The City of New York

Financial Plan

Fiscal Years 2002—2006

VOLUME 1

The City of New York
Michael R. Bloomberg, Mayor

Office of Management and Budget
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February 13, 2002

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THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

February 13, 2002

To the Citizens of the City of New York
Members of the City Council
Members of the Financial Control Board
My fellow New Yorkers,

Since the events of September 11th, New Yorkers have been united in our efforts to cope with the pain and loss that we experienced on that day. Our police, fire and emergency personnel set a standard for courage that will be remembered for generations. All New Yorkers worked tirelessly to assist those most affected by the tragedy. Through round-the-clock efforts, 7 days a week, the clean up and recovery is far ahead of schedule and under budget.

The September 11th attack has forced the City to deal with new economic and fiscal conditions. We now face a projected budget gap for Fiscal Year 2003 of $4.8 billion. We will, however, take the necessary steps to maintain our City's fiscal integrity. The current Fiscal Year 2002 (ending June 30, 2002) will end with a balanced budget as required by law through a combination of revenue and expense actions. The attached Financial Plan describes how the Fiscal Year 2003 budget gap will be closed. It avoids new taxes and layoffs, but includes agency reductions and greater efficiencies. It calls for new partnerships forged with the State and Federal governments as well as the municipal labor force and it uses one-time 9/11 revenue replacement financing.

New York City employees will play an important part in the solution to our current financial difficulties. Our workers are essential to the delivery of government services. With labor force cooperation, the only downsizing of the City labor force in Fiscal Year 2003 will occur through attrition and voluntary early retirement programs.

We also intend to make our City's planning and budget process more transparent. All of the City's debt obligations, including City lease debt payments, will be stated more clearly. New methods of presentation will highlight all of the City employees available to agencies including seasonal, per-diem and part-time workers, as well as those paid for by State and Federal funds.

This Financial Plan also includes the Preliminary Budget for Fiscal Year 2003. It is the point of departure for the fundamental discussion that must occur with New Yorkers and their elected officials. We have made certain assumptions about the future in this Preliminary Budget, but the future, as we know all too well, is always subject to unforeseen events and actions. As additional information becomes available, we will adjust our assumptions to maintain budget balance in Fiscal Year 2003 and beyond.

As to Federal aid for New York City, excluding the victims' compensation fund, New York City has been promised at least $20 billion in Federal aid by the President of the United States, George W. Bush. However, these funds are not available to balance the City budget, or to close the budget gap. These funds will be used to reimburse the City for clean up and overtime expenses and to stimulate economic activities hurt by the terrible tragedy on September 11th. The great balance of these funds will provide the foundation for the renewal of Lower Manhattan in the coming years.

ORIGINS OF THE GAP

In the late 1990s, a booming national and local economy caused tax revenues to grow faster than expenses, even with tax cuts, thus generating annual surpluses. These annual surpluses were used in the immediately following fiscal years to fund spending, even as the economic boom receded. The public continued to demand, and our city government was able to provide, an enhanced level of service. In the growing economy of the late 1990s, this was achievable, however, the slowing economy of last summer signaled the need to reconsider our ability to maintain services at that level.

The September 11th attack has exacerbated the problems facing our economy. New York City has lost 100,000 private sector jobs since the attacks, across all industries. In addition, Wall Street financial services industries have seen their profits decline substantially – by 60% - and these firms typically generate 16% of economically sensitive tax revenues, such as personal income and business income taxes. Also, as a result of the attack, the market value of real estate in Lower Manhattan has fallen, and over $5 billion in real estate market value has disappeared with declines of up to 25% in properties surrounding Ground Zero. The tourism industry, which has expanded in recent years, has been especially hard hit, as international travel has declined. As a result of the attack and economic weakness in the region, total economically sensitive taxes will fall 10% this year. A forecasted pick-up in growth for the next few years will still leave these tax collections below the Fiscal Year 2001 level until Fiscal Year 2006.

The Fiscal Year 2002 budget, when adopted in June of 2001, projected a $345 million surplus in Fiscal Year 2002 and a gap of $3.1 billion in Fiscal Year 2003. Due to changes in projected spending, losses in expected Federal and State assistance, the inability of the City to sell OTB and other changes, a gap of $660 million in Fiscal Year 2002 had opened by the end of August 2001. These changes further increased the gaps in the out-years of the Financial Plan, increasing the budget gap in Fiscal Year 2003 from $3.1 billion to $3.8 billion, and bringing the gaps in Fiscal Year 2004 and Fiscal Year 2005 to $4.2 billion and $4.5 billion, respectively.

The terrorist attacks on September 11th had a dramatic impact on the City's budget. The City's revenue loss attributable to the attacks is $792 million in Fiscal Year 2002 and $1.3 billion in Fiscal Year 2003. (Because the prior City Council decided not to extend a reduction in the personal income tax surcharge, additional revenue of $172 million in Fiscal Year 2002 and $349 million is Fiscal Year 2003 is available to partially mitigate this loss.) The net result is that the budget gap closed in Fiscal Year 2002 was $1.3 billion (compared to the $345 million surplus projected in June 2001), and the budget gap to be closed in Fiscal Year 2003 is $4.8 billion (compared to the $3.1 billion gap projected in June 2001).

GAP-CLOSING PROGRAM FOR FISCAL YEAR 2003

We can only solve our financial challenges by working together. We must make difficult choices in our budget. More than $27 billion of the city's $42 billion budget is mandated or non-discretionary spending. Therefore we must look at the remaining $14.9 billion (of which over 50% is spending on the Board of Education and New York Police Department) to identify agency expense reductions. It is neither prudent nor responsible to close a budget gap of $4.8 billion solely with expense reductions. Therefore, in order to balance the City budget for Fiscal Year 2003, we have developed a gap-closing program with five major components:

- Recurring expense reductions
- Revenue enhancements
- Postponement of certain programs and projects into the future
- State and Federal Initiatives
- State-authorized Transitional Finance Authority financing to mitigate the effect of September 11th in Fiscal Year 2003.

