vehicle to an AFV are exempted from the State and MAC tax bases. This exemption, set to expire five years after the effective date of September 1, 1992, was subsequently extended through 2002.

1995 Interior decorating and design services are exempt from the City tax, reducing the City's non-MAC tax base (effective date: December 1, 1995). The State requires cigarette stamping agents to prepay State and local sales taxes (at a seven percent blended rate) on sales of cigarettes distributed to licensed wholesalers, chain stores and retailers (effective date: September 1, 1995).

1996 The retail sale of shopping papers to the publishers and related printing services are exempt from the State and MAC tax bases (effective date: September 1, 1996). The State and City repealed their taxes on clothing and footwear purchases under $500 during the week of January 18-24, 1997, reducing the State and the City's MAC tax bases. Printed promotional materials delivered through the mail and associated shipping services are exempt from State and City taxes, reducing the State and MAC tax bases (effective date: March 1, 1997). Vehicles leased by Manhattan residents are exempt from the eight percent parking and garaging surcharge, reducing the City's non-MAC tax base (effective date: December 1, 1996). Parking charges paid to municipally-owned and operated parking facilities are exempt from State and City sales taxes, other than the eight percent Manhattan parking surcharge (effective date: December 1, 1996). Certain parts, tools, supplies and services used or consumed in production processes, including film production, are exempt from the City tax, bringing City tax law into conformity with the State (effective date: September 1, 1996). This law was amended October 1, 1997 to include live theatrical performances. The services of installing, repairing, maintaining and servicing tangible personal property used to produce a product for sale by manufacturing, processing and assembling are exempt from the City tax, reducing the City's MAC tax base, bringing City tax law into conformity with the State (effective date: September 1, 1996).

1997 The State and City exempt clothing items under $100, excluding footwear, during the week of September 1-7, 1997, and repealed their taxes on clothing and footwear purchases under $500 during the weeks of September 1-7 and January 17-23, 1998, reducing the State and the City's MAC tax bases. The State permanently repealed its four percent sales tax on clothing items and footwear purchases under $110, and gave local governments the option to match the repeal. If a locality within the MCTD opts to repeal, clothing is also exempted from the 0.25 percent MCTD sales tax. The locality reimburses the MCTD for one half of the tax foregone and the State reimburses the MCTD for the other half (effective date: December 1, 1999). New exemptions include: emissions inspection equipment purchased by an official inspection station (effective date: September 1, 1997); bus purchases and repairs, coin-operated car washes, coin-operated bulk vending machines and photocopying machines at fifty cents or less, temporary transportation devices sold through coin-operated equipment, food or drink (except hot drinks or sandwiches) sold through coin-operated vending machines, wine or wine product furnished by the official agent of a farm, winery, wholesaler, or importer at a wine tasting, and receipts from admissions to all circuses (effective date: December 1, 1997); internet access services, defined as the service of providing connection to the internet and including the provision of communication or navigation software, an E-mail address, E-mail software, news, headlines, space for a website and website services (effective date: February 1, 1997); receipts from the sale of the service of installing alternative fuel refueling property (property used for storing and/or dispensing fuel) and receipts from the retail sale of alternative fuel refueling property (effective date:

March 1, 1998 through February 28, 2003).

1998 The State and City exempt clothing items under $500, including footwear, during the week of January 17-24, 1999, reducing the State and the City's MAC tax bases. Textbooks purchased by full- or part-time college students for their courses at accredited institutions are exempt from the State and the City's MAC tax base (effective date: June 1, 1998). Computer system hardware used or consumed directly and predominately in designing and developing computer software for sale is exempt from the State and the City's MAC tax base (effective date: June 1, 1998). Coin phone calls costing 25 cents or less are exempt from the State and the City's MAC tax base (effective date: September 1, 1998). The exemption for telephone central office equipment or station apparatus is expanded to include equipment used directly and predominantly in receiving, amplifying, processing, transmitting telephone or telegraph signals (effective date: September 1, 1998). Parking charges paid to homeowners' associations (including co-ops and condominiums) by its members for parking in a facility owned or operated by the association are exempt from the 6 percent City sales tax and the 8 percent Manhattan parking tax (effective date: September 14, 1998). Since 1997 the exemption includes facilities owned by such an association, but operated by a third party.

1999 The State and City exempt clothing and footwear purchases under $500 from September 1-7, 1999 and from January 15-21, 2000. The permanent exemption of clothing and footwear purchases under $110, scheduled to become effective December 1, 1999, is postponed until March 1, 2000. The exemption for hot drinks and certain food items sold from vending machines is extended to include machines which accept credit or debit cards (effective date: December 1, 1999). New exemptions include: computer system hardware used in designing and developing internet websites (effective date: March 1, 2001); machinery or equipment used or consumed directly and predominantly to upgrade cable television systems to allow for the receiving, amplifying, processing, transmitting, re-transmitting, switching or monitoring of telecommunication services for sale and communications equipment used in the transmission of internet access services (effective date: March 1, 2001); and tangible personal property sold to a contractor, subcontractor or repair person for use directly and predominantly in the production phase of farming (effective date: March 1, 2001). The base for computing the use tax on self-produced items which a manufacturer used in its business operations is modified from a use tax on the manufacturer's normal selling price to a use tax based on the manufacturer's cost of materials (effective date: March 1, 2001). The sales tax special recordkeeping and on-site inspection requirements for Manhattan parking garages is extended until November 30, 2004. These special requirements were originally enacted in 1992 to improve sales tax compliance.

2000 Purchases of gas and electricity from out-of-state suppliers are subject to State and local compensating use taxes (effective date: June 1, 2000). An exemption for purchases of the service of transporting, transmitting or distributing gas or electricity, when such services are bought from a company other than the vendor of the gas or electricity, is phased in over four years, beginning September 1, 2000, with such services fully exempt beginning September 1, 2003. Purchases of gas or electricity used in operating a gas pipeline or gas distribution line or an electric transmission or distribution line are exempt (effective date: June 1, 2000). Fuel, gas, electricity, refrigeration or steam used in the production of tangible personal property for sale, previously claimed as a credit against general corporation tax and unincorporated business tax, are exempted from City tax, reducing the City's MAC tax base and bringing City tax law into conformity with the State (effective date: November 1, 2000). New exemptions include: machinery, equipment, and certain other specified tangible personal property used by an operator of an Internet data center that sells Internet web site services, as well as, services to the exempt property, and certain other services used in the Internet data center, are exempt (effective date: September 1, 2000); tangible personal property used in providing telecommunications services for sale or Internet access services for sale; machinery, equipment, parts, tools, supplies and certain related services used in upgrading cable television systems to enable them to offer digital cable TV service for sale or Internet access service for sale (effective date: September 1, 2000; cable TV exemption expires: September 1, 2003); machinery, equipment, or other tangible personal property used by a broadcaster in the production of live or recorded programs for broadcast or in the transmission, as well as services (effective date: September 1, 2000); food and non-alcoholic beverages sold at dining facilities located in senior citizen residences, where use of the dining room is limited to residents and their guests, and where the food and drink are served only in the dining room or a resident's room (effective date: December 1, 2000); manufacturing and industrial pollution control, prevention, and abatement equipment and machinery (effective date: March 1, 2001); candy, soda and certain fruit drinks sold for 75 cents or less through vending machines (effective date: September 1, 2000); purchases by out-of-state residents of vessels and trailers sold for use with the vessel (effective date: March 1, 2001); and tangible personal property and building materials used in farm production, as well as utility services, and services provided to farm real property. The 1998 exemption for promotional materials is extended to prospectuses, paper, ink, mechanicals, layouts, artwork, photographs, color separations and similar property furnished to a printer for use in producing promotional materials that are then sold to the furnisher of those items (effective date: retroactive to March 1, 1997). Additionally, commercial horse boarding operations receive the same exemptions as farms (effective date: September 1, 2000).

Administration: New York State and local sales tax laws provide that the State Department of Taxation and Finance will administer the sales taxes imposed by both the State and the localities. A general sales tax is collected from approximately 590,500 vendors in New York State. Vendors are responsible for collecting the sales tax from the purchaser at the time of sale. These vendors must file tax returns periodically. The frequency and timing of filing is determined mainly by their level of receipts. Large vendors submit estimated payments to the State for the first two months of each reporting quarter. In the third month they submit a return with remittances for complete quarterly collections. Small vendors submit returns quarterly or annually.

The State distributes estimated monthly payments to the City based on prior year payment patterns. At the end of a reporting quarter remittances are conveyed to the City based on vendor returns received by the end of the third month. In subsequent months, the State reviews returns for accuracy and processes late returns. This may lead to substantial reconciliations of the distributions made in prior periods giving rise to what are known as prior period adjustments (PPAs). The State charges an administrative fee for this service, which is allocated to each locality based on the locality's share of total statewide collections. For 2000, the administrative charge paid by the City was $19.3 million.

Forecast: The 2001 sales tax forecast is increased by $52 million to $3,651 million, a 4.0 percent increase over the prior year. The 2002 tax revenue forecast is $3,710 million, 1.6 percent growth over the prior year.

Sales tax revenue growth has been strong in recent years, averaging 8.4 percent growth from 1997 through 2000 (common rate and base). Historic employment gains and strong growth in the tourism industry spurred the growth in sales tax revenue over this period. Additionally, increased discretionary income in the City, as robust Wall Street profits were translated into strong bonus payouts and a wealth effect resulting from the steep appreciation of equities held by households, also buoyed consumption.

The sales tax is forecast to grow 4.0 percent in 2001, a slowdown from the robust growth of nearly ten percent in 2000. Sales tax revenue growth in the first three quarters of 2001 has been strong with the year-to-date collections averaging 6.1 percent growth. Record employment gains during calendar year 2000 and a record bonus payout on 2000 Wall Street profits continue to bolster consumption locally, despite signs of a slowing national economy. Through the end of the year sales tax collections are forecast to grow 2.0 percent.

In 2002, sales tax revenue is forecast to increase by 1.6 percent (growth of 1.9 percent on a common rate and base), reflecting a slowdown in local wage income due to a lower Wall Street bonus payout on calendar year 2001 profits and moderating growth in City employment.

The deregulation of the energy industry and consequent legislative actions have had a large impact on the sales tax revenue forecast. Beginning in 1997 the Public Service Commission (PSC) and Con Ed, and subsequently other utilities, entered into agreements that set a schedule for competitive retail access and the deregulation of the electric industry in New York State. The natural gas industry has been deregulated since 1991. The deregulation of electricity created a large loophole in the sales tax when the commodity portion of the electric bill was unbundled from the transmission and distribution service (T & D). Transportation services have typically been exempt from the sales tax. This loophole was closed administratively by the State on April 1, 2000. Subsequently, the State enacted utility reform legislation that phases out the State and local sales and use tax on the T & D portion of the electric and natural gas charge. Effective September 1, 2000, the State and local sales tax rates were reduced by 25 percent. Each subsequent year the State and local sales tax rates will be reduced another 25 percent resulting in a full exemption of the T & D portion of electric and natural gas sales on September 1, 2003. Additionally, the State imposed a use tax on the commodity component of energy purchased from out-of-state vendors at a rate of 4.0 percent (effective date: June 1, 2000).

The impact of deregulation on the City sales tax revenue depends also upon the participation of businesses and individual consumers in competitive gas and electric retail access. Prior to November 1, 2000, the portion of the Con Ed electric load available for competitive retail access was set by PSC agreement. On November 1, 2000, 100 percent of the Con Ed electric load was made available to competition. Since the January Financial Plan, estimates of participation in competitive electric and gas retail access have been revised downward. Fewer businesses and consumers are participating in competitive retail access than previously estimated, reducing the estimated revenue loss in the near-term from energy deregulation. The impact of energy deregulation and State utility reform legislation is estimated to reduce sales tax revenue by approximately $7 million in 2002 and, with increasing public participation in the deregulated market, will reduce revenues by over $140 million in 2005, a decline from the January Financial Plan of $13 million and $60 million, respectively.

Sales tax revenue is forecast to grow an average of 4.7 percent on the continuing base in 2003 through 2005.

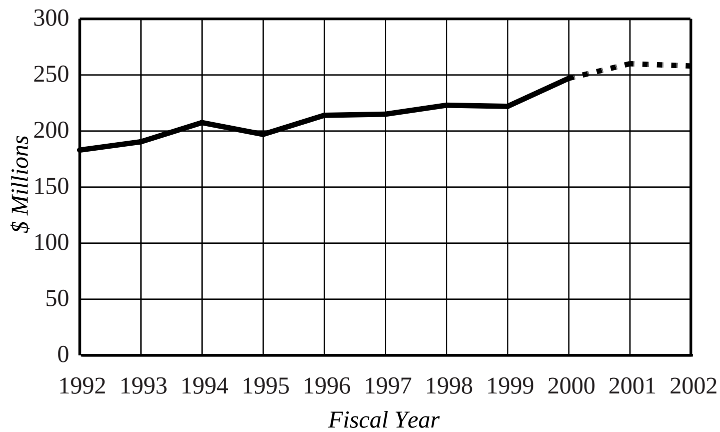
UTILITY TAX

The utility tax is projected to account for 1.1 percent of tax revenue in 2002, or $258 million.

Tax Base and Rate: The City imposes a tax on all utilities and vendors of utility services, including operators of omnibuses. The tax is levied at a rate of 2.35 percent on the gross income of taxpayers.

Legislative History: In 1933 enabling legislation allowed New York City to levy a gross income tax on utilities and vendors of utility services. The current rate of 2.35 percent was imposed on January 1, 1966. Since 1985, utility tax collections have been reduced by the Energy Cost Savings Program (ECSP) which granted a 30 percent rebate on electricity charges and a 20 percent rebate on natural gas charges to eligible nonresidential users operating in Brooklyn, the Bronx, Queens, Staten Island and Manhattan north of 96th Street. Non-retailers outside the City which relocate to the designated areas (after May 3, 1985) are also eligible. Effective November 1, 2000, legislation changed the ECSP rebate on electricity and gas from a discount on all utility charges to a discount solely on utility delivery charges. The legislation raised the rebate percentage to 45 percent of eligible electricity charges and 35 percent of eligible natural gas charges in an effort to maintain roughly the same benefit levels, in dollar terms, as previously. Currently, there are 1,551 companies participating in the rebate program. A similar program, the Lower Manhattan Energy Program, was incorporated into the Commercial Revitalization Program (effective 1995) and focused on stimulating economic development in lower Manhattan. The program offers a 12-year (13 years for buildings designated as landmarks) rebate on the electric bills of building owners who have improved their buildings by at least 20 percent of assessed value. The program reduced utility tax revenue by $8 million in 2000 and is expected to reduce revenue by $11 million in 2001 and $13 million in 2002.

UTILITY TAX 1992-2002



The Competitive Business Energy Costs Program became effective in 1987 as part of an effort to lower the cost of doing business in New York City. Under this program, the City no longer required utility corporations selling electricity, natural gas and steam to pay the utility tax on revenue derived from business customers. These savings were to be passed on to businesses through lower utility rates. The program was in effect for only one year and is estimated to have reduced City tax revenue by approximately $30 million in 1988. The program was subsequently cancelled.