<u>Recurring Expense Reductions</u>

Our expense reduction program includes over $1.3 billion in recurring expense reductions, providing budget relief for the future years as well. Another recurring expense reduction will be a $500 million decrease in fringe benefit costs that we will achieve with the cooperation of the municipal labor force. New York City is also planning on $800 million from initiatives that require State or Federal actions (the city has identified over $2.1 billion in potential actions, of which $1.3 billion are of no cost to the State and Federal governments.) Finally, we will generate an additional $400 million in savings through refinancing portions of the outstanding debt of the City (this is the only savings which does not have recurring value in the future years of the Financial Plan).

<u>Revenue Enhancements</u>

This plan also includes intelligent and appropriate revenue enhancements. We are seeking state authority to raise the City's cigarette tax to match the level of the State's tax per pack. This should raise more than $249 million while also discouraging smoking among young people. In addition, we are re-aligning certain fees to more accurately reflect the costs of providing the service, including asking Albany to raise the surcharge used to pay for the cost of providing E-911 services.

Postponing Certain Programs and Projects into the Future

To provide long-term budget relief, the gap-closing program also reduced the capital program of the City by 19% for Fiscal Years 2002-2005. With this cut, however, the Fiscal Year 2003 capital program is still over 50% greater than the capital program in Fiscal Year 2000. Certain programs and projects will be postponed into the future. Our current financial difficulties will require us to delay selected projects until we can afford them.

Federal & State Initiatives

The September 11th attack was an attack on New York City and the nation. Since that date, we have forged a new partnership with the state and federal government. The State of New York and the Federal government acted quickly to ensure emergency financial assistance was available to the City. The Federal government has provided over $375 million through FEMA aid to the City since September 11th. We are grateful for the financial support from our leaders in Albany and Washington DC.

New York State can take specific actions that would impose no additional costs on the state government but that would save New York City over $680 million in Fiscal Year 2003. We are asking the Governor and the State Legislature to partner with the City to extend timing for payment of certain pension-related liabilities of the City. Reforming certain debt finance limitations imposed on the City would provide additional savings. Tort reform legislation (the need for which is highlighted by recent occurrences in Brooklyn) would assist the City in reducing the cost of lawsuits. Early retirement incentives would provide savings to the City in Fiscal Year 2003 and annually thereafter. We are also asking for increased flexibility in childcare development funding. None of these actions would cost the State any money, yet they play an integral role in our plans to close the budget gap in Fiscal Year 2003.

It is time for New York City to establish a new and stronger relationship with New York State. Since 1999, New York City's unrestricted State aid has decreased more than 26%, while in the rest of the State it has increased by 39%. In recent years, State actions alone have increased the City's budget gap by over $1.1 billion in Fiscal Year 2003. New York City's share in education aid from the state should also be adjusted. The City educated 38.8% of the State's school children. Yet it received only 36.6% of the State school aid.

The Federal government can also take steps that would impose no new costs on Washington but provide $385 million in savings to the City. Providing the City with additional flexibility in debt refinancing would create immediate savings to the city in Fiscal Year 2003. Flexibility in hazard mitigation will provide ongoing savings to the City in Fiscal Year 2003 and in the future years. These actions do not cost the Federal government any money, but they provide the City with additional resources in these difficult and challenging times.

State-Authorized Transitional Finance Authority Financing Necessary To Mitigate the Effects of September 11th in Fiscal Year 2003

The total revenue loss to the City from September 11th is $2.1 billion for Fiscal Years 2002 and 2003 combined. The State Legislature provided New York City Transitional Finance Authority with $2.5 billion in additional borrowing capacity to finance expenses associated with the attacks. New York City Recovery Notes totaling $1 billion have been issued to date as part of this program.

The gap-closing program described above covers $3.3 billion of the $4.8 billion deficit forecast for Fiscal Year 2003. The State-authorized TFA financing will be used to cover the remaining $1.5 billion of the revenue loss.

Gap Closing Program for Fiscal Year 2004 and Beyond

The Financial Plan also outlines steps necessary to address the out-year gaps in Fiscal Years 2004, 2005 and 2006, which after implementation of the Fiscal Year 2003 gap-closing program are projected to be $2.6 billion, $2.9 billion and $3.1 billion, respectively. A combination of additional agency programs, additional resources, Federal and State actions, and restructuring of transportation and sanitation resources will provide over $2.5 billion in annual out-year gap closing savings to the City. The City will also explore transportation policy innovations that incorporate new technologies and new systems, including new congestion pricing and EZ-Pass initiatives. The City will not make use of any additional State-authorized TFA financing in the future. The Fiscal Year 2003 budget presented today is preliminary. In the Executive Budget for Fiscal Year 2003, which I will present in April, we will continue to explore creative and innovative solutions to the budget gaps we are facing in the future.

When New Yorkers work together, we can meet any challenge. We face serious fiscal problems, but we can and will solve them. New Yorkers understand that these are hard times, and that we must make sacrifices now in order to assure a strong future. We will constantly search for new and more efficient ways to deliver vital government services. Our government will continue to be the most compassionate and responsive municipality in the world. Our City is fortunate to have an active citizenry and a talented workforce, two essential ingredients for a strong and vibrant city. New York is a special city and New Yorkers are special people. By working together, we will build a future that will serve all New Yorkers.

Very truly yours,

Michael R. Bloomberg
Mayor

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Financial Plan

Fiscal Years 2002—2006

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The Financial Plan

In accordance with the City Charter, the Preliminary Budget for 2003 includes a plan to balance revenues and expenses for the upcoming fiscal year and a financial plan covering estimates of expenses and revenues for the ensuing three years. The City's financial plan detailed in the following table sets forth projected operations on a GAAP basis for the 2002 through 2006 fiscal years. The assumptions upon which these expense and revenue estimates are based are summarized in the Supplemental Information section of this document.

Five Year Financial Plan Revenues and Expenditures
($ in millions)

	2002	*2003*	*2004*	*2005*	*2006*
REVENUES					
Taxes:					
General Property Tax	$8,536	$8,861	$9,290	$9,689	$10,105
Other Taxes	12,965	13,159	13,922	14,619	15,523
Tax Audit Revenue	462	427	427	427	427
Miscellaneous Revenues	4,506	4,476	4,519	4,219	3,989
Unrestricted Intergovernmental Aid	832	607	580	555	555
Transitional Finance Authority – 9/11	—	1,500	—	—	—
Other Categorical Grants	714	409	394	400	406
Less: Intra-City Revenue	(1,320)	(1,338)	(1,333)	(1,333)	(1,333)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	**$26,680**	**$28,086**	**$27,784**	**$28,561**	**$29,657**
Inter-Fund Revenues	323	323	317	317	317
Total City Funds & Inter-Fund Revenues	**$27,003**	**$28,409**	**$28,101**	**$28,878**	**$29,974**
Federal Categorical Grants	6,264	4,606	4,343	4,345	4,347
State Categorical Grants	8,029	8,383	8,319	8,402	8,432
Total Revenues	**$41,296**	**$41,398**	**$40,763**	**$41,625**	**$42,753**
EXPENDITURES					
Personal Service	$22,690	$22,103	$22,709	$23,455	$24,180
Other Than Personal Service	18,878	17,626	18,063	18,354	18,679
Subtotal: PS and OTPS	**$41,568**	**$39,729**	**$40,772**	**$41,809**	**$42,859**
Debt Service*	688	2,552	3,209	3,385	3,649
Budget Stabilization	260	—	—	—	—
MAC Debt Service*	—	255	489	490	490
General Reserve	100	200	200	200	200
Subtotal	**$42,616**	**$42,736**	**$44,670**	**$45,884**	**47,198**
Less: Intra-City Expenses	(1,320)	(1,338)	(1,333)	(1,333)	(1,333)
Total Expenditures	$41,296	$41,398	$43,337	$44,551	$45,865
Gap To Be Closed	**$—**	**$—**	**($2,574)**	**($2,926)**	**($3,112)**

* *The 2002 Debt Service and MAC Debt Service figures do not include $2.6 billion of prepayments made in 2001.*

The 2002 forecast provides for a general reserve of $100 million to offset any adverse changes which may arise during the remainder of the fiscal year. In addition, $260 billion is included in 2002 in the Budget Stabilization Account for the prepayment of fiscal year 2003 Debt Service.

The 2003 Preliminary Budget provides for a general reserve of $200 million, which is double the $100 million that is mandated at the beginning of a fiscal year. Fiscal Year 2003 will be the twenty-third successive budget to be balanced under generally accepted accounting principles.

To achieve a balanced 2003 budget, a gap closing program has been developed to eliminate the $4.8 billion preliminary gap. The proposed gap closing program includes agency spending reductions and non-tax revenue increases of $1.8 billion, State authorized Transitional Finance Authority of $1.5 billion to mitigate a portion of the revenue loss caused by the World Trade Center attack, savings from initiatives requiring state and federal action of $800 million, savings from a fringe benefit cost containment program of $500 million and savings of $100 million from an early retirement/severance program. The recurring savings from implementation of this plan will leave remaining gaps of $2.6 billion in fiscal year 2004, $2.9 billion in fiscal year 2005 and $3.1 billion in fiscal year 2006.

An out-year gap closing plan is also presented as an outline to achieve budget balance for fiscal years 2004 through 2006. This plan includes savings from agency programs of $1.7 to $1.9 billion, savings from initiatives requiring state and federal action of $500 million, transportation related initiatives of $100 million to $800 million, management and procurement efficiencies of $50 to $75 million and Sanitation savings program of $50 million.

Financial Plan Update
($ in millions)

	2002	*2003*	*2004*	*2005*
Surplus/Gap at Adopted (June 2001)	**$345**	**($3,123)**	**($2,611)**	**($2,236)**
Revenue Changes				
• Taxes	(792)	(1,303)	(1,176)	(1,255)
• PIT Surcharge	172	349	370	390
• OTB	(250)	—	250	—
• Other Non Tax Revenues	(197)	121	(24)	(37)
Total Revenue Changes	**(1,067)**	**(833)**	**(580)**	**(902)**
State and Federal Changes	**(233)**	**(246)**	**(266)**	**(266)**
Expenditure Changes				
• Pension Costs	81	(57)	(208)	(311)
• Collective Bargaining	(152)	(170)	(176)	(181)
• Health Insurance	(120)	(200)	(280)	(375)
• Medicare Part B	(33)	(42)	(62)	(73)
• Judgments and Claims	(100)	(105)	(110)	(115)
• Debt Service	277	441	65	5
• Education	(17)	(147)	(150)	(150)
• Health and Welfare	(157)	(326)	(445)	(527)
• Other Agency Spending	(160)	(218)	(210)	(225)
• Prior Payables	210	—	—	—
• Reduce General Reserve	100	—	—	—
Total Expenditure Changes	**(71)**	**(824)**	**(1,576)**	**(1,952)**
Prepayments	(260)	260	—	—
Gap to be Closed February Plan	**(1,286)**	**(4,766)**	**(5,033)**	**(5,356)**
Agency Spending Reductions and Non-Tax Revenue Increases	1,286	1,866	1,334	1,280
Initiatives Requiring State and Federal Action	—	800	500	500
Fringe Benefit Cost Containment	—	500	525	550
Early Retirement/Severance	—	100	100	100
TFA Financing Required By Event of 9/11	—	1,500	—	—
Total Gap Closing Program	**$1,286**	**$4,766**	**$2,459**	**$2,430**
Remaining Gap	**—**	**—**	**($2,574)**	**($2,926)**