The deregulation of the energy industry and subsequent legislative actions have and are forecast to continue to have a large impact on the utility tax revenue forecast. Beginning in 1997, the Public Service Commission (PSC) and Con Ed, and subsequently other utilities entered into agreements that set a schedule for competitive retail access and the deregulation of the electric industry in New York State. The natural gas industry has been deregulated since 1991.

On March 13, 1997, Con Ed and the PSC entered into a settlement agreement with respect to the PSC's Competitive Opportunities proceeding, with PSC approval occurring on August 29, 1997. The settlement agreement features a five-year rate plan to facilitate the transition to competition, effective January 1, 1998. The five-year rate plan called for an immediate 25 percent electric rate reduction for Con Ed's largest industrial customers, a 10 percent rate reduction for other large industrial and commercial customers (which include office buildings, hospitals, colleges and universities) and a 3.3 percent rate reduction for residential and small commercial customers. The five-year rate plan superceded the prior 1995 rate agreement as of March 31, 1997, and the revenue requirement increase for the third rate year of the 1995 agreement was reversed. In calendar year 2000, Con Ed agreed to further reduce retail electric rates and extend the electric restructuring agreement by three years, to 2005. Effective October 1, 2000, the total reduction in retail distribution rates was 16.8 percent. Also an additional 200 megawatts of capacity became eligible for business rate incentives. The settlement agreement reduced utility tax revenue by $5 million in 2000, and is expected to reduce revenue by $9 million in 2001 and $10 million in 2002.

As a result of the 1996 PSC Competitive Opportunities proceeding, the PSC ordered a complete restructuring of the State's energy utilities to encourage competitive markets. This agreement originally set the pace of deregulation in the State with the expectation of full retail access by 2006. The original PSC agreements provided a transition to a competitive retail market through the development of retail access plans, a reasonable recovery of strandable costs and the divestiture to unaffiliated third parties of approximately 50 percent of electric generating capacity in the City. The PSC agreements were revised in 2000, allowing for full retail access for all customers as of November 1, 2000. Additionally, Con Ed has completed the process of divesting itself of all its generating capacity. Since the January Financial Plan, estimates of participation in competitive electric and gas retail access have been revised downward. Fewer businesses and consumers are participating in retail access than previously estimated, reducing the estimated revenue loss in the near-term from energy deregulation. The impact of energy deregulation and State utility reform legislation is estimated to reduce utility tax revenue by approximately $2 million in 2001 and 2002 and with increasing public participation in the deregulated market, is expected to reduce revenue by approximately $26 million by 2005.

Forecast: The 2001 utility tax forecast is increased by $20 million to $260 million, a 5.3 percent increase over the prior year. In 2002, utility tax revenue is projected to decline 0.8 percent over 2001 to $258 million. The strong growth forecast for 2001 is attributable to the robust local economic expansion in calendar year 2000 and an increase in regional energy prices, principally caused by diminished OPEC oil production. The decline in 2002 reflects a projected reduction in energy prices already being seen in the second half of 2001, and slow growth in the local economy. The ECSP is estimated to reduce collections by $32 million per year in 2001 and 2002. In 2003 through 2005, utility tax revenue is forecast to decline an average of 2.4 percent as a result of the increasing public participation in competitive retail access.

OTHER TAXES

All other taxes are projected to account for 3.4 percent of total City tax revenue in 2002, or $759.5 million.

2001-2002 Other Taxes Forecast
Excluding Tax Audit Revenue
($ Thousands)

Tax	2001 Forecast	2002 Executive Budget	Increase/(Decrease) From 2001 to 2002 Amount	Percent Growth
Hotel Room Occupancy	$237,000	$246,000	$9,000	3.8%
Auto Related Taxes				
Auto Use	32,200	32,200	0	0.0
Commercial Motor Vehicle	43,700	43,700	0	0.0
Taxi Medallions Transfer	3,600	3,600	0	0.0
Excise Taxes				
Beer and Liquor	21,500	21,500	0	0.0
Cigarette	28,000	28,000	0	0.0
Liquor License Surcharge	3,000	3,000	0	0.0
Horse Race Admissions	100	100	0	0.0
Off-Track Betting	13,300	11,700	(1,600)	(12.0)
Off-Track Betting Surtax	20,900	21,300	400	1.9
Miscellaneous				
Other Refunds	(32,000)	(15,200)	16,800	(52.5)
Payments in Lieu of Taxes (PILOTs) ...	168,548	156,639	(11,909)	(7.1)
Stock Transfer	114,000	114,000	0	0.0
Waiver	62,300	62,300	0	0.0
Penalty & Interest Real Estate .... (Current Year)	11,000	10,000	(1,000)	(9.1)
Penalty & Interest Real Estate .... (Prior Year)	40,000	40,000	0	0.0
Penalty & Interest - Other Refunds	(18,900)	(19,300)	(400)	(2.1)
Total	$748,248	$759,539	$11,291	1.5%

HOTEL TAX

The City has imposed a hotel room occupancy tax since 1970. This tax is levied in addition to the combined City and State sales tax. Until 1986, the tax was imposed as a flat fee based on the daily rental value of the hotel room occupied. The fee ranges from a minimum of $0.50 up to $2.00 per day for rooms priced at $40 or more. An additional five percent tax on the rent or charge was imposed in July 1986. Subsequently, tax collections increased from $26 million in 1986 to $79 million in 1987. The State introduced a special hotel occupancy tax of five percent (effective June 1, 1990) on rooms costing $100 or more per day. The City rate was increased to six percent on September 1, 1990. The total tax rate payable on rooms priced over $100 in the City was therefore 19.25 percent, in addition to the $2.00 flat fee. One-quarter of the revenue collected from the additional City one percent tax rate increase was earmarked for the development of tourism. Of this dedicated revenue, seven-eights of the one-quarter percent funded the New York Convention and Visitors Bureau. The remaining one-eighth was not dedicated to a specific organization but had to be expended on tourism-related activities. In 1994, the tourism portion totaled $4 million.

In 1994, both the State and City acted to reduce the hotel occupancy tax burden. Effective September 1, the State eliminated its five percent tax. Effective December 1, the City repealed its one percent tax increase, including the dedication of the one-quarter percent to tourism, returning the rate to five percent.

The hotel tax forecast has been reduced by $3 million in 2001 to $237 million, growth of 8.5 percent from the prior year. Last year, fiscal year 2000 was an excellent year for the hotel tax with growth of 9.8 percent, average daily room rates up 5.2 percent to $225 and average occupancy levels rising to 84 percent during the year. In 2001, however, the industry's fortunes have been mixed.

In the first half of the year, growth in average daily room rates was strong given the record levels of occupancy, but in December, with decreasing demand, average daily room rates fell from the prior year's high levels. Occupancy rates have continued to sag and room rate growth has also slowed in the ensuing months, a trend which is expected to continue amid a slowing economy and declining business travel. The increase in the supply of hotel rooms, particularly low cost rooms, also means that hotel operators do not have the pricing power they enjoyed in recent years. In 2001, growth in the room rate is forecast at 5.9 percent, but with a further increase in the number of rooms, average occupancy levels are forecast to decline 1.7 percent.

The forecast for 2002 has been reduced by $2 million to $246 million, growth of 3.8 percent over the prior year. The total number of visitors to New York City is still forecast to rise this summer, however, growth in demand is not expected to keep pace with the increase in the number of rooms. Average occupancy levels are forecast to decline to 80 percent for the year and room rates increase just three percent. In the outyears of the plan, moderate increases in the supply of rooms and slow growth in average daily room rates lead to average growth of 3.7 percent in hotel tax collections.

AUTO RELATED TAXES

Auto Use Tax: This tax is imposed by the City on privately-owned vehicles at the annual rate of $15 per vehicle. The tax was first imposed on October 1, 1974, and the amount has since remained unchanged. The tax is administered by the State Department of Motor Vehicles, with an administrative charge levied on the City for this service. In 1990, taxpayers were required to change from annual to biennial payments to conform to a change in State registration procedures. This new procedure resulted in roughly half of all registrants in 1990 paying for two years, while the other half continued to pay only the annual fee. Revenue from the tax is projected to be $32.2 million in 2001 and in 2002.

Commercial Motor Vehicle Tax: This tax was first levied in 1960 on vehicles used for the transportation of passengers (medallion taxicabs, omnibuses and other for-hire passenger vehicles) and on all other commercial trucks and vehicles. The tax is charged at different rates, based on the purpose for which vehicles are used. Significant legislative changes in 1990 resulted in a revision of the rate schedules for many commercial motor vehicles. The rate for medallion taxicabs was raised to $1,000 per year, from $100 the previous year. Other for-hire passenger vehicles (livery cabs and omnibuses) pay $400 per year, a $300 increase over the 1989 rate. The rate schedule for other commercial vehicles weighing less than 10,000 pounds was left unchanged at $40 per year, while the rate for heavier vehicles was increased, with trucks weighing over 15,000 pounds paying the highest rate of $300 per year. Medallion taxicabs pay twice a year, in December and June, while owners of other types of commercial vehicles pay annually in June. In 2001, following a Department of Finance initiative the City transferred the collection and administration of the commercial motor vehicle tax for livery taxicabs and light trucks to the State, thereby improving the rate of compliance. Revenue from the tax is projected to be $43.7 million in 2001 and 2002 after collections of $51.0 million in 2000.

Taxi Medallion Transfer Tax: This tax is imposed at a rate of five percent of the consideration paid for transfers of taxicab licenses (medallions). The tax is expected to generate $3.6 million in 2001 and 2002.

EXCISE TAXES

Beer and Liquor Excise Tax: Since 1980, the City has imposed a tax on licensed distributors and non-commercial importers on the sale of beer and liquor within New York City. The current tax rate is 12 cents per gallon of beer and 26.4 cents per liter of liquor with an alcohol content greater than 24 percent. The City does not impose a tax on wine. The tax is administered by New York State. The tax is expected to generate $21.5 million in 2001 and in 2002.

Cigarette Tax: The City has imposed a tax on the sale of cigarettes in the City since 1952. The current rate is eight cents for each pack of 20 cigarettes and two cents for each five cigarettes or fraction thereof past 20. This tax is imposed in addition to a State cigarette tax which is currently $1.11 per pack after the increase of 55 cents effective March 1, 2000. Other tobacco products are not subject to the tax. Revenue from the cigarette tax has been steadily declining due to a reduction in cigarette consumption and the increase to the New York State tax rate per pack. Receipts from the cigarette tax are expected to be $28 million in 2001 and 2002.

Liquor License Surcharge: This tax is imposed on distributors and non-commercial importers of beer and liquor at a rate of 25 percent of the license fees payable under the New York State Alcoholic Beverage Control Law. This tax is expected to generate $3.0 million in 2001 and 2002.

Horse Race Admissions Tax: A three percent tax was imposed in 1952 on the price of all paid admissions to horse races held either partly or wholly within the City of New York. Revenue from this tax is expected to be $0.1 million in 2001 and 2002.

Off-Track Betting (Dividend), and Off-Track Betting Surtax: A surcharge is exacted on most bets placed at New York City Off-Track Betting offices, and on most bets placed statewide on races held within New York City. The dividend payment, reflecting OTB's current year profit, is estimated to be $13.3 million in 2001 and $11.7 million in 2002. Revenue is forecast at $20.9 million from the Off-Track Betting surtax in 2001, and $21.3 million in 2002.

MISCELLANEOUS

Other Refunds: These refunds are primarily paid out on the commercial rent tax and waiver and are projected to be $32 million in 2001 and $15.2 million in 2002. The large increase in 2001 reflects refunds expected to be made to certain nonresident City employees who paid the City income tax under Section 1127, but who were found, as a result of recent litigation, not to be subject to Section 1127.

PILOTs: Payments in lieu of taxes (PILOTs) are contractual agreements between public agencies and private property holders which result in real property tax relief in order to: (1) induce businesses to remain in New York City; (2) attract new business; (3) provide subsidies for low income housing; and (4) promote economic growth. PILOT payments are either fixed sums based on real property taxes paid on the underlying property in the year preceding the agreement, formulas calculated on the income derived from business operations at the PILOT facility, or a combination of both. Payments are remitted quarterly, semi-annually or annually.

There are four primary sponsor agencies which serve as intermediaries between the City and the PILOT facility owner: New York City Housing Authority, Port Authority of New York and New Jersey, Industrial Development Agency and Battery Park City Authority. These agencies administer projects that comprise approximately 95 percent of PILOT payments received. Two smaller sponsors are the Economic Development Corporation and the Triborough Bridge and Tunnel Authority. PILOT revenue is expected to be $168.5 million in 2001 and $156.6 million in 2002.

Stock Transfer Tax: The State repealed the City's stock transfer tax in 1980 and provided for annual appropriations of not more than $120 million as compensation. Until 1988, the State appropriated to the City approximately $118 million annually. Following a slowdown in State revenue growth, the appropriation was reduced to $83 million in 1990 and to $56 million in 1991. In 1992, the appropriation was restored to $114 million. In 2001 and 2002, a level of $114 million is expected.

Waiver (Personal Income Tax On Nonresident City Employees): Under section 1127 of the New York City Charter, the City may collect payments from nonresident employees of the City or any of its agencies in an amount which equalizes their personal income tax liability to what it would be if they were residents. Revenue is projected to be $62.3 million in 2001 and 2002.

Prior Year and Current Year Penalty and Interest - Real Estate: Taxpayers who do not pay their real property tax on time are liable for interest charges on outstanding balances. Interest is charged at a rate of nine percent for taxpayers whose annual liability is under $2,750 and 18 percent for all other taxpayers. Penalties and interest received against current year delinquencies are expected to be $11 million in 2001 and $10 million in 2002, while penalty and interest collections from prior year delinquencies is expected to be $40 million in 2001 and 2002.

Penalty and Interest - Other: Penalty and interest charges collected on outstanding balances for all taxes except the real property tax are reflected in penalty and interest-other. Starting in 2001, the processing bank no longer reports the penalty and interest collected separately. Revenue tracking under this heading is discontinued. The penalty and interest collected is appearing as a diminutive addition to the collections reported for the following taxes: commercial rent tax, liquor license surcharge, taxi medallion transfer tax and cigarette tax.

Penalty and Interest - Other Refunds: The City currently pays out interest on refunds claimed on overpayments against the first installment paid on business income taxes, on audits of the general corporation and unincorporated business taxes already collected by the Department of Finance but overturned by Federal or State rulings, and on payments made under protest by taxpayers who subsequently substantiate their claims. As a result of legislation, interest on overpayments claimed on amended returns is currently no longer paid for tax years beginning with 1989 as long as the refund is paid within a 90-day period. Penalty and interest - other refunds is projected to be $18.9 million in 2001 and $19.3 million in 2002.

TAX ENFORCEMENT REVENUE

The Department of Finance targets delinquent taxpayers through agency audit activities, selected use of collection agencies and computer matches. Audits are forecast at $399 million in 2001 and $487 million in 2002.

MISCELLANEOUS RECEIPTS

Forecast of Miscellaneous Receipts

The non-tax revenue portion of City Funds is referred to as miscellaneous revenues. The 2002 Executive Budget includes eleven classes of miscellaneous revenues, which are discussed below.

Miscellaneous Revenues

($ in Millions)

	2001 Forecast	2002 Executive Budget	Forecast to Executive Budget Increase (Decrease)
Licenses	$47	$46	(1)
Permits	98	85	(13)
Franchises and Privileges	193	189	(4)
Interest Income	200	144	(56)
Tuition and Charges for Services	428	415	(13)
Water and Sewer Revenues	848	849	1
Rental Income	139	111	(28)
Fines and Forfeitures	479	480	1
Miscellaneous	981	938	(43)
Total Miscellaneous Revenues	$3,413	$3,257	$(156)

Miscellaneous revenues are estimated at $3,257 million in 2002, a decrease of $156 million from 2001, exclusive of private grants and intra-city revenues. The revenue classes listed above are regrouped and described in the following three areas: Cost-based Charges (Licenses, Permits and Charges for Services); Water and Sewer revenues; and Other Income (Interest Income, Franchises, Rental Income, Fines, and Miscellaneous).

Cost-based Charges

Cost-based Charges are revenues collected as a result of the City providing a service (copies of official records, or inspections and reviews) and may be related to the government's police or regulatory functions (pistol permits, restaurant licenses, building plan examination fees). In the absence of specific State legislative authorization for the City to impose a tax or a specific fee, the City may, where otherwise allowed by law, impose a user fee to recover the cost of providing services.

Licenses

The City issues approximately 485,000 licenses. About 85,000 are non-recurring, 145,000 are renewed annually, and 255,000 biennially. The major sources of license revenue are taxi and limousine licenses, pistol licenses, marriage licenses, and various business licenses under the jurisdiction of the Department of Consumer Affairs.

The 2002 forecast for license revenue is $46 million, $1 million less than 2001. The decrease is due to the biennial renewal period for certain business licenses.

Permits

Permits are issued to 800,000 individuals or entities for the use of facilities, premises or equipment. Approximately 240,000 permits are renewable on an annual basis, 60,000 are renewable biennially, and 70,000 are renewable triennially. Seasonal or single occurrence permits, such as tennis, golf, and building permits account for 430,000 additional permits, all of which are issued and regulated by nine City agencies.

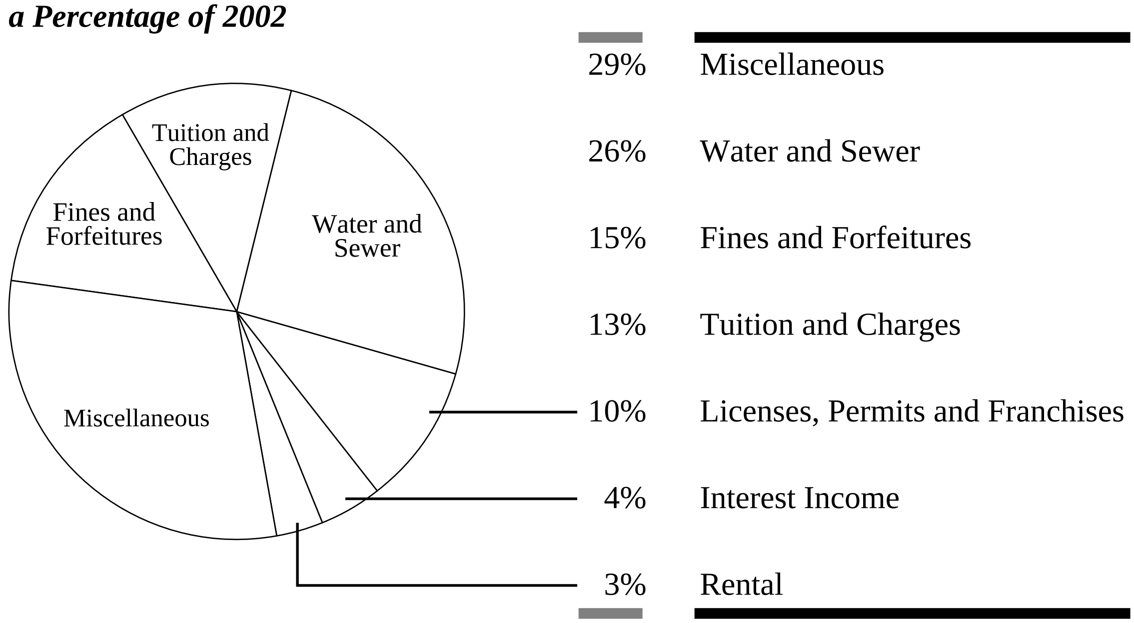
The major sources of revenue are permits for building construction and alteration, street opening, restaurants, hazardous material, and air pollution control. The 2002 forecast for permit revenue is $85 million, $13 million less than 2001. The decrease is due to a decline in receipts for various construction-related permits issued by the Department of Buildings.

Tuition and Charges for Services

The City collects tuition from students enrolled at community colleges. In addition, the City collects money from charges to the public and other governmental agencies for services rendered. There are over 100 different service fees in this category, including fees for parking, towing, Sheriff poundage, provision of school lunches, copies of reports, processing applications, searches, and performing fire and building inspections. The 2002 forecast for tuition and charges is $415 million, $13 million less than 2001. The loss of one-time revenues collected from the processing of 421-a tax exemption applications for large developments, a construction-related increase in sidewalk repair reimbursement, and the sale of several parking facilities anticipated for 2001, contribute to this change.

COMPONENTS OF MISCELLANEOUS REVENUES

As a Percentage of 2002



Water and Sewer Revenues

Water and Sewer charges are collected by the New York City Water Board. From these charges the Board has paid revenue to the City in two components; reimbursement for operation and maintenance (O&M) of the water delivery and waste water disposal systems and rent. The O&M reimbursement is equal to the amount spent by the City to supply water and treat and dispose of waste water on behalf of the Board. The City is reimbursed only for its expenditures. The rental payment from the Water Board is intended to pay for the use of the City's water supply, distribution, collection and treatment plant, and is equal to the greater of debt service payments for outstanding water and sewer-related general obligation debt or 15 percent of Water Authority debt service.

The Water Board has proposed a 3.5 percent rate increase for 2002. The forecast for Water Board revenue is $1.57 billion, including a City payment of $33 million for municipal water and sewer charges and $84 million for interest on funds held by the New York City Municipal Water Finance Authority. The Water Board will pay $609 million for Water Board and Authority expenses and debt service. The City will receive $720 million for services rendered in the delivery of water and the collection, treatment, and disposal of waste water, and $129 million for the rental of the water supply and sewer system plant, in accordance with the lease agreement between the Water Board and the City.

Other Income

Other income includes fines, franchise payments, rental income, interest earned on the City's cash balances, and income from other areas in which productivity may have a positive effect on the amount of revenue collected. Each of the sources included in this area has its own unique basis for management and improvement, some of which are directly affected by the City's policy toward such varied items as housing, economic development, transportation, and quality of life issues.

Interest Income

The City earns interest income by investing funds from four sources: overnight cash balances, debt service accounts, sales tax, and cash bail balances. Overnight cash balances are invested and earn interest at approximately the federal funds rate. Property tax receipts are held by the State Comptroller to satisfy City debt service payments, and earnings are forwarded to the City monthly based on bond payment schedules. The determinants of the value of this revenue source are the value of cash balances, tax receipts, and the interest rate.

The 2002 forecast for interest earnings is $144 million, a decrease of $56 million from 2001. Lower interest rates, a change in short term borrowing, and an expected return to normal cash balances account for this change.

Franchises and Privileges

This revenue consists of franchise fees for the public use of City property and privilege and concession fees for the private use of City property. These uses include franchised bus lines, conduits that run under City streets, concessions in public parks and buildings, waste disposal at City disposal facilities, and payments from utility companies for transformers on City property.

The 2002 forecast for franchise revenue is $189 million, compared to $193 million in 2001. The 2001 collections reflect higher fee payments from cable television and high capacity fiber franchises.

Rental Income

Rental income is derived from revenue collected from both long and short-term agreements for the occupancy of City-owned property, including condemnation sites and *in rem* buildings. Approximately 4,170 properties are rented from the City. Over 3,000 are *in rem* or condemnation sites, 170 are covered by long term agreements, and approximately 1,000 are schools that are rented on a per event basis after school hours.

The 2002 forecast for rental income is $111 million, $28 million less than in 2001. The decrease is due to additional rental payments received from the Port Authority of New York and New Jersey, based on increased activity at Kennedy and LaGuardia airports in calendar year 2001, one-time rental income from Yankee and Shea stadiums, the declining inventory of residential units managed by the Department of Housing Preservation and Development, and lower revenue from percentage-based rent agreements collected by the Department of Citywide Administrative Services.

Fines and Forfeitures

The City collects fine revenue through courts and administrative tribunals for violations issued under the Administrative Code, Vehicle and Traffic Law, and other laws. Forfeiture revenue is obtained from the surrender and conversion of bail and cash bonds, and contractors' performance bonds. The 2002 forecast for forfeitures is $3.6 million, $2.2 million less than 2001. One-time improvements in cash bail forfeiture processing and eliminating backlogs in several City agencies accounts for the change. The revenue expected from fines in 2001 and 2002 is listed below:

Fine Revenue

SOURCE ($ in 000's)	2001 FORECAST	2002 EXECUTIVE BUDGET
Parking Violations	$370,000	$383,005
Environmental Control Board	42,000	33,781
Traffic Violations	18,067	18,067
Department of Health	12,007	12,907
Taxi and Limousine Commission	9,060	7,441
State Court Fines	7,963	7,085
Department of Buildings	6,880	3,285
Department of Consumer Affairs	3,619	4,902
Other sources	3,995	5,575
Total	$473,591	$476,048

The Parking Violations division of the Department of Finance is forecasted to collect $383 million in parking fines in 2002, $13 million more than 2001. The Department's initiative to enhance customer service and provide one-stop shopping will continue to improve collections by offering electronic payment options, streamlining workflow, and eliminating duplicative activities. The Department of Finance has expanded several programs to improve the processing of parking summonses that currently are not being collected, and is supplementing in-house collection efforts by employing the services of private collection agencies. In addition, to combat dangerous traffic violations, the City will deploy 50 red light cameras at various locations throughout the City, designed to improve safety for both drivers and pedestrians by photographing vehicles that "run" a red light.

The Environmental Control Board (ECB) adjudicates more than 600,000 notices of violations issued by over a dozen City agencies for infractions of the City's Administrative Code related to street cleanliness, waste disposal, street peddling, fire prevention, air, water and noise pollution, building safety and construction, and other quality of life issues. ECB will collect $34 million, $8 million less than in 2001. This decrease is due to the clearing of a temporary backlog of non-compliance cases. In 2002, the Department of Transportation will increase enforcement against illegal construction and street obstruction, and the Department of Buildings will begin prosecuting violations of the laws governing the placement and size of signs. The ECB will conduct hearings and enforce judgments for both of these violations.

The City also collects revenue from the adjudication of traffic violations issued in the City of New York, certain fines adjudicated through the State-operated Criminal and Supreme Court system, and fines collected by the City for violations of City and State health code regulations, administrative code violations, building code violations, and violations issued under the authority of the Consumer Protection Law, the State Agriculture & Market Laws, and the Licensing Law.

Miscellaneous

Miscellaneous revenue is composed of a variety of revenues not otherwise classified in the City's Chart of Accounts. The primary items are the sale of City property, mortgages, cash recoveries from litigation and audits, revenue from Police Department Property Clerk auctions, refunds of prior year expenditures, the sale of the City Record and other publications, and subpoena fees. This source of revenue has, at times, contributed significantly to the miscellaneous receipts.

The 2002 forecast for miscellaneous revenue is $938 million, $43 million less than in 2001. Proceeds from the sale of the New York City Off-Track Betting Corporation, the disposition of surplus commercial and residential real property, including economic development sites, a higher tobacco settlement payment, and reimbursement of landfill closure costs will partially offset non-recurring revenues from the sale of the Coliseum, revenue from health benefit stabilization fund, and reimbursement of debt service costs by the Health and Hospitals Corporation.

Private Grants

The Executive Budget includes $392 million in private grants in 2002, $47 million less than 2001. Additional private grant funding will be modified into the budget during the course of the year, as additional funding sources are identified and grants are defined.

Interfund Revenues

Interfund Revenues (IFA's) reflect reimbursement by the Capital Fund for expenditures of the General Fund for first-line architectural, engineering, and design costs incurred by the City's own engineering and support staff. These costs are assigned to particular capital projects and are valid capital charges under generally accepted accounting principles. In 2002, IFA reimbursements will be $301 million.

CAPITAL BUDGET

The Executive Capital Budget and Four-Year Plan, 2002-2005

The 2002 Executive Capital Budget includes new appropriations of $9.0 billion, of which $8.0 billion are to be funded from City sources. These appropriations, together with available balances from prior years, authorize total commitments for 2002 of $9.2 billion, of which $8.3 billion will be City-funded. City funds include proceeds of bonds issued by the City Municipal Water Finance Authority and the State Dormitory Authority, and the New York City Transitional Finance Authority as well as City general obligation and Tobacco Settlement bonds. As indicated in the table below, the targeted level for City-funded commitments is $7.9 billion in 2002. The aggregate agency-by-agency authorized commitments of $8.3 billion exceed the 2002 financial plan by $425.0 million. Excess authorizations in this proportion have proven necessary to achieve commitment spending targets by accommodating such factors as project scope changes and delays.