Out Year Gap Closing Program	**2004**	**2005**
Additional Agency Programs/Additional Resources	$1,874	$1,801
Initiatives Requiring Federal and State Action	500	500
Transportation (Congestion Pricing, EZ pass Initiatives)	100	500
Management and Procurement Efficiency	50	75
Sanitation	50	50
Total Out Year Gap Closing Program	**$2,574**	**$2,926**

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Overview

Until the World Trade Center attack, consumer spending, spurred by confidence and tourism, the robust housing market and the Federal Reserve's aggressive easing of interest rates, generated hope that the economy might again surprise everyone with another soft landing[1] despite the battering that the nation's manufacturing sector was taking (during the first three quarters of 2001, manufacturing shed 900,000 jobs). In the immediate aftermath of the attack, both consumer and investor confidence deteriorated and activity in certain industries directly impacted by the attack, like tourism, plummeted. Not surprisingly, third quarter GDP for 2001 posted the first drop in over ten years. With the downtown economy and infrastructure shattered as a result of the disaster, New York City suffered an unprecedented loss of almost 100,000 jobs in the fourth quarter of 2001.

Nationally, however, many of the battered economic indicators have started to rebound, thanks partly to continued aggressive action by the Federal Reserve. Retail sales during the Christmas season were stronger than expected, defying fears that consumers might stay home. Recent data on new orders for goods and inventory levels have pointed to a potential pick-up in manufacturing, and the employment data have indicated that the worst is probably behind us. Given the recent signs of stabilization the current forecast calls for real GDP and employment to resume growth by the second quarter of 2002. Just as there are indications that this recession may be abating, there are also signs that the pace of the recovery is likely to be modest. Burdened by unprecedented levels of debt and losses in household equity due to recent setbacks in the stock market, consumption growth is not expected to exceed inflation. The persistent overcapacity in many sectors of the economy inhibits business investment for much of this year. As a result, the positive economic impact of a full-fledged turnaround in consumption and investment (together making up over 80 percent of GDP) is only felt starting in 2003. Further fueled by a resurging stock market, real GDP is projected to grow by 3-3½ percent for the outyear period of the current plan.

With help from the Federal and State governments, the City expects to gradually rebuild and recover from the attack. Employment in the City is forecast to pick up in the latter part of 2002 along with the nation. Modest gains are projected throughout the forecast period of about 30,000 jobs per year, eventually recovering to the pre-September 11 level by 2006. In addition, the outlook for the securities industry is also expected to improve. Following an estimated drop of almost 60 percent in 2001, NYSE member-firm profits are expected to grow by about 10 percent per year in 2002-2006. The profit assumptions combined with the employment forecast drive overall wage earnings up by nearly five percent on average per year in 2003-2006, after declining by over four percent in 2002, the first drop since the deep recession of the 1990s. The commercial real estate market, severely impacted by the September 11 attack, with nearly 30 million square feet either destroyed or damaged, is expected to weaken further in 2002 before gradually stabilizing in the outyears.

1) 1995 was the last time the Fed is believed to have executed a soft landing.

Non-property tax revenue growth[2] declines 10.1 percent in 2002, down from the 6.8 percent increase seen in 2001 and the average annual growth of 10.5 percent seen 1998 through 2001. The sharp decline in collections growth is the direct result of the September 11th terrorist attack coupled with the national recession. Wage earnings, employment, securities sector profits and corporate earnings are all forecast to drop in 2002. After factoring in the impact of the large tax cuts enacted over the past several years (the STAR program, the nonresident tax repeal, the 14 percent personal income additional tax cut effective for tax year 2001, and the sales tax exemption on clothing and footwear purchases under $110 as well as increases in Transitional Finance Authority (TFA) debt service retention), 2002 non-property tax revenue declines 13.1 percent from the prior year level. With real property billable assessed value for 2002 up 6.2 percent (based on market value growth of 10.7 percent), property tax revenue increases 6.6 percent in 2002. Total tax revenue, non-property and property tax revenues, is forecast to decline 4.7 percent.