FY 2001-2005 Commitment Plan
($ in millions)

	2001		2002		2003		2004		2005	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Environmental Protection										
• Equipment	$135	$213	$155	$201	$42	$42	$56	$101	$47	$47
• Sewers	175	176	247	247	201	201	108	108	99	99
• Water Mains	528	528	403	403	1,003	1,003	239	239	107	107
• Water Pollution Control	1,106	1,138	1,172	1,202	1,119	1,144	655	680	482	507
• Water Supply	170	170	113	113	272	272	430	430	47	47
Subtotal	$2,115	$2,225	$2,090	$2,166	$2,637	$2,662	$1,488	$1,558	$782	$807
Transportation										
• Mass Transit	$120	$120	$451	$451	$106	$106	$106	$106	$106	$106
• Highways	277	273	343	368	348	358	284	310	360	360
• Highway Bridges	123	134	409	509	628	743	536	556	286	286
• Waterway Bridges	170	313	99	144	192	202	464	464	131	171
Subtotal	$691	$840	$1,302	$1,472	$1,274	$1,409	$1,390	$1,436	$883	$923
Education & Hospitals										
• Education	$2,266	$2,397	$1,164	$1,174	$1,113	$1,123	$1,136	$1,146	$1,272	$1,272
• Higher Education	46	59	14	16	3	5	4	8	6	11
• Hospitals	143	143	231	231	274	274	90	90	18	18
Subtotal	**$2,455**	**$2,600**	**$1,408**	**$1,420**	**$1,389**	**$1,402**	**$1,230**	**$1,244**	**$1,296**	**$1,301**
Housing And Economic Development										
• Housing	$400	$528	$387	$566	$371	$494	$322	$446	$418	$532
• Economic Development	559	716	363	553	203	232	57	57	86	86
• Port Development	0	0	0	0	0	0	0	0	0	0
Subtotal	**$960**	**$1,244**	**$750**	**$1,119**	**$575**	**$726**	**$379**	**$503**	**$504**	**$618**
City Operations & Facilities										
• Correction	$173	$177	$188	$188	$75	$75	$156	$156	$172	$172
• Fire	186	186	246	246	54	54	53	53	36	36
• Police	170	203	155	155	64	64	63	63	109	109
• Public Buildings	139	143	213	214	84	84	71	71	126	126
• Sanitation	204	218	293	293	137	137	316	316	329	329
• Parks	374	387	268	282	84	84	83	83	88	89
• Other	2,395	2,506	1,381	1,654	573	631	575	614	371	428
Subtotal	**$3,641**	**$3,820**	**$2,744**	**$3,032**	**$1,071**	**$1,129**	**$1,318**	**$1,357**	**$1,232**	**$1,289**
Total Commitments	**$9,862**	**$10,729**	**$8,294**	**$9,209**	**$6,945**	**$7,328**	**$5,805**	**$6,098**	**$4,696**	**$4,938**
Reserve For Unattained Commitments	**(3,449)**	**(3,449)**	**(425)**	**(425)**	**87**	**87**	**430**	**430**	**565**	**565**
Commitment Plan	**$6,413**	**$7,280**	**$7,869**	**$8,784**	**$7,032**	**$7,415**	**$6,235**	**$6,528**	**$5,261**	**$5,503**
Total Expenditures	**$4,407**	**$4,923**	**$6,159**	**$6,682**	**$5,899**	**$6,509**	**$6,384**	**$6,969**	**$6,439**	**$6,880**

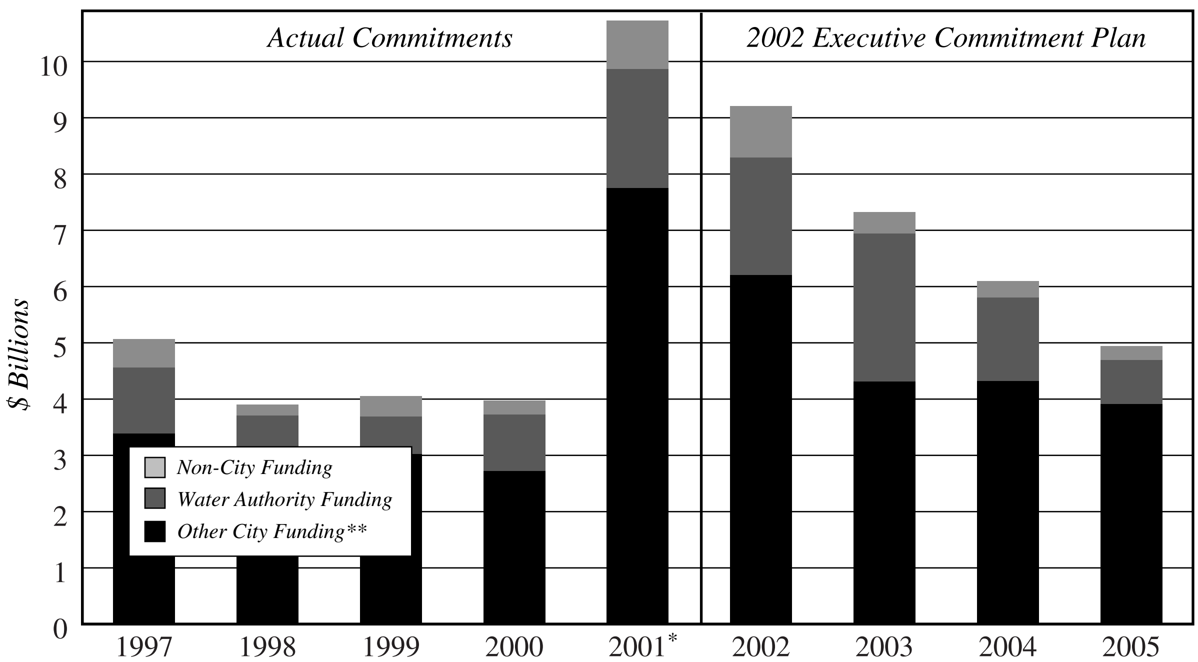
**Note: Individual items may not add to totals due to rounding*

Non-City Funding Sources

Non-City capital funding sources include $915.0 million in the 2002 plan and $1.8 billion over the 2002-2005 four-year plan period. The majority of non-City funding supports Transportation, Housing, and Environmental Protection programs.

Transportation programs are projected to receive non-City funding of $738.4 million over the 2002-2005 period, with $633.6 million from the Federal government and $103.0 million from the State, and private funds of $1.8 million. Housing programs anticipate non-City funding of $539.1 million in the 2002-2005 period, consisting of $389.1 million in Federal funding and $150.0 million in private funds. Environmental Protection programs anticipate receiving $196.5 million in non-City funding over the 2002-2005 period, with $5.4 million from the Federal government and $191.1 million in State funds.

FY 1997-2005 CAPITAL COMMITMENTS BY FUNDING SOURCE



* *Projected*

** *Includes general obligation and Tobacco Settlement bond-funded program, Courts program to be financed by the State Dormitory Authority.*

The Capital Program since 1997

The table below illustrates the changes in the size of the City's capital program over the 1997-2000 period.

FY 1997 - 2000 Commitments
($ in millions)

	1997		1998		1999		2000	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Environmental Protection								
• Equipment	$185	$185	$98	$98	$81	$81	$74	$85
• Sewers	166	166	184	184	185	185	224	224
• Water Mains	460	462	152	152	200	203	212	212
• Water Pollution Control	352	355	320	321	198	198	408	412
• Water Supply	17	17	58	58	4	4	85	85
Subtotal	**$1,180**	**$1,185**	**$812**	**$813**	**$668**	**$671**	**$1,003**	**$1,018**
Transportation								
• Mass Transit	$864	$863	$123	$122	$116	$116	$109	$109
• Highways	172	209	168	185	171	184	111	115
• Highway Bridges	77	122	119	123	92	94	193	228
• Waterway Bridges	150	413	152	127	177	355	82	86
Subtotal	**$1,264**	**$1,607**	**$561**	**$557**	**$556**	**$749**	**$496**	**$538**
Education & Hospitals								
• Education	$1,013	$1,013	$1,246	$1,246	1,400	1,400	$1,123	$1,160
• Higher Education	6	7	9	11	12	14	10	11
• Hospitals	30	30	23	23	56	56	19	19
Subtotal	**$1,049**	**$1,049**	**$1,278**	**$1,279**	**$1,468**	**$1,470**	**$1,152**	**$1,191**
Housing And Economic Development								
• Housing	$150	$239	$116	$241	$161	$259	$182	$294
• Economic Development	112	119	55	69	54	59	21	21
• Port Development	0	0	4	4	0	0	0	0
Subtotal	**$263**	**$358**	**$175**	**$314**	**$215**	**$318**	**$203**	**$315**
City Operations & Facilities								
• Correction	$33	$33	$81	$81	$63	$74	$59	$59
• Fire	73	73	56	56	66	66	49	49
• Police	56	51	47	47	46	46	37	11
• Public Buildings	92	93	54	54	65	67	80	84
• Sanitation	107	107	102	102	63	63	198	198
• Parks	141	174	153	165	158	174	141	147
• Other	306	335	390	434	323	352	304	364
Subtotal	**$809**	**$866**	**$882**	**$939**	**$784**	**$842**	**$868**	**$912**
Total Commitments	**$4,565**	**$5,066**	**$3,709**	**$3,904**	**$3,691**	**$4,050**	**$3,721**	**$3,974**
Total Expenditures	**$3,568**	**$3,946**	**$3,631**	**$3,985**	**$4,385**	**$4,786**	**$3,919**	**$4,256**

* *Note: Individual items may not add to totals due to rounding*

Comprehensive Planning Process

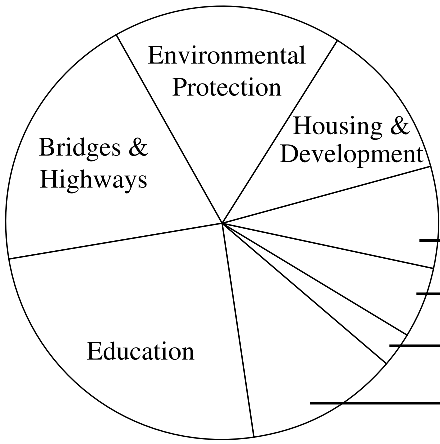
Developing a long-term capital investment strategy to improve, expand and sustain the City's physical plant requires comprehensive planning. The Ten-Year Capital Strategy, updated by OMB and the Department of City Planning every two years through consultation with City agencies, establishes overall programmatic goals. The Four-Year Plan, revised annually is consistent with the basic priorities established in the Ten-Year Capital Strategy. As annual budgets are prepared, goals are adjusted to reflect newly-identified needs and changes in mandated programs within the context of the City's Ten-Year Capital Strategy and Four-Year Plan.

Ten-Year Capital Strategy 2002-2011
($ in thousands)

	City Funds	Non-City Funds	Total Funds
Environmental Protection			
• Sewers	$1,171,832	$0	$1,171,832
• Water Mains	2,219,840	0	2,219,840
• Water Pollution Control	4,269,644	255,431	4,525,075
• Water Supply	861,571	0	861,571
• DEP Equipment	415,578	91,131	506,709
Subtotal Environmental Protection	$8,938,465	$346,562	$9,285,027
Education			
• Education	$13,313,508	$30,000	$13,343,508
• CUNY	64,076	50,338	114,414
Subtotal Education	$13,377,584	$80,338	$13,457,922
Transportation			
• Mass Transit	$1,405,750	$0	$1,405,750
• Highways and Transit Operations	4,108,893	554,454	4,663,347
• Bridges	5,386,891	571,174	5,958,065
Subtotal Transportation	$10,901,534	$1,125,628	$12,027,162
Housing and Economic Development			
• Housing	$4,400,435	$597,060	$4,997,495
• Housing Authority	141,856	0	141,856
• Economic and Port Development	1,064,178	218,528	1,282,706
Subtotal Housing and Economic Development	$5,606,469	$815,588	$6,422,057
Administrative Services			
• Correction	$1,833,998	$0	$1,833,998
• Police	824,286	0	824,286
• Courts	1,366,121	14,664	1,380,785
• Juvenile Justice	82,959	4,481	87,440
Subtotal Administration of Justice	$4,107,364	$19,145	$4,126,509
Health and Social Services			
• Health	$169,536	$0	$169,536
• Hospitals	728,449	0	728,449
• Homeless Services	322,265	0	322,265
• Human Resources	156,575	65,572	222,147
• Children's Services	204,278	33,691	237,969
• Aging	43,919	0	43,919
Subtotal Health and Social Services	$1,625,022	$99,263	$1,724,285
Other City Services			
• Sanitation	$2,875,638	$0	$2,875,638
• Public Buildings	1,320,965	869	1,321,834
• Fire	683,048	0	683,048
• Parks and Recreation	1,009,748	15,182	1,024,930
• Others	1,446,131	11,321	1,457,452
Subtotal Other City Services	$7,335,530	$27,372	$7,362,902
Total	$51,891,968	$2,513,896	$54,405,864

TEN-YEAR CAPITAL STRATEGY FOR 2002-2011

($ in Millions - All Funds)



% of Plan	Program	FY 2002 to 2011
24.7%	Education	$13,458
19.5%	Bridges & Highways	10,621
17.1%	Environmental Protection	9,285
11.8%	Housing & Development	6,422
7.6%	Administration of Justice	4,127
5.3%	Sanitation	2,876
2.6%	Mass Transit	1,406
11.4%	Other City Services	6,211
	Total	**$54,406**

2002 Ten-Year Capital Strategy Highlights

Environmental Protection and Sanitation

- Sewers: the total sewer program provides for the replacement, construction and expansion of approximately 602 miles of sewers ($1.2 billion).

- Water Mains: construction of the Croton Filtration Plant which will filter water from the Croton watershed ($782.8 million); acquisition of land in the watershed ($87.7 million); replacement or extension of approximately 674 miles of water mains ($803.1 million).

- Wastewater Treatment: continued upgrade of the Newtown Creek Wastewater Treatment Plant ($955.6 million); implementation of combined sewer overflow abatement strategies ($1.0 billion); retrofitting water pollution control plants to decrease the amount of discharged nitrogen ($144.2 million); replacement and reconstruction of failing plant components and related facilities to ensure continued process reliability and compliance with permit requirements ($440.3 million).

- Water Supply: continuation of the construction of the City Water Tunnel No. 3, Stage 2, including shaft sites ($519.3 million).

- Sanitation: replacement of collection trucks and mechanical brooms in accordance with established replacement cycles ($705.9 million); construction of new garages and improvements to existing buildings to provide support facilities for agency operations ($1.4 billion).

Transportation

- Bridges: reconstruction of the four East River Bridges ($802.6 million); rehabilitation of 12 bridges rated "poor" ($498.5 million); reconstruction of 89 bridges rated "fair" ($1.4 billion); rehabilitation of

235 bridge structures under the Bridge Life Extension Program ($2.8 billion) consisting of resurfacing of bridge decks, replacement of expansion joints, and selective component rehabilitation; and protective coating treatment on bridges ($390.9 million).

- Highways: street reconstruction of 346.6 linear miles ($2.1 billion), resurfacing of 2,108.4 linear miles ($824.0 million), over 44.6 million square feet of sidewalk replacement ($311.9 million), and pedestrian ramp installations at over 58,621 corners ($200.0 million).

- Transit: contribution to the MTA's capital program, including subway and bus fleet enhancements, infrastructure improvements such as in-house track rehabilitation and reconstruction of bus and subway lines and facilities ($1.4 billion).

Education, Health and Social Services

- Education: a total program of $13.3 billion. Funding is provided to construct new schools ($5.7 billion); expand facilities through leases, building additions, transportables, modular classrooms and new athletic fields and playgrounds ($2.1 billion); rehabilitate, replace and upgrade building components ($3.9 billion); modernize school buildings ($493.3 million); make capital improvements that enhance educational programs ($245.0 million); address the need for security systems, emergency lighting and code compliance ($362.4 million); and cover emergency projects, research and development, and prior plan completion costs ($536.7 million).

- Health: upgrade of the heating, ventilation, and air conditioning (HVAC) and fire alarm systems at the New York City Department of Health (DOH) Laboratory in Manhattan ($35.7 million); DOH and Office of the Chief Medical Examiner (OCME) laboratory equipment replacement ($31.8 million); construction of a free-standing mortuary at Kings County Hospital in Brooklyn ($10.1 million); continued renovation of the Jamaica Health Center and construction of a new tuberculosis clinic ($7.6 million); computer replacement ($7.6 million); renovation of the Manhattanville Health Center ($6.3 million); renovation of the Manhattan Animal Shelter and acquisition of a Queens shelter for the Center for Animal Care and Control ($5.6 million); the renovation of STD clinics ($5.5 million); continued renovation of the OCME First Avenue building ($4.3 million); vehicle replacement ($3.9 million), and a human surveillance system for vector control ($3.0 million).

- Aging: renovation of senior centers, including infrastructure improvements, code compliance and handicapped accessibility (30.3 million).

- Children's Services: completion of renovations at the Crossroads and Richmond Hill Group Homes ($1.1 million); renovation and expansion of the Jefferson Group Home ($2.6 million); construction of the Williamsburg Day Care Center ($5.7 million), the Seabury Day Care Center in the Bronx ($2.8 million) and the Washington Heights Day Care Center ($5.0 million); development of an integrated Case Management System ($7.4 million); enhancement of the Legal Tracking System ($2.5 million).