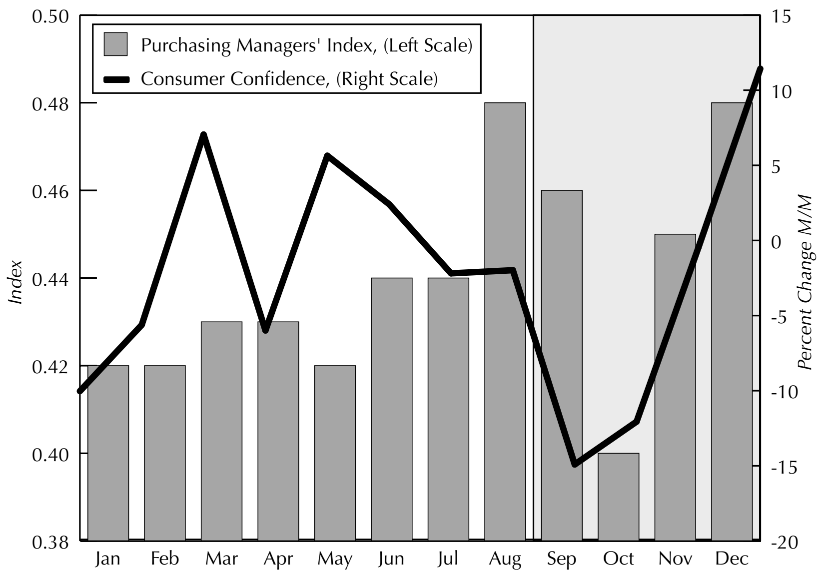
Growth in non-property taxes rebounds in 2003, but only at a sluggish 2.8 percent rate (after factoring in the effect of tax law changes and TFA retention, non-property tax revenue is forecast to grow 1.5 percent). Growth is quite modest since tax revenue growth from increases in wage earnings and securities industry profits is held back by the lingering effects of employment losses. The end of the national recession results in a return to trend growth in the national and local economies by calendar year 2003 and non-property tax growth averages 6.0 percent in 2004 through 2006. Billable assessed value increases 5.0 percent for 2003 and property taxes grow 3.5 percent despite the impact of September 11th attack on Class 4. Class 4 was impacted significantly by the attack, with almost 30 percent of primary downtown office space destroyed or damaged. Many commercial properties in the vicinity of the World Trade Center saw a decline in market value of 25 percent due to physical damage and infrastructure disruptions, while market values in Battery Park City fell 21 percent. Manhattan hotels saw market values decline by 16 percent as a result of infrastructure and transportation disruptions in the downtown area and plummeting tourism after the September 11th attack. Overall, assessment declines cost the City $230 million. In the outyears, market value growth is forecast to slow from 2003's 8.9 percent rate, but the impact of the slowdown on property tax revenue is dampened by the phase-in of the assessed value pipeline built over the past few years. On average, the billable assessed value is forecast to grow by 4.4 percent in 2004 through 2006.

2) *All tax revenue growth figures in this section have been calculated on a common rate and base, excluding audit collections.*

The U.S. Economy

At the beginning of 2001 most economists were expecting the U.S. economy to avoid a recession, although growth was forecast to be an anemic 1.7 percent for the year. The stock market bubble had already burst and the Federal Reserve had begun lowering interest rates to counter the weakness in manufacturing, in particular the high-tech sectors. Signs of further deterioration had surfaced through the course of the spring and summer. The slowdown in employment by then had spread to the service sectors, with the unemployment rate rising to 4.9 percent in August from 4.2 percent in January. At the same time, other sectors of the economy were still holding steady. Most notably the residential real estate market, though down from its peak, was still strong with housing starts at around 1.5 million. The Fed had continued to aggressively cut interest rates, lowering short-term interest rates to their lowest level in 30 years. Despite the erosion in the economic statistics, going into the week of September 11 a majority of forecasters still held that the U.S. economy would steer clear of a recession, though the outlook for the second half of the year had worsened and almost all had lowered their estimates of growth for 2002 slightly.[1]

Many economic indicators, which had plummeted in the immediate aftermath of 9/11, have recently shown signs of recovery.



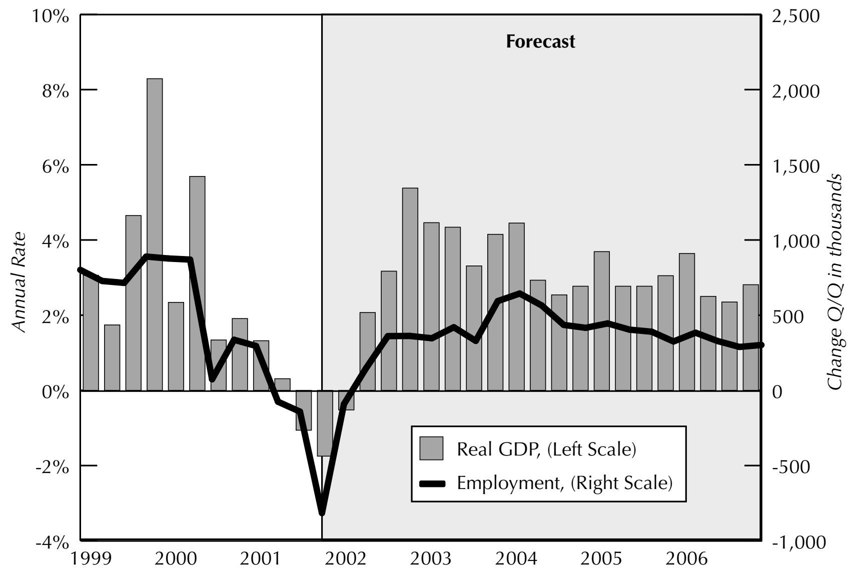
The tragic events of September 11 had an immediate effect on the U.S. economy, and the repercussions are still with us. Consumer and investor confidence plunged. The manufacturing sector, which some thought had bottomed in late August, plummeted further as the Purchasing Managers' index fell from a 48 reading in August to 40 in October. Employment losses ballooned to almost 400,000 on average in October and November. In New York City, firms located near Ground Zero took a direct and severe hit and the tourism industry nationwide ground to a halt.

Recently, however, some of these indicators have shown signs of recovery. Retail sales for Christmas, though down marginally, were much stronger than anticipated, helped by aggressive price discounting. The Purchasing Managers' index rebounded with a reading of close to 50 in December and employment losses were less than half of the October and November declines. Finally, new orders for non-defense capital goods rose in the last three months of 2001, suggesting a bottoming out of the manufacturing sectors.

1) From June 2001, when the City adopted its budget, to August 2001, the Blue Chip Consensus forecast for real GDP fell from 3.1 percent to 2.8 percent.