- Homeless Services: building upgrades and renovations to adult and family facilities, including 68 Lexington Avenue ($7.0 million), Dean Street ($1.7 million), Jamaica Assessment Center ($1.0 million), Linden ($1.0 million), Charles Gay Schwartz ($1.5 million) and Pamoja House ($2.5 million); $25.3 million for exterior renovations to various adult and family facilities, to provide building envelope stabilization and restoration for all Department of Homeless Services owned facilities throughout the City; upgrade of the DHS computer network system, including an integrated client tracking system with enhanced client and shelter information reporting, and computerization of the Rehousing Unit, which tracks and locates permanent housing for homeless families ($1.8 million).

- Human Resources: conversion of Income Support Centers to Job Centers to provide the setting for integrated case management services ($14.4 million); imaging projects to eliminate paper records and streamline Department operations ($18.8 million); continued development of Local and Wide Area Network systems in order to provide greater connectivity among Department personnel, contract service providers and clients ($45.3 million).

Housing and Development

- Housing: disposition and rehabilitation of approximately 10,400 dwelling units through various privatization initiatives ($1.4 billion); development starts of over 36,000 new homeownership and rental dwelling units through the New York City Partnership, Nehemiah, Alliance for Neighborhood and Home Ownership Revitalization (ANCHOR), and Mixed Use programs ($1.6 billion); provision of low-interest loans to finance the rehabilitation and preservation of approximately 59,700 low and moderate-income units in privately owned buildings under the Article 7A, Article 8A, Participation Loan, Small Homes, and Housing Preservation programs ($1.4 billion); and production of 2,360 units for low-income and homeless individuals, including those with HIV/AIDS or mental illness, through the Supportive Housing Loan Program ($250.0 million).

- Housing Authority: general upgrade and system replacements in 20,152 existing public housing units in the 21 City- and State-aided developments ($139.5 million).

- Economic Development: relocation of the Fulton Fish Market to Hunts Point ($71.7 million); reconstruction of the Whitehall Ferry Terminal ($59.3 million); revitalization of the BAM Cultural District ($50.0 million); rehabilitation of the Battery Maritime Building ($36.0 million); reconstruction of the St. George Ferry Terminal ($35.8 million); Coney Island Sports Complex ($28.0 million); infrastructure improvements to the Brooklyn Navy Yard ($26.1 million); expansion of Hunts Point ($25.0 million); South Brooklyn Marine Terminal pier and bulkhead rehabilitation ($25.0 million); rehabilitation of the Passenger Ship Terminal ($24.4 million); Staten Island Rail Road improvements ($16.5 million); Queens West Development ($15.0 million); a new railroad terminal under the Farley Post Office ($13.0 million); HVAC and electrical upgrade of Pier 94 ($10.6 million); development of Governors Island ($5.0 million); Museum of African Art ($5.0 million).

Administration of Justice and Public Safety

- Correction: replacement of deteriorating housing facilities with new facilities ($970.0 million); life cycle replacement of vehicles, communication equipment, and other equipment ($112.0 million); improvements to building systems, infrastructure, and support space ($752.0 million).

- Courts: construction of three new courthouses in the Bronx and Staten Island ($191.5 million); renovation of nine courthouses in the Bronx, Brooklyn, and Manhattan ($500.0 million).

- Police: lifecycle replacement of communication equipment, computer equipment, vehicles and other equipment ($476.6 million); replacement of ten precincts ($163 million); rehabilitation of six precincts ($67.2 million).

- Fire: replacement of front-line fire-fighting and support vehicles ($349.5 million); acquisition and construction of EMS ambulance stations ($17.9 million); rehabilitation and renovation of firehouses ($165.3 million); renovation and construction at the Fort Totten training facility ($50.5 million); and continued maintenance and upgrade of the current call box network ($4.6 million).

Recreation and Culturals

- Parks: focused reconstruction and replacement of safety surfaces, play equipment and paths to improve the overall condition of parks ($130.0 million); planting of street trees ($69.4 million); reconstruction of bridges within parks ($49.5 million); rehabilitation of stadia ($46.2 million); replacement of aging vehicles ($42.7 million) and construction of Hudson River Park ($98.0 million) and Brooklyn Bridge Park ($43.8 million).

- Public Libraries: renovations at the Humanities and Social Services Library at 42nd Street ($9.4 million, for a total City contribution of $33.9 million); full renovation and expansion of the Mid-Manhattan branch ($19.2 million, for a total City contribution of $23.2 million); construction of the new Bronx Borough Center to be located at 310 East Kingsbridge Road ($16.1 million, for a total City contribution of $26.9 million); construction of a new Mid Island branch on Staten Island ($4.0 million); extensive renovation at the Williamsburg branch ($3.3 million); extensive renovations at the Brooklyn Public Library's Central Branch ($11.2 million) to include façade and parapet restoration, resurfacing of the front plaza and ADA work; system-wide roof replacement programs at the Brooklyn Public Library ($6.7 million) and at the Queens Borough Public Library ($3.4 million); site acquisition and construction of a new Kensington Library in Brooklyn ($3.7 million); replacement of heating systems at the Queens Borough Public Library ($2.8 million); creation of a new Long Island City branch ($6.1 million); and the construction of a new Cambria Heights branch in Queens ($4.8 million).

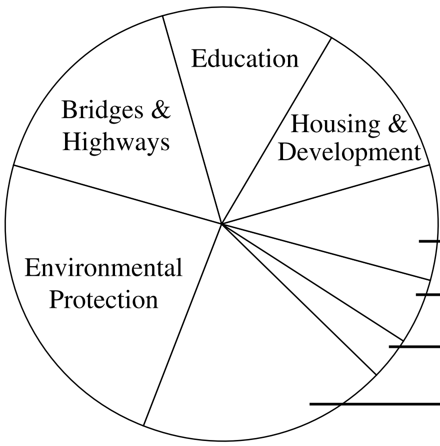
- Department of Cultural Affairs: a Master Plan including renovations and upgrades at Lincoln Center for the Performing Arts ($216.0 million for a total commitment of $240.0 million); a new Frank Gehry-designed building for the Guggenheim Museum of Art ($67.8 million, including the value of the land); improvements, including an addition, to the Queens Museum of Art ($24.3 million for a total City contribution of $26.6 million); comprehensive reconstruction and expansion at the Metropolitan Museum of Art ($23.0 million); major improvements to the New York Aquarium as part of the Mayor's Coney Island Revitalization Project ($19.5 million); major reconstruction and expansion at the Brooklyn Children's Museum ($18.3 million for a total City commitment of $24.3 million); reconstruction and an addition to the New York Hall of Science ($17.9 million for a total commitment of $47.2 million); major improvements, including Master Plan construction, at the New York Botanical Garden ($13.9 for a total City contribution of $26.8 million); creation of a new wing for the Museum of Jewish Heritage ($10.0 million for a total commitment of $22.0 million); a new permanent home for Alvin Ailey ($7.5 million); reconstruction and an addition to the Bronx Museum of the Arts ($6.6 million for a total commitment of $7.4 million); and a major addition to the Morgan Library ($5.0 million).

Department of Citywide Administrative Services

- Public Buildings: compliance with legal mandates ($206.0 million), including vapor control and leak detection equipment for petroleum underground storage tanks ($60.6 million), lead and asbestos abatement ($73.7 million), and compliance with the Americans with Disabilities Act ($7.9 million); the reconstruction of public buildings and City owned office space ($882.5 million), including interior rehabilitation of the Manhattan Municipal Building ($41.3 million); the renovation of leased space ($95.8 million), including the construction of the Department of Finance Bronx Business Center ($7.4 million) and the renovation of City Council offices ($2.9 million); and the reconstruction of waterfront and non-waterfront properties including construction at the Kingsbridge Armory ($15.0 million).

2002 AUTHORIZED CAPITAL COMMITMENTS, BY PROGRAM

($ in Millions - All Funds)



% of Plan	*Program*	*2002 Plan*
23.5%	Environmental Protection	$2,166
16.2%	Bridges & Highways	1,484
12.9%	Education	1,189
12.1%	Housing & Development	1,119
8.6%	Administration of Justice	791
4.9%	Mass Transit	451
3.2%	Sanitation	293
18.6%	Other City Services	1,716
	Total	**$9,209**

Environmental Protection and Sanitation

- Water Supply: construction of shafts for City Tunnel No. 3, Stage 2 ($88.8 million); modifications to structures on the Hillview Reservoir ($16.3 million).

- Wastewater Treatment: construction related to the Newtown Creek Wastewater Treatment Plant upgrade ($198.2 million); retrofitting water pollution control plants to decrease the amount of discharged nitrogen ($16.0 million); reconstruction of the Avenue V Pumping Station in Brooklyn ($100.5 million); construction of the Paerdegat Basin Combined Sewer Overflow facility ($78.4 million).

- Water Mains: start of construction of the Croton Water Filtration Plant ($143.8 million); trunk main replacements at Redfern Avenue in Queens ($12.8 million) and Richmond Road in Staten Island ($13.3 million). Projects upstate in the watershed include the reconstruction of City-owned Reservoir bridges ($10.0 million); reconstruction of upstate dams on the Kensico and Muscoot Reservoirs ($15.0 million); continuation of the land acquisition program ($37.7 million); reconstruction work at the City-owned Port Jervis Wastewater Treatment Plant ($7.0 million).

- Sanitation: replacement of collection trucks, mechanical brooms and salt spreaders in accordance with established replacement cycles ($59.4 million).

Transportation

- Bridges: the continued reconstruction/rehabilitation of the four East River Bridges; the reconstruction of three bridge structures rated "poor" and 17 bridge structures rated "fair"; protective coating of the Queensboro Bridge and Brooklyn Bridge ($653.4 million).

- Highways: the reconstruction and/or resurfacing of 252.3 linear miles (844.7 lane miles) of streets; construction of a second asphalt plant to realize savings in asphalt purchasing contracts ($367.7 million).

- Transit: contribution to the MTA's capital program including subway and bus fleet enhancement, infrastructure improvements, in-house track rehabilitation, reconstruction of bus and subway lines and facilities ($451.3 million).

Education, Health and Social Services

- Education: a total program of $1.2 billion. Funding is provided to construct new schools ($444.6 million); expand facilities through leases, building additions, transportables, modular classrooms and new athletic fields and playgrounds ($183.7 million); rehabilitate, replace and upgrade building components ($407.5 million); modernize school buildings ($38.2 million); make capital improvements that enhance educational programs ($19.7 million); address the need for security systems, emergency lighting and code compliance ($28.9 million); and cover emergency projects, research and development, and prior plan completion costs ($50.9 million).

- Health: renovation of the Manhattanville Health Center ($6.3 million); renovation of the Jamaica Health Center ($3.4 million); renovation of the Manhattan Animal Shelter ($3.3 million); upgrade of the heating, ventilation, and air conditioning (HVAC) and fire alarm systems at the New York City Health Department Laboratory in Manhattan ($2.5 million); construction of a free-standing mortuary at Kings County Hospital in Brooklyn ($2.2 million); and replacement of the emergency generator at the Bio-level III laboratory in Manhattan ($1.7 million).

- Aging: renovation of the Department's administrative office in lower Manhattan ($1.3 million); new kitchen dining hall and lounge for the Jewish Community Center of Staten Island ($2.4 million); conversion of PDS and Uni-form to a web-based platform ($2.0 million); development of a grants management computer system ($2.2. million).

- Children's Services: construction of the Williamsburg Day Care Center ($5.7 million) and the Seabury Day Care Center in the Bronx ($2.8 million); completion of renovations at the Crossroads and Richmond Hill Group Homes ($1.1 million); renovation and expansion of the Jefferson Group Home ($1.2 million); development of an integrated case management system ($2.5 million); enhancement of the legal tracking system ($2.5 million); a health information profiling system ($1.0 million); and the implementation of a document imaging project ($1.6 million) to improve retention, handling and analysis of critical information.

- Homeless Services: code/regulation compliance at Camp LaGuardia ($3.8 million) and the New Life Residence ($3.1 million); development of a new adult facility on the Willow Avenue site to replace the existing building ($10.4 million); upgrade of the DHS computer network system, including an integrated client tracking system with enhanced client and shelter information reporting, and computerization of the Rehousing Unit, which tracks and locates permanent housing for homeless families ($1.8 million).

- Human Resources: the completion of a Special Needs service center ($7.3 million).

Housing and Development

- Housing: disposition and rehabilitation of approximately 4,500 dwelling units through various privatization initiatives ($279.3 million); development starts of over 1,550 new homeownership and rental dwelling units through the New York City Partnership, Nehemiah, Alliance for Neighborhood and Home Ownership Revitalization (ANCHOR), and Mixed Use programs ($52.3 million); provision of low-interest loans to finance the rehabilitation and preservation of approximately 5,800 low and moderate-income units in privately owned buildings under the Article 7A, Article 8A, Participation Loan, Small Homes, and Housing Preservation programs ($144.6 million); and production of 365 units for low-income and homeless individuals, including those with HIV/AIDS or mental illness, through the Supportive Housing Loan Program ($35.1 million); production levels will be dependent on the availability of federal HOME funds.

- Housing Authority: rehabilitation of bathrooms ($4.7 million) in the Bayview Houses, Brooklyn (with 1,610 dwelling units); and the replacement of hot and cold water risers ($2.0 million) in Linden Houses, Brooklyn (with 1,586 dwelling units).

- Economic Development: relocation of the Fulton Fish Market to Hunts Point ($37.2 million); reconstruction of the Whitehall Ferry Terminal ($30.0 million); redevelopment of the BAM Cultural District ($25.0 million); reconstruction of St. George Ferry Terminal ($20.1 million); Audubon Research Park ($18.5 million); expansion of Hunts Point ($15.0 million); Coney Island Sports Complex ($13.0 million); infrastructure improvements at the Brooklyn Navy Yard ($12.9 million); replacement of cranes at Howland Hook ($12.0 million); rehabilitation of the Passenger Ship Terminal ($10.8 million); Fulton Landing Street Pedestrian Improvements ($8.9 million); a new railroad terminal under the Farley Post Office ($5.2 million); rehabilitation to the Battery Maritime Facility ($5.0 million); Randall's Island ($5.0 million); Jewish Community Center Construction at 76th and Amsterdam ($3.0 million).

Administration of Justice and Public Safety

- Correction: 448-cell addition to the George R. Vierno Center ($90.0 million); design of additions to the Adolescent Reception Detention Center and the Rose M. Singer Center ($10.0 million); upgrades to fire safety systems ($21.0 million); reconstruction of the Bronx Detention Complex ($9.0 million); upgrades to telecommunication and information systems ($13.0 million).

- Courts: renovation of the Family Court building in Manhattan ($47.2 million); reconstruction of elevators in court facilities in the Bronx, Brooklyn, and Manhattan ($21.7 million); systems renovation work at the Midtown Community Court in Manhattan ($5.4 million).

- Police: acquisition of a new parking ticket device system ($15.5 million); replacement of mobile data computers ($18.7 million); construction of a new Queens South Taskforce ($7.3 million); lifecycle replacement of vehicles ($11.4 million).