With signs of improvement in place, the forecast calls for GDP and employment growth to pick up by the second quarter of 2002 as production finally stabilizes. The pace of the recovery, however, is expected to be modest. GDP averages growth of just 3.5 percent on an annual basis from Q2 to Q4 2002, well off the pace of recent recoveries, which typically averaged rebounds upwards of eight percent.[2] In addition, growth in the outyears is also anticipated to be quite modest, averaging 3½ percent per year in 2003-2006. Employment is expected to average gains of just under 400,000 per quarter throughout the forecast with even weaker growth in the initial phase of the recovery.

The forecast calls for Real GDP and employment to resume growth in Q2 2002, though the rebound is expected to be modest.

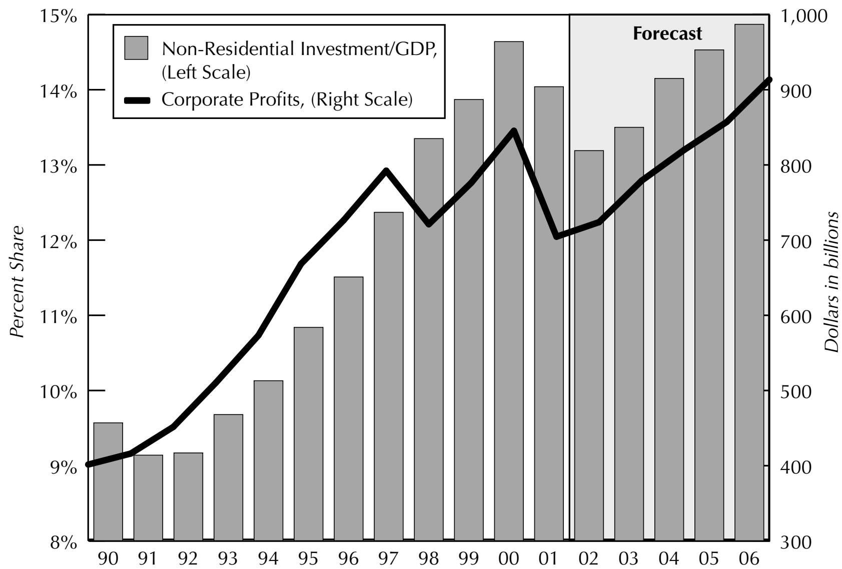


Growth in the economy remains constrained by weakness in consumption and particularly in investment spending, which together account for almost 80 percent of GDP. Investment is still plagued by the excessive spending of the late 1990s, and some of the high-flying sectors that had contributed to the boom are not expected to rebound in the near term. In fact, non-residential fixed investment is forecast to decline by close to six percent in 2002 and then average growth of only 6½ percent per year in 2003-2006. This is considerably lower than the double-digit growth rates of 1995-1999 when investment accounted for over 35 percent of GDP growth. Investment spending as a share of GDP declines from a high of close to 15 percent in 2000 to 13 percent in 2002 before resuming a moderate upward trend.

Unlike the late 1990s, when consumption spending was fueled by a surging stock market, the current forecast calls for consumption to grow by a modest three percent on average. Part of this is due to the expected slow recovery in household equity, which lost about 25 percent of its value in 2001. The S&P 500 index grows by seven percent per year in 2002-2006, in line with corporate profit growth but down significantly from the double-digit growth rates of 1995-2000. Consumption will also be held back by the high consumer debt levels accumulated in the last boom, when debt as a share of personal income rose to an all time high of close to 19 percent.

2) *For example, during the recovery of 1980 GDP growth accelerated by 8 percent and in 1974 recovery growth exceeded 9 percent. The notable exception was the recent expansion, when growth in 1993 accelerated to just 5-6 percent in the beginning of the recovery. The 1990s recovery was initially characterized as a jobless recovery, similar to the current forecast.*

Corporate profits and non-residential investment spending get pummeled in 2001. Growth picks up in the outyears, but well below the double-digit rates of the recent past.



Given this overall picture of moderate growth and a forecast for oil prices in the $20-$30 range, inflation is expected to be contained at under three percent in 2002-2006. Wage rates are forecast to grow by about four percent per year, adding little to inflationary pressures. In this environment the Federal Reserve is expected to raise short-term rates only gradually to about five percent to ensure that inflation remains in check. On the fiscal side, it is still not clear at this time whether Congress will pass a stimulus package and the size of it. Regardless, the current surplus is expected to evaporate from $127 billion in 2001 to a deficit of $40 billion by 2005 because of dwindling tax receipts from the recession and the tax cuts passed last spring.

The current forecast, in summary, is characterized by a sense of cautious optimism. While there is recent evidence that the economy is coming out of the recession, there are still lingering areas of weakness which cast real concerns about the strength of the recovery. In the meantime, regions battered by the colossal loss of manufacturing jobs face a long road to full recovery. Although as a whole the nation's economy is temporarily shaken by the impact of September 11, New York City with its severely damaged infrastructure faces an arduous task of redevelopment.

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The New York City Economy

In the first three quarters of 2001, the City's economy showed signs of cooling as the nation slipped into recession. Although the City was not as severely affected by the national recession, due to a much smaller manufacturing base, areas such as the securities industry began to lose jobs as Wall Street profits dwindled. The private sector gained a mere 16,300 jobs in the first three quarters of the year, in line with the City's April forecast of just under 1.0 percent employment growth for the year. This, of course, was prior to September 11.

The attack on the World Trade Center had a disastrous effect on the City's economy and its infrastructure. Nearly 30 million square feet, or almost 30 percent, of the City's Downtown commercial real estate was damaged or destroyed, resulting in the displacement of around 600 firms and an estimated 100,000 people. Firms responded by moving nearly 30 percent of their employees, some permanently, outside the City. This resulted in unprecedented employment losses in the fourth quarter, particularly in the FIRE sector, which is heavily concentrated downtown. In addition, the disaster wreaked havoc on the tourism-related industries.

Employment

Prior to September 11, New York City's private sector added 16,300 jobs in the first three quarters of the year, compared to 75,000 jobs added in the same period of 2000. The slowdown was felt across all sectors of the economy, as the City, like the nation, was essentially facing a correction after the bubble year of 2000. The FIRE (finance, insurance, and real estate) sector began to trim employment in the second quarter, resulting in a loss of nearly 5,000 jobs by August. The service sector continued to grow, albeit at a slower pace, for the first three quarters. The typical growth in the non-cyclical components of the service sector (medical, social, and education) were

New York City Employment Growth (Loss)
(Jobs in thousands)

	2001 Prior to Sept. 11*	2001 After Sept. 11**	Annual Average 2000 - 2001
Total	7.8	(86.2)	19.7
Private	16.3	(93.7)	23.5
Construction	3.8	(0.2)	5.9
Manufacturing	(8.2)	(7.5)	(12.8)
Trade	(0.7)	(15.2)	3.5
TPU	1.6	(10.5)	0.4
FIRE	(4.7)	(25.8)	(7.3)
Service	24.5	(34.7)	33.8
Government	(8.5)	7.5	(3.8)

* *Represents growth (loss) in the first 3 quarters of 2001, Seasonally Adjusted Data*
** *Represents growth (loss) in Q4 2001, Seasonally Adjusted Data*

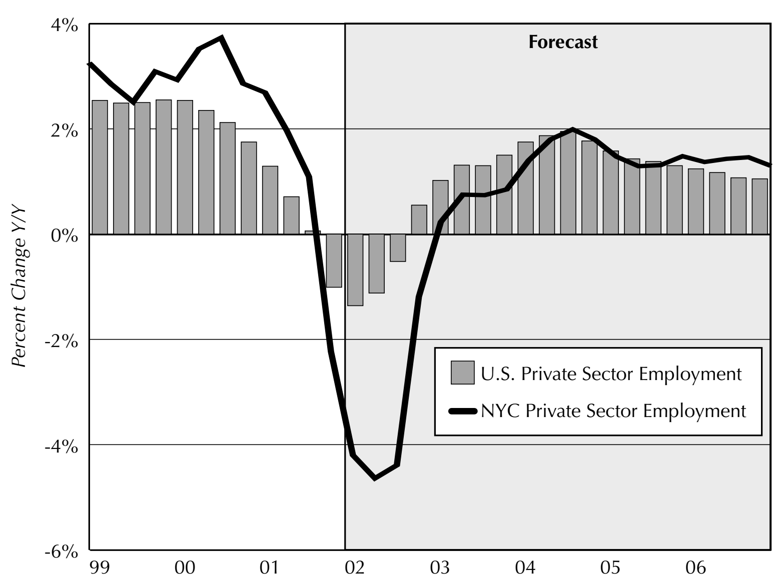
almost offset by losses of internet jobs, the decline in advertising employment, and the trimming of temporary workers and computer consultants, leaving the service sector up by just 24,500 jobs. Trade and TPU (transportation and public utilities) were essentially flat, while the construction sector was on pace for another solid year of growth, buoyed by a resilient real estate market.

The cataclysmic events of September 11 eradicated almost 94,000 private sector jobs in the fourth quarter of 2001. The impact of September 11 was most detrimental to the FIRE sector and tourism-related industries. The FIRE sector, which accounted for nearly half of the 350,000 employees in the Downtown area, nearest to Ground Zero, lost 25,800 jobs in the fourth quarter. Almost 16,000 of those jobs came from the securities sector. The service sector lost almost 35,000 jobs in the fourth quarter. Most of these were in business services, which shed 16,200 positions. September 11, which dealt a severe blow to tourism in the City, resulted in the elimination of 4,200 jobs in the hotel industry, approximately 10 percent of this industry's entire work force.

The decline of consumer confidence contributed to the marked slowdown in the tourism industry, which in turn brought about a major slump in the City's retail business in the fourth quarter. There was a sharp drop of 12,600 retail jobs in the fourth quarter as many stores in the Downtown area were forced to close, and stores and restaurants throughout the City cut back due to reduced sales. Wholesale trade contracted by 2,500 jobs in the fourth quarter. TPU (transportation and public utilities) was also hit hard by September 11, losing 10,500 jobs, primarily because airlines laid off workers nationwide in response to large cuts in scheduled flights. The manufacturing sector, already reduced to a minor player in the City, experienced a further loss of 7,500 jobs in the fourth quarter. Only the construction sector escaped relatively unscathed as the World Trade Center tragedy created additional need for construction workers in the City.

The City's employment situation is expected to continue to deteriorate in the first half of 2002 before starting to rebound by the third quarter, although the City's job losses will be deeper than the nation's due to the effects of the World Trade Center tragedy[3]. In 2002, the City's private sector is forecast to be 115,000 jobs below 2001, a decline of 3.6 percent, while the nation falls by a mere 0.3 percent. With government expected to

New York City private sector employment is forecast to fall by an average of 3.6 percent in 2002, steeper than the losses in the nation. By 2003, the City is expected to keep pace with the nation.



3) The U.S. is expected to see employment gains starting in Q2 2002.