- Fire: replacement of front-line fire-fighting and support vehicles ($50.8 million); acquisition and construction of EMS ambulance stations ($16.4 million); rehabilitation and renovation of firehouses ($32.7 million); renovation and construction at the Fort Totten training facility ($50.5 million); and continued maintenance and upgrade of the current call box network ($1.1 million).

Recreation and Culturals

- Parks: focused reconstruction and replacement of safety surfaces, play equipment and paths to improve the overall condition of parks ($13.0 million); planting of street trees ($6.4 million); reconstruction of East River Park, including bulkheads along the waterfront ($17.2 million, including

$7.1 million in FY'01); reconstruction of Conference House Park ($10.9 million); construction of a park in the Bronx at Barretto Point ($5.0 million); and reconstruction of the Washington Square Arch ($1.1 million).

- Public Libraries: renovations at the Humanities and Social Services Library at 42nd Street ($3.8 million, for a total City contribution of $33.9 million); full renovation and expansion of the Mid-Manhattan branch ($9.6 million, for a total City contribution of $23.2 million); construction of the new Bronx Borough Center to be located at 310 East Kingsbridge Road ($1.8 million, for a total City contribution of $26.9 million); construction of a new Mid Island branch on Staten Island ($2.0 million, for a total City contribution of $4.0 million); extensive renovation at the Williamsburg branch ($3.2 million); extensive renovations at the Brooklyn Public Library's Central Branch ($4.3 million, for a total City contribution of $15.1 million) which includes façade and parapet restoration, resurfacing of the front plaza and ADA work; site acquisition and construction of a new Kensington Library in Brooklyn ($3.7 million); creation of a new Long Island City branch ($6.1 million); and the construction of a new Cambria Heights branch in Queens ($4.8 million).

- Department of Cultural Affairs: a Master Plan including renovations and upgrades at Lincoln Center for the Performing Arts ($24 million); major improvements to the New York Aquarium as part of the Mayor's Coney Island Revitalization Project ($12.2 million); creation of a new wing for the Museum of Jewish Heritage ($10.0 million); improvements to the Queens Botanical Garden ($10.0 million), including a new administration building; façade renovations at the Institute of Contemporary Art (P.S.1) ($8.3 million); improvements to the Brooklyn Children's Museum ($7.3 million); a new Frank Gehry-designed building for the Guggenheim Museum of Art ($6.0 million, plus the value of the land); improvements to the New York Botanical Garden ($5.7 million); comprehensive reconstruction and expansion at the Metropolitan Museum of Art ($5 million); a major addition to the Morgan Library ($3 million); reconstruction and an addition to the Bronx Museum of the Arts ($2.6 million); and a new permanent home for Alvin Ailey ($2.5 million).

Department of Citywide Administrative Services

- Public Buildings: compliance with legal mandates ($66.2 million), including vapor control and leak detection equipment for petroleum underground storage tanks ($47.6 million), lead and asbestos abatement ($7.2 million), and compliance with the Americans with Disabilities Act ($1.9 million); the reconstruction of public buildings and City owned office space ($50.6 million), including interior rehabilitation of the Manhattan Municipal Building ($19.6 million); the renovation of leased space ($29.8 million), including the construction of the Department of Finance Bronx Business Center ($7.4 million) and the renovation of the Department of Finance Sheriff Offices ($5.7 million); and the reconstruction of waterfront and non-waterfront properties including construction at the Kingsbridge Armory ($7.5 million).

Borough Presidents' Allocations

The Charter requires an amount equal to five percent of the proposed new capital appropriations for the ensuing four years to be allocated to the Borough Presidents. This allocation is to be distributed to each borough based upon a formula that equally weighs population and land area. The tables below indicate the amounts added by the Borough Presidents for each programmatic area.

FY 2002-2005 Borough Presidents' Allocations*
(City Funded Appropriations $ in thousands)

	2002	2003	2004	2005
Bronx Program				
Economic Development	$530	——-	——-	——-
Housing	832	——-	——-	——-
Higher Education	3,604	——-	——-	——-
Human Resources	1,055	——-	——-	——-
Highways	500	1,761	——-	——-
New York Public Library	3,050	500	——-	——-
Parks	564	——-	——-	——-
Cultural Affairs	2,684	950	1,110	——-
Real Property	73	——-	——-	——-
GRAND TOTAL: BRONX	$12,892	$3,211	$1,110	$0
Brooklyn Program				
Children's Services	$130	——-	——-	——-
Economic Development	2,276	5,689	11,000	13,311
Housing Authority	600	——-	——-	——-
Higher Education	1,030	——-	——-	——-
Human Resources	175	——-	——-	——-
Brooklyn Public Library	2,777	3,026	2,390	3,500
Parks	6,516	1,640	3,000	2,289
Cultural Affairs	15,790	9,645	3,810	6,300
Public Buildings	225	——-	——-	——-
Traffic	650	——-	——-	——-
GRAND TOTAL: BROOKLYN	$30,169	$20,000	$20,200	$25,400

* *Appropriations include reallocation of prior amounts recommended by the borough presidents.*

**Note: Individual items may not add to totals due to rounding*

FY 2002-2005 Borough Presidents' Allocations*
(City Funded Appropriations $ in thousands)

	2002	2003	2004	2005
Manhattan Program				
Education	$500	——-	——-	——-
Economic Development	401	——-	——-	——-
Housing	1,450	400	——-	——-
Health	780	——-	——-	——-
Higher Education	899	——-	——-	——-
Hospitals	201	——-	——-	——-
Highways	1,800	400	——-	——-
New York Public Library	111	——-	——-	——-
Parks	473	150	——-	——-
Cultural Affairs	852	300	——-	——-
Public Buildings	200	——-	——-	——-
Sanitation	63	——-	——-	——-
Transit	250	250	250	——-
GRAND TOTAL: MANHATTAN	$7,980	$1,500	$250	$0
Queens Program				
Education	$628	——-	——-	——-
Economic Development	575	1,500	1,500	500
Higher Education	807	——-	——-	——-
Hospitals	2,000	——-	——-	——-
Highways	562	——-	——-	——-
Queens Borough Public Library	427	——-	450	——-
Parks	3,994	1,935	1,935	——-
Cultural Affairs	21,635	17,023	12,300	——-
Public Buildings	106	——-	——-	——-
Traffic	——-	1,000	——-	——-
GRAND TOTAL: QUEENS	$30,734	$21,458	$16,185	$500
Staten Island Program				
Education	$2,300	——-	——-	——-
Economic Development	500	——-	——-	——-
Higher Education	131	——-	——-	——-
Highways	2,361	2	——-	——-
Parks	5,192	——-	——-	——-
Police	150	——-	——-	——-
Cultural Affairs	1,074	——-	——-	——-
Public Buildings	40	——-	——-	——-
Transportation Equipment	40	——-	——-	——-
GRAND TOTAL: STATEN ISLAND	$11,788	$2	$0	$0

** Appropriations include reallocation of prior amounts recommended by the borough presidents.*
***Note: Individual items may not add to totals due to rounding.*

Management Initiatives

Management initiatives continue to be developed and implemented to enhance the administration and advancement of the capital program. These include:

- continued improvements to capital program management;

- updating the charter-mandated capital asset condition assessment;

- application of value engineering to reduce capital and operating costs;

Capital Program Management

The Department of Design and Construction was created in October 1995 by Local Law 77, which authorized it to assume responsibility for construction projects performed by the Departments of Transportation, Environmental Protection and General Services. The Department delivers the City's construction projects in an expeditious, cost-effective manner, while maintaining the highest degree of architectural, engineering and construction quality. The Department performs design and construction functions related to streets and highways; sewers; water mains; correctional and court facilities; cultural buildings; libraries; and other public buildings, facilities and structures.

The consolidation of design and construction into a single agency allows for the elimination of duplicative program units within agencies; the standardization of construction procedures and practices; the implementation of reforms of current practices relating to procurement for construction projects; and the expansion of the use of construction-related technology, such as Computer-Aided Drafting and Design (CADD); and a project management information system. The Department also enables the city to coordinate a wide variety of construction projects with utilities, community representatives, and private industry, thus minimizing the disruption to individual neighborhoods caused by water-main projects, sewer construction, and road work, as well as reducing the costs associated with such projects. The Department of Design and Construction serves 15 client agencies.

Capital Asset Inventory and Maintenance Program

The charter requires an annual assessment of the city's major assets including buildings, piers, bulkheads, bridges, streets and highways, and the preparation of maintenance schedules for these assets. This message, used by agencies for capital planning purposes, includes, as a separate volume, a reconciliation of the amounts recommended in the condition assessment with amounts funded in the budget.

Value Engineering

Value Engineering (VE) is a systematic analytical methodology directed toward analyzing the functions of projects for the purpose of achieving the best value and most effective operation at the lowest life-cycle project cost. During the past three years, the VE program has utilized innovations in value management methodologies to evaluate a more diverse group of projects, widening the scope and depth of project reviews to include agencies' operations and processes, and independent cost estimating.

Value Engineering is a collaborative effort between all concerned city agencies with budgetary and operational jurisdiction over a project, and outside consultants with expertise on critical project components. The City has utilized VE effectively in the last dozen years on mainly large-scale capital projects with a view to controlling costs. However, the VE process does not only result in cost reductions, but also frequently generates project improvements, and anticipates and solves functional problems by raising relevant issues early in the design process which could adversely compromise the project's development, cost and schedule. Projects scheduled for upcoming VE reviews include several waste water and water treatment plants, reconstruction of two major hospitals, design for a criminal court and several bridges.

The VE Review has also been applied with equal success to small unique projects where the focus might not be on controlling costs but on some other aspect of project development. Value Analysis (VA) is applied to the review of the City's operational processes and functions to assist agencies in streamlining their procedures.

Independent Cost Estimating (CE) verifies the reliability of agency design estimates and the adequacy of the projected capital funding.

FINANCING PROGRAM

The City's financing program projects $30.9 billion of long-term borrowing, excluding refunding, for the period of 2001 through 2005 to support the City's current capital program. Over 85 percent of the financing will be implemented through four bond issuing entities: the City, through its general obligation (GO) bonds, the New York City Transitional Finance Authority (TFA), the New York City Municipal Water Finance Authority (NYW) and TSASC, Inc. In addition, the City will utilize the New York State Dormitory Authority (DASNY), the New York City Industrial Development Agency (IDA) and the Jay Street Development Corp. (JSDC) to fund several capital initiatives. The IDA will finance a portion of the costs for a new New York Stock Exchange (NYSE) building in downtown Manhattan through the issuance of bonds secured by City payments. The JSDC will issue bonds secured by City rental payments to fund the construction of a court building at 330 Jay Street in Brooklyn. Also through financing lease arrangements, DASNY will issue bonds for the City's court facilities program and the expansion and reconstruction of three hospital facilities. A portion of the Lincoln Center capital improvement project and a portion of certain stadium improvement costs may also be funded through the issuance of bonds by a conduit entity, secured by City payments. The annual financing amount during the plan period for each of the bond issuing entities is listed in the table below. As shown, the City will issue approximately $12 billion of its GO bonds, which represents the largest share, 40 percent, of the total program. NYW's annual bonding amount will increase gradually from $1.3 billion in 2002 to $1.9 billion in 2005. The aggregate NYW financing during the plan period will account for approximately 26% of the total program. TSASC, Inc. will have an annual issue of about $630 million in each of the next three fiscal years. It is also assumed in this financing program that the TFA will fully utilize its bonding authorization of $11.5 billion by June 30, 2004.

2001-2005
CAPITAL FUNDING PROGRAM
(In Millions)

	2001	2002	2003	2004	2005	Total
SOURCES OF FUNDS:						
City General Obligation Bonds (1)	$2,984	$2,025	$1,785	$2,535	$4,230	$13,559
Transitional Finance Authority Bonds (2)	1,030	1,350	1,500	1,147	0	5,027
TSASC Bonds (3)	20	695	695	630	0	2,040
Water Authority Bonds (4)	950	1,366	1,816	2,007	1,919	8,058
DASNY and Other Conduit Debt (5)	633	1,722	396	290	388	3,429
Other Sources (6)	156	(1,295)	50	96	84	(909)
Total	$5,773	$5,863	$6,242	$6,705	$6,621	$31,204
USES OF FUNDS:						
City Capital Improvements (7)	$4,407	$5,484	$5,899	$6,385	$6,365	$28,540
City General Obligation Refinancing	1,139	0	0	0	0	1,139
Water Authority Refunding	69	0	0	0	0	69
Reserve Funds and Other (8)	158	379	343	320	256	1,456
Total	$5,773	$5,863	$6,242	$6,705	$6,621	$31,204

(1) *The City has issued $2.379 billion of general obligation bonds during fiscal year 2001, of which $1.139 billion was for refunding purposes. The City expects to issue the remaining $600 million in May 2001.*

(2) *Transitional Finance Authority Bonds excludes bonds issued to defease bond anticipation notes and includes bond anticipation notes and capitalized interest thereon.*

(3) *TSASC Bonds includes a $150 million loan pursuant to the Transportation Infrastructure Finance and Innovation Act ("TIFIA"), estimated to be drawn down by $20 million in fiscal year 2001 and $65 million in each of the fiscal years 2002 and 2003. The size of future TSASC bond issues will be approximately $630 million each in fiscal years 2002, 2003, and 2004. The City expects to derive net proceeds of approximately $2.4 billion from TSASC for capital purposes, including the $604 million of proceeds from the November 1999 TSASC financing and the $150 million TIFIA loan.*

(4) *Water Authority Bonds includes commercial paper and certain revenue bonds issued to date and expected to be issued for the water and sewer system's capital program, and includes reserve amounts. Figures do not include bonds that defease commercial paper.*

(5) *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, New York City Industrial Development Agency financing of the New York Stock Exchange project, and other conduit financings. The amounts reflected in fiscal years 2001 through 2005 include a total allocation for reserve funds and other costs of issuance during the period of $486 million.*

(6) *Other Sources includes changes in restricted cash balances, and federal and state grants.*

(7) *City Capital Improvements include capital cash expenditures for various City agencies, including the Department of Environmental Protection, the City's court capital program, Lincoln Center capital improvement, and three projects in HHC's hospital reconstruction program.*

(8) *Reserve Funds and Other comprises amounts necessary to fund certain reserves, certain costs of issuance of securities, and allocation for original issue discounts, capitalized interest, and other uses in connection with the issuance of City, Water Authority, TSASC, and DASNY bonds.*

Transitional Finance Authority

In June 2000, the TFA received an additional $4 billion of bonding capacity, increasing its overall authorization to $11.5 billion. In addition, the State legislature increased the TFA and the City variable rate bond limits to 20% of their respective debt capacities, or $6.1 billion for GO and $2.3 billion for TFA, doubling the existing variable rate capacity.

The TFA's well-established credit structure and market acceptance continue to provide the least costly source of capital financing for the City. For the twelve TFA bond financings (totaling $7.5 billion) issued to date, the average interest rates were approximately 10 basis points lower than those for the City GO bonds with comparable maturities.

Since 1998, the TFA has maintained three bond financings a year, averaging $500 million to $600 million per issue. In 2001, TFA also implemented three transactions: Series 2001A in October 2000, Series 2001B in February 2001 and Series 2001C in April 2001. The TIC for the three tax-exempt financings ranges between 4.7% for Series 2001C to 5.36% for Series 2001A.

During 2001, the TFA also added $300 million to its $750 million floating rate debt portfolio. The bonds have averaged 3.7 percent for the first 10 months of 2001, resulting in at least $16 million of savings in interest costs on an annual basis compared with fixed-rate debt. The TFA plans to issue $100 million of variable rate bonds in each of its future financings during the plan period, increasing its adjustable-rate debt to $1.85 billion. It is expected that by the end of 2004, TFA will exhaust its full bond capacity of $11.5 billion.

The TFA Bond Anticipation Note (BAN) program, initiated in November 1999, continues to provide low-cost interim financing for the City. The 2001 Series 1 BANs issued in February 2001 realized a true interest cost (TIC) of 3.1 percent, which was 10 basis points lower than the MIG-1 index. (The MIG-1 index is a short-term index for notes.) This was the most favorable spread achieved to date compared with an average 3 basis point spread in the previous TFA BAN issues.

The City's personal income tax revenues are projected to grow at an average of 1.9 percent between 2001 and 2005 despite the elimination of various surcharges and implementation of tax cuts. Recognizing the resilience of the TFA revenues as well as its strong legal framework and credit structure, two rating agencies raised TFA's rating in October 2000. S&P raised the rating from AA to AA+, Moodys from Aa3 to Aa2. Fitch maintains the rating at AA+.

New York City General Obligation Bonds and Cash Flow Financing.

With the TFA assuming $5 billion of the City's new money financing needs and TSASC taking up $1.8 billion, the NYC GO will handle the preponderance of the remaining financing requirement at $12 billion during the Financial Plan period through FY2005. The amount of annual GO financings will average about $1.9 billion for new money purposes during the plan period of 2001-2003. Beginning in FY2004, as the TFA approaches its bonding limit and TSASC completes its bonding program, the City will increase its GO financing program to $2.5 billion and $4.2 billion in FY2004 and 2005, respectively.

Currently the debt service for the City and its related financing entities (GO, MAC and lease debt) is 8.1 percent of the City's total budgeted revenues in FY 2001.The ratio will rise to 9.6 percent in FY 2005. As a percentage of tax revenues, the debt service ratio is 14.1 percent in FY 2001 and will increase to 15.8 percent in FY 2005.

Taking advantage of a lower interest rate environment, the City issued three GO refundings in this fiscal year, totaling $1.1 billion. The first refunding issued in October 2000, Series 2001 B&C, generated $22 million of net debt service savings by the end of 2003, with an equity contribution of $15 million in 2001. Similarly, the Series 2001 D&E issued in December 2000 utilized a $31 million cash contribution from the City to defease non-advance-refundable high-coupon debt and generated a net total budget savings of $30 million by the end of 2002. On a present-value basis, both financings achieved 5 percent debt service savings with overall TIC of 5.29 percent for Series B&C and 4.91 percent for Series D&E. After the issuance of the Series 2001 D&E bonds, the Federal Reserve lowered the Federal funds rate by 100 basis points in two separate actions before February. These moves created additional budget saving opportunity for the City through refinancing of those GO bonds previously left out for lack of economic benefits. In February 2001 the City took such opportunity and issued $697.5 million of refunding bonds, (Series 2001F&G) realizing $44 million of gross budget savings and over 5% of present value savings.

Electronic bidding, first implemented in April 1999 for NYC GO, has become the norm for both the GO and TFA's competitive transactions. In October 2000, the City employed the same electronic bidding system for its

Revenue Anticipation Notes (RANs) for the first time. A total of 28 bids were submitted through the Internet, in an amount of $4 billion. The 9-month note was sold with a TIC of 4.22 percent. The City will continue to utilize this technology for its bond and note financings where appropriate.

The City has also increased its use of electronic media to communicate with its investors in the last year. The City, TFA, TSASC and NYW have all posted their preliminary official statements on the web. In addition, the City made available an "electronic road-show" in conjunction with the provision of the preliminary official statement on a related web site, password restricted for institutional investors only, during the sale of GO Series 2001B&C. Marketing the City's bonds through the "virtual" world which can be accessed by a greater number of investors and viewed anytime and anywhere with a computer connection, provides an additional service to institutional investors in City debt.

Since the first conversion of $140 million of floating-rate bonds (VRDBs) into auction-based floating-rate securities in April 1999, the City has continued to monitor their performance relative to other variable-rate bonds. The all-in cost of the auction program, inclusive of credit enhancement and auction agent fees, has been nearly 10 basis points lower than traditionally remarketed variable-rate paper. In addition, the new product broadens the City's investor base, reaching high-net-worth individuals. The City added $100 million of tax-exempt auction rate bonds and implemented the first $100 million of taxable auction-rate bonds in its recent new money issue, the GO Series 2001H. These new series employ a modified auction procedure, allowing three broker-dealers to participate in the same auction bidding process. It is expected that the competition among the dealers will further reduce the yields on the auction-rate debt.

In 2001 to date, short-term interest costs as reflected in the GO $2.9 billion of VRDBs have been 3.7 percent on average for tax-exempt debt and 6.4 percent for the taxable floating rate debt. These VRDBs, which have been traded on average at rates that are at least 150 basis points lower than those for the fixed-rate debt are expected to generate an annual debt service savings of over $40 million.

The City's seasonal borrowing has declined considerably in recent years. From a high of $3.65 billion of RANs and TANs issued in 1991, the City issued only $500 million of RANs in 1999 and $750 million of RANs in 2000 and 2001. The City currently projects issuance of $1.4 billion of RANs in 2002.

Lease Appropriation Debt

On various occasions the City issues debt through a conduit to be repaid by a subject-to-appropriation lease obligation. This has been done through the New York State Housing Finance Agency, the New York State Urban Development Corporation, the New York City Educational Construction Fund and DASNY. The most visible recent projects the City has financed in this manner include Health and Hospitals Corporation projects under the Municipal Health Facilities program, and the City's courts capital program.

Since December 1993, DASNY has completed two bond issues for the City's court capital program, totaling $707 million. These bonds are supported by rental payments from the City, (which are subject to appropriation) and enhanced by a State aid intercept. The intercept is triggered if the City fails to make the rental payment to DASNY. The City plans to raise up to another $300 million of capital funds for courts through DASNY, utilizing the same lease appropriation structure in late 2001. The total court facilities capital program is expected to amount to about $2.3 billion over the next decade as shown in the City's Ten-Year Capital Strategy.

While lease appropriation debt is generally rated at a notch below G.O, on the strength of the State aid intercept, all three rating agencies (Moody's, Fitch and S&P) rated the program at the same level as that of GO in DASNY's 1999 financing for courts. Subsequent to the December 1999 financing, the City's G.O. ratings were increased in the fall of 2000 to A by S&P, A2 by Moody's and A+ by Fitch. However, the court program did not receive a ratings adjustment from Moody's or Fitch. The City intends to seek rating upgrades from all three rating agencies to bring the court program more in line with the City GO ratings and other State appropriation credits.

The City also plans to issue in 2001 lease appropriation bonds through the newly established Jay Street Development Corp. (JSDC) to finance the construction of a large multi-court facility at 330 Jay Street in Brooklyn. The size of the initial issue is expected to be approximately $275 million, with the remaining construction costs to be financed by JSDC over the next four years. It is expected that the first issue, to be priced in May 2001, will be all variable rate debt, with both VRDBs and auction rate securities in order to achieve flexibility and the cheapest cost of debt.

Through DASNY, the City plans to finance three hospital projects in early 2002 totaling approximately $600 million. The projects include a new DNA lab, ambulatory service facilities at Bellevue hospital and the phase-two reconstruction of Kings County Hospital. Through the IDA with a similar lease appropriation structure, approximately $600 million of capital funds will also be raised in early 2002 for the site purchase and a portion of the construction costs for the new New York Stock Exchange facility. Both programs are expected to pursue floating-rate exposure for a portion of the financing. Other lease appropriation debt issuance planned for the coming fiscal years includes $150 million for the renovation of Lincoln Center and $600 million for stadium improvements.

The New York City Municipal Water Finance Authority

NYW was created in 1985 to finance capital improvements to New York City's water and sewer system. Since its first bond sale in November 1985, the Authority has sold $14.88 billion in General and Second Resolution bonds, including $4.48 billion of refunding bonds. Of this aggregate bond par amount, $9.865 billion is outstanding, $4.04 billion was refinanced with lower cost debt, and $1.03 billion was retired with Authority revenues as it matured. In addition to this long-term debt, NYW utilizes a tax-exempt $600 million commercial paper program as a source of flexible short-term financing.

In February, NYW's General Resolution bonds were upgraded to "Aa2" from "Aa3" by Moody's Investors Service, recognizing as key factors the extraordinary legal protections similar to operating company securitizations, and a well-managed capital program. This rating upgrade brings the views of the three major rating agencies more closely in line. NYW is rated "AA" by Standard and Poor's and "AA" by Fitch.

To date in 2001, the Authority has completed three financing transactions. The First Resolution Series A and B issuances consisted of bond sales directly to the public. The Second Resolution Series 1 bonds were issued to the New York State Environmental Facilities Corporation (EFC) and secure a temporary direct loan from EFC to the Authority. The projected financing activity for the remainder of 2001 will consist of a bond sale by the Authority directly to the public for approximately $200 million and approximately $200 million in bonds issued to EFC. Additionally, the Authority expects to take advantage of potential refunding opportunities during the year if the interest rate environment is favorable. These financings are discussed in more detail below.

On November 20, 2000, the FY2001 Series A bonds were offered for sale with a par amount of $328 million. The transaction structure consisted of a single term bond with a maturity of 2033. The fixed-rate, uninsured bonds sold at a 5.66 percent yield, with a TIC of 5.7 percent. This yield was only 13 basis points over the Municipal Market Data (MMD) triple–A scale, representing one of the best (lowest) relative yields ever achieved by NYW. The bond sale was oversubscribed by approximately two times. Proceeds from this sale defeased a portion of the Authority's Series One and Five commercial paper, funded the debt service reserve fund, and paid certain costs of issuance.

Taking advantage of an improvement in interest rates, the Authority's second issuance followed shortly thereafter on December 8, 2000, with an advance refunding of $60 million of FY 2000 Series B bonds. These FY 2001 Series B bonds were offered for sale with a par amount of $68.7 million and resulted in net present value savings of $3.9 million. The transaction structure included serial bonds from 2002 through 2020 and a single term bond maturing in 2031. The term bond sold at a 5.41 percent yield, a very favorable 7 basis points over the MMD triple-A scale. The TIC cost of the issue was approximately 5.4 percent.

On December 14, 2001 the Authority received a direct loan from EFC. EFC offered this $99.5 million bridge loan in anticipation of the restructuring of bond amortizations from 20 years to 30 years — the longer amortizations which are now allowed in New York State by the United States Environmental Protection Agency (EPA). Proceeds from EFC bond sales assist in the financing of federally mandated clean water and safe drinking water projects for municipalities like New York City. NYW used the direct loan proceeds to defease commercial paper previously issued to fund clean water improvements to the system. The subsidized interest cost of this direct loan was a very favorable 2.74 percent. Going forward, NYW expects to issue 30-year Second Resolution bonds to EFC with EFC issuing its 30-year bonds directly to the public.

In the spring of 2001, the Authority expects to sell an additional $200 million of tax-exempt bonds as well as approximately $200 million of bonds to EFC. Additionally, the interest rate environment may allow for refunding opportunities during 2001 and 2002, resulting in net present value savings on the Authority's debt service.

During the period of 2002 and2005, the Authority expects to sell an average of approximately $1.8 billion of new debt per year. Of this amount, NYW plans to issue a minimum of $300 million per year through EFC, taking advantage of the 33 to 50 percent interest rate subsidy available for qualifying projects, and minimizing the overall costs of its financing program.

TSASC, Inc.

TSASC, Inc., a special purpose corporation, was created by the City in November 1999 to issue bonds secured with the City's share of the Tobacco Settlement Revenues (TSRs) pursuant to a nationwide Master Settlement Agreement (MSA). TSASC issued the first of four series of Tobacco Flexible Amortization Bonds (Tobacco Bonds) in 1999 to finance a portion of the City's capital program. Those bonds were the highest-rated bonds secured by TSRs issued to date by various other governmental entities. The pricing for the TSASC bonds with longer maturities also compares favorably to those in other tobacco transactions with comparable flexible-payment structures or with super-sinker term structures. The only feature of subsequent tobacco bond financings which compared well with TSASC was traditional serial bonds in the early maturities.

TSASC postponed its second financing from April 2001 to April 2002 and will delay the third and fourth series of bonds to be issued by a year from the original schedule as well. In addition, TSASC is currently negotiating a $150 million federal government loan, which will be made to TSASC under the Transportation Infrastructure Financing and Innovation Act (TIFIA). This is being reflected as a $50 million reduction in net proceeds in each of the remaining three financings. With additional reductions of bonded amounts otherwise required for liquidity reserves and capitalized interest, the size of the remaining three TSASC public bond issues will be approximately $630 million each. TSASC expects to complete the $150 million TIFIA loan agreement with the Federal Department of Transportation in the next few months. The loan will be secured with TSRs, on a parity with other TSASC senior program bonds, and will have an interest rate comparable to that borne by Treasury obligations. Proceeds from the TIFIA loan will be used to fund a portion of the reconstruction of Whitehall and St. George Ferry Terminals and the purchase of three ferryboats.

TSASC has acquired the City's 3.4% share of the national total TSRs payable under the Master Settlement Agreement (MSA) entered into between 46 States and the manufacturers of over 97 percent of cigarettes sold in the US. After TSASC retains sufficient TSRs to pay for its debt service and operating expenses, the excess TSRs flow to the City through ownership of a residual certificate. The MSA provides for an upfront payment, four Initial Payments payable on each January 10, beginning in 2000 and continuing through 2003 and an Annual Payment payable on every April 15, beginning in 2000. TSASC received the upfront payment of $84 million in December 1999. The first two Initial Payments in amounts of $73 million and $66 million were also deposited into the Collection Account on January 6, 2000 and January 8, 2001, respectively. The 2001 Initial Payment was about $10 million less than what was originally forecasted. This is largely due to an $8 million adjustment for an overpayment of the Annual Payment made in April 2000. The remaining $2 million shortfall is attributable to lower than anticipated cigarette shipments in the US in calendar year 2000 by the four largest cigarette manufacturers, referred to in the MSA as the Original Participating Manufacturers (OPMs). The Initial Payments are based solely on cigarette shipments by the OPMs.

In addition, TSASC also received the first two Annual Payments of $118 million and $136.5 million in April 15, 2000 and April 16, 2001, respectively. All planned debt service due in 2001 and 2002 was fully funded by January of each fiscal year upon receipt of the Initial Payment. The 2000 Annual Payment was about $4 million less than originally forecast in TSASC's 1999 Official Statement due to a Non Participating Manufacturer adjustment. The 2001 Annual Payment received to date was about $1 million less than projected, largely due to delayed payments by some Participating Manufacturers. In general, the Annual Payments vary according to an inflation factor and the annual amount of cigarettes shipped in the US by tobacco manufacturers participating in the MSA, among other factors. Also, the amounts of TSRs received to date are subject to modification as the Independent Auditor receives updated cigarette shipment information from various sources. The adjustments were and will be made against subsequent TSRs.

Recognizing the lower-than-expected receipt from the actual January 2001 Initial Payment and the April 2001 Annual Payment, the City is revising downward its estimate of residual from the 2001 TSRs by $13 million. However, at this time, the City is not adjusting the original TSASC forecast for future TSRs assuming the average annual cigarette consumption decline of approximately 2 percent contained in the original forecast will be the longterm trend. In addition, with the postponement of the TSASC 2001 series, the City expects to realize additional residual revenue, resulting from reduced debt service retention.

MAYOR'S NEW ANNUAL STATEMENT OF DEBT POLICY

Mayor Rudolph Giuliani has established a procedure, set forth in an Executive Order, by which in each fiscal year, at the time of submission of the Executive Budget in April, the Mayor shall review the City's Debt Policies. The first statement of debt policy is included herein. The City's Debt Policy shall include at a minimum the following:

- The maximum debt burden and debt affordability levels deemed desirable as a matter of policy, considering the City's capital investment needs and the cost for financing that investment; Recommended changes in Local Finance Law constraints on issuance by the City and its public financing authorities and recommended changes in the limitations on the issuance of short-term debt as contained in state law;

- The form and structure of borrowing by the City whether directly, through its financing authorities, or by means of subject-to-appropriation borrowings. Such policies should deal at a minimum with the use of competitive versus negotiated sales, fixed versus floating rate debt and the extent of use of swaps or other derivative instruments.

The following policies shall collectively be deemed the Mayor's Debt Policy for the City of New York.

1. AFFORDABLE LEVELS OF DEBT BURDEN:

The Mayor's Office of Management and Budget shall monitor trends in the City's capital program in order to ensure that aggregate debt service of the sum of City General Obligation, lease and MAC debt does not exceed 15 percent of total City revenues and does not exceed 20 percent of City Tax revenues. Use of statutorily limited debt Authority, such as the TFA, will also be noted.

The capital budgeting process of the City, managed by the Office of Management and Budget ("OMB") on behalf of and with the active oversight of the Mayor, must balance the large infrastructure and other capital investment needs of the City against the cost of the debt used to finance the City's capital program. In addition to reviewing the Capital Commitment Plan quarterly, OMB every two years coordinates a comprehensive review of agency requests and existing capital program culminating in the publication of a new Ten-Year Capital Strategy, in Preliminary form in January and in final form in April. Also taken into account are the results of the Comprehensive Asset Condition and Maintenance Report also compiled annually. The capital planning process weighs the impact of debt service costs against the costs of delaying or not implementing needed capital improvements on a ten-year horizon.

Constitutional and statutory debt limits are too blunt an instrument to be used as a mechanism for fine-tuning the affordability of City debt issuance. The City also requires limits on amounts of affordable debt established as a matter of policy, not law. Most commonly used yardsticks of debt burden overstate the relative burden of New York City's debt relative to other large cities. This is because New York City funds a total capital program which in other cities is funded not only by the municipality, but shared among one or more counties, one or more school districts and various special districts. New York City has a large population base and a strong and diverse economy; its resources easily sustain its debt burden. However, measures such as per capita debt or debt as a percent of personal income make New York City's debt burden look disproportionately high. This is because in other cities the amount of debt incurred by the municipality is small relative to other "overlapping debt" of counties, school districts and special districts and relative to their population size and economic base. Data gathering to add such overlapping debt into the debt burden of other large cities is difficult, time-consuming and subject to error and interpretation.

On the other hand, debt service as a percentage of either the total budget or in proportion to local taxes more accurately measures debt burden relative to the resources and responsibilities of each particular city. On these measures, the debt burden of New York City is not high. New York's debt service is 8.1 percent of total budgeted revenues in 2001 rising to 9.6 percent in 2005 compared to a mean of 13 percent for the 15 largest cities excluding New York City. As a percent of local tax revenues, New York City's debt service is 14.1 percent in FY2001 and will rise to approximately 15.8 percent in 2005, compared to a mean for the 14 largest cities of 17.4 percent.

These ratios appropriately exclude debt service on TFA bonds, which have their own statutory and covenanted maximums on debt and debt service, debt service on TSASC bonds, which are self-supporting from non-City revenues, and debt service on Water Authority bonds which are fee-supported revenue bonds of the type excluded from the ratios for the other large cities. In addition, in calculating the debt ratio, the general obligation (GO) bond debt service is reduced by the amount of rental payments from the Water System to the extent equal to debt service on GO bonds issued for water and sewer purposes prior to the creation of the Water Authority. Pre-payments of debt service from prior or current year surplus, which has an effect of artificially reducing or increasing the annual debt service costs, are also excluded from the calculation. This methodology is consistent with the format historically used by the Mayor's Office of Management and Budget.

New York City's debt ratios are particularly favorable compared to the largest cities when unfunded pension liabilities are taken into account. Many analysts view unfunded pension liabilities, which are accounted for as long-term liabilities, as an add-on to bonds in calculating debt ratios. For New York City, there is no significant unfunded liability in the aggregate for the major pension systems, a circumstance dramatically different from that of many large cities.

TFA bonds, which also have a statutory cap of $11.5 billion of debt issuance, have a covenant with bondholders preventing additional debt issuance if it would result in TFA debt service in excess of $330 million per quarter. This has the practical effect of limiting the issuance of TFA debt to approximately $12 billion, depending on interest rates at the time of issuance.

2. LIMITATIONS ON CASH FLOW FINANCINGS:

Provisions of the Financial Emergency Act requiring that City note financings for cash flow purposes be secured by clearly identified revenues or taxes and prohibiting cash flow borrowing over fiscal year end should be incorporated permanently into the State Local Finance Law to ensure that these guidelines will continue to exist after the sunset of the Financial Emergency Act in 2008. Bond Anticipation Notes can be a useful way to access the short-term capital market as an alternative to variable rate bonds or as a construction period financing device and should not be limited to maturity to the fiscal year in which issued.

3. LIMITATIONS ON DEBT ISSUANCE IN LOCAL FINANCE LAW:

The Local Finance Law as it applies to debt issued to finance the capital program of New York City must be reviewed annually to advise the State Legislature of recommended amendments and modernization to permit the City to incorporate in its borrowings the latest prudent cost saving financial techniques.

The Local Finance Law contains a long list of restrictions and compliance rules for the issuance of New York City GO and TFA debt. These include:

- limitations on the amount of variable rate indebtedness.
- requirements that amortization of debt be in relation to statutorily specified periods of probable usefulness (“PPUs”) of assets financed.
- formulations which have the effect of requiring roughly level or declining annual debt service.
- limitations on capital purposes for which the proceeds of indebtedness may be used.
- the requirement that advance refunding must either result in present value savings or produce the defeasance of certain state covenants contained in bonds to be refunded.
- the requirement that bonds issued for advance refunding purposes be amortized separately from bonds amortized to fund the City’s ongoing capital program.
- limitations on the use of negotiated or private sale of bonds as alternatives to advertised bids and making such sales subject to approvals by the State Comptroller.

The legislative proposals of the City for calendar year 2001 contain several technical but important amendments to the Local Finance Law which would afford the opportunity for significant cost savings for taxpayers without relaxing or foregoing the City’s conservative and prudent approach to debt issuance. These include the proposal that refundings and new money be permitted to be structured together to meet amortization requirements when new money issues are combined with bonds issued to refinance previously issued debt. This change would apply to both general obligation and TFA financings. In addition, the City is proposing that it be expressly authorized to utilize interest rate swaps (as is currently the case for at least one State financing authority), to issue bonds with detachable call provisions, and to issue debt payable in foreign currencies for sale in international markets for debt not qualifying for tax-exempt status. Foreign borrowings would be required to be entirely hedged so that the liability of the City for debt repayment would be paid in dollars at a known cost.

4. VARIABLE RATE DEBT ISSUANCE:

Variable rate indebtedness up to a level of 20 percent of overall indebtedness represents a prudent and balanced approach to liability management for the City.

In calendar 2000, the State Legislature responded to the City's request that statutory limits on variable rate indebtedness for GO and TFA bonds be raised to 20 percent. The City is currently utilizing the 20 percent variable rate debt target as a guideline for all of its sources of financing including the Water Authority and for the City's overall debt service budget including subject-to-appropriation lease financings.

5. COMPETITIVE VERSUS NEGOTIATED BOND AND NOTE SALES:

- *Issuance of bonds in amounts of less than $250 Million per issue and notes in amounts of less than $2 Billion should be sold by competitive sale (Advertised bids) unless market conditions are sufficiently unsettled or the particular credit being marketed is so complicated as to warrant negotiated sale.*
- *Negotiated financings as small as $100 Million in size are also appropriate 1) when a smaller "emerging" securities firm among several lead firms in a larger financing program has earned a book running position but is not experienced in running deals of $250 Million or larger and 2) when a securities firm has structured and earned the right to lead a financing which for various reasons, technical or market, ends up smaller than $250 Million in size.*
- *Financings larger than these amounts should be marketed by negotiated sale in order to mobilize optimal underwriter support and to make possible the use of retail pre-sale order periods necessary to ensure the lowest interest cost on the borrowing.*
- *At least once every four years underwriters for negotiated sales should be reviewed and selected in a competitive process by means of a formal request for proposals process. The Mayor's underwriter's selection committee consisting of the Director of Management and Budget, the corporation Counsel, the Deputy Mayor for Finance and the Commissioner of Finance ensures that this process is fair and equitable.*

The City together with its financing authorities is a recognized leader in the development of the technique of presale retail order periods which have significantly broadened the market for New York City bonds and contributed to the reduction in relative interest rates on City-related financings. Retail order periods are particularly helpful for the large financings which are common for New York City. Such presale retail marketing can only be accomplished as part of a negotiated bond sale.

6. INTEREST RATE SWAPS AND OTHER DERIVATIVE INSTRUMENTS:

Any use of these techniques should only be upon express approval of the budget director on the Mayor's behalf, and pursuant to the standards on the use of swaps and derivatives instruments enumerated below.

The City has not utilized interest rate swaps and other derivatives in recent years. There is a good case to be made that utilization of such financial products, in limited amount, and as a prudent hedge (for example against foreign exchange risk on international borrowings) or as a means to achieve a balanced liability structure (for example fixed-to-floating swaps used as an alternative to variable rate debt) can be useful tools in the City's overall debt management. To ensure that they are used prudently, swaps and derivative instruments should be used only upon express approval of the Mayor or his designated representative and pursuant to the following guidelines dealing with the extent and criteria for the use:

- risks (including counterparty risk, interest rate risk, renewal risk, basis risk and leveraging) should be carefully identified and compared to benefits obtained.
- the City should seek to obtain at least a 10 basis point benefit and should obtain a greater benefit if the derivative product is leveraged or if the product is long-dated (greater than 10 years in duration).
- counterparties used should have long-term bond ratings in the double-A rating category or higher

and, where possible, should be required to collateralize their obligations if their ratings are downgraded below the double-A rating category.

- the City should seek to diversify its counterparties.
- products should be favored which have well-established and liquid markets to facilitate termination of the contract where desirable or necessary.

7. INVESTMENT OF BOND PROCEEDS AND OF DEBT SERVICE FUNDS:

The City and its financing Authorities will invest bond proceeds and monies set aside to pay debt service subject to written investment guidelines or statutory or bond indenture criteria. All Investments including investments of open market securities for escrows on advance refundings will be obtained by competitive bidding where possible.

In the case of the Water Authority and TFA, the Boards of those respective authorities have formally adopted Investment Guidelines. TSASC and the Jay Street Development Corporation investments are pursuant to their respective bond indentures. Proceeds of City GO bonds and notes are invested by the City Comptroller pursuant to formal investment guidelines approved by the Comptroller. The State Comptroller invests City property taxes set aside to pay debt service on City GO bonds and on City revenue and tax anticipation notes pursuant to statutory guidelines.

Providers of advice and other services relating to the investment of proceeds of bonds and of assets of the City's pension systems must be precluded from making political contributions to City elected officials or candidates for elected office, a prohibition similar to existing prohibitions on political contributions by underwriters to candidates for City offices.

The City and its financing authorities do not engage in leveraged investment transactions of the type which resulted in the bankruptcy in Orange County, California. The City's consistent policy of requiring competitive bidding for escrows on advance refundings kept City financings from any shadow of suspicion during the investigations of "yield burning" over the past five years.

8. PAY-AS-YOU-GO-CAPITAL:

The City's conservative practice of paying for assets with lives of three and four years out of the operating budget rather than borrowing to pay for such assets amounts to a significant $150-to-$200 Million pay-as-you-go policy. This amount should contine to be presented separately as Pay-Go in the City budget and debt reports.

Most local governments across the country borrow for at least a large portion of assets with lives of three years or longer. The fact that New York City pays for assets with lives under five years out of the operating budget is a significant and conservative budgeting and debt management practice which deserves greater attention by the public, the rating agencies and investors.

As a matter of principle and policy, the average life of the financing sources of the City's capital program should be long and roughly match the long average life of the assets being financed. This ensures intergenerational equity among the taxpayers using bond financed assets over the approximate twenty-year average life of those assets. For this reason, pay-as-you-go-capital, paid only by today's taxpayers, should appropriately be limited in amount.

9. ADVANCE REFUNDINGS (REFINANCINGS OF EXISTING DEBT):

The City will continue its conservative practice of requiring that advance refundings produce savings at least equal to 5 percent.

Current federal government regulations for the use of tax-exempt municipal financing limit state and local governments to one advance refunding of previously issued debt (if issued after 1987, otherwise to two refundings). The 5 percent savings target utilized by the City on advance refundings ensures that should interest rates decline further in the future the City will be able to capture additional debt service savings for taxpayers. This savings threshold also ensures that the savings obtained for taxpayers is in excess of five times the fees paid to underwriters to execute the transaction.

10. INVESTOR RELATIONS:

The City will continue to commit resources and utilize the latest technologies to ensure that the borrowings to fund its capital program will continue to be viewed by investors as representing state of the art investor relations techniques.

This will be a crucial factor in ensuring that the City's borrowing costs are the lowest possible in the marketplace.

11. OTHER SOURCES OF INFORMATION FOR THE PUBLIC AND FOR INVESTORS ON NEW YORK CITY DEBT MANAGEMENT:

New York City has the most extensive and transparent reporting on financial management including debt management in the country. In January and April of each calendar year, the City publishes an extensive textual discussion as a part of the release of its Preliminary Budget (in January) and Executive Budget (in April), with a time horizon of four fiscal years. This text includes a lengthy textual presentation and review of both the City's Capital Program and its Financing Program. Biennially, the City publishes in January and April respectively its Preliminary Ten Year Capital Strategy and then its Ten Year Capital Strategy. The City also annually publishes its Asset Condition and Maintenance Schedules for Major Portions of the City's Capital Plant. At the time of publication of the Ten Year Capital Strategy, the City publishes an additional report comparing the recommended levels of funding in the Asset Condition and Maintenance Report with actual proposed budgeted funding levels. Annually in April, the Mayor publishes his Annual Statement of Debt Affordability and his Annual Capital Program Affordability Certificate. In June, after budget adoption, the Mayor publishes his Annual Declaration of Need and Proposed Transitional Capital Plan. In addition, the City Comptroller publishes in December of each calendar year his Annual Report on Capital Debt and Obligations.