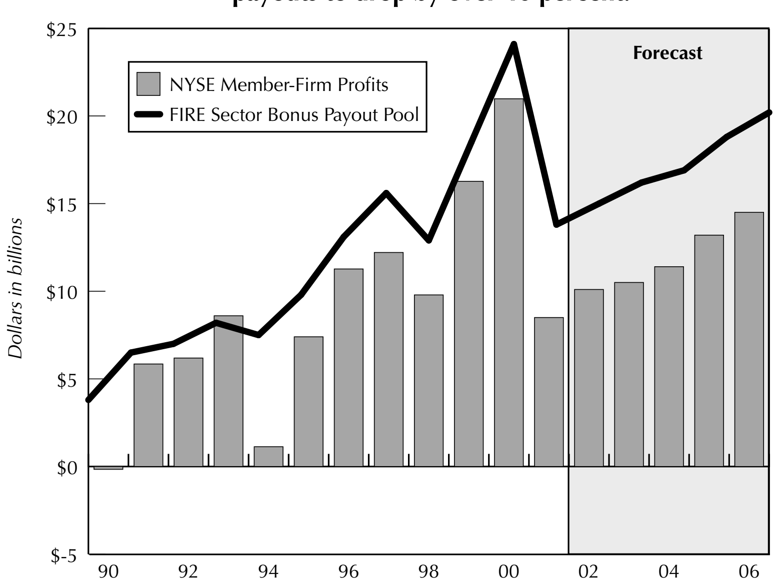
lose 1,000 jobs in 2002, total employment for the year shows 116,000 fewer jobs than 2001.

Starting in 2003, the City's private sector is expected to pull off modest gains, currently forecast at 20,000 jobs, before accelerating to nearly 50,000 new jobs a year in 2004-2006.

A decisive retrenchment on Wall Street combined with an exodus from Downtown leads to a drop of 30,000 jobs in the FIRE sector in 2002. Securities firms, after a drop in nearly all areas of the business, are expected to reduce their headcount by 20,000 jobs while banks slash another 8,000 jobs. By 2003, however, the securities industry begins to stabilize, although the banking industry continues its decline, resulting in an overall loss of 7,000 jobs in the FIRE sector in 2003. From 2004-2006 the sector is expected to recover and adds 4,000 jobs a year on average as the market improves and firms begin to repopulate the Downtown area.

The initial impact of September 11, especially on FIRE and the tourism-related industries, produces an extensive and long-term ripple effect on sectors like service, trade and TPU. Unable to recover, service employment in 2002 remains 36,000 lower than in 2001. Business and hotel employment account for much of those losses as the non-cyclical sectors (medical, social, and educational) remain a small bastion of growth. Trade gets pummeled from the lingering effects of the national and local recession, posting on average 32,000 fewer jobs in 2002 than in 2001, while TPU shows a loss of 7,000 jobs. Services, trade and TPU begin to recover by 2003, adding 15,000, 7,000 and 2,000 jobs, respectively.

NYSE member-firm profits fall from $21 billion in 2000 to an estimated $8.5 billion in 2001. This causes FIRE sector bonus payouts to drop by over 40 percent.



The manufacturing sector continues to shrink. It experiences a loss of 15,000 jobs in 2002 and continues to fall by about 4,000 jobs a year from 2003-2006. The only source of growth in 2002 is the construction industry. Buoyed by a healthy residential real estate market, a commercial real estate market with a number of projects in the pipeline and a large public project Downtown, the sector adds 6,000 jobs in 2002 and nearly 5,000 per year from 2003-2006.

The Stock Market, Income, and Inflation

After two years of skyrocketing profits, New York Stock Exchange member-firms took a beating in 2001, with profits falling from $21 billion to an estimated $8.5 billion, a result of the volatile stock market, the national recession, and decreased investor confidence following September 11. Profits are expected to rise to over $10 billion in 2002 as market confidence slowly returns, and then rise at a rate of $1 billion per year from 2003-2006.

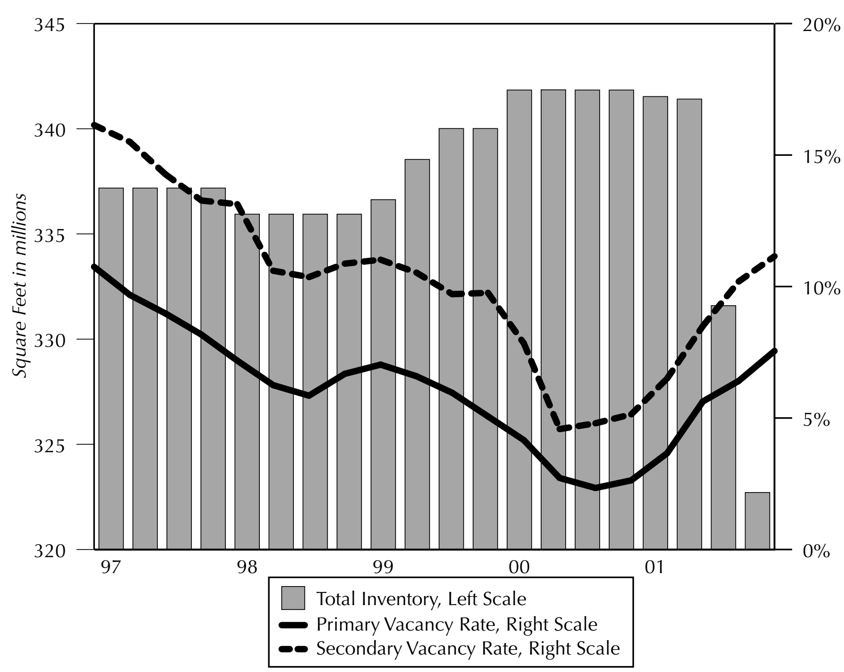
The lower profits in 2001 and 2002 impact bonus payments in the FIRE sector. FIRE sector wages, therefore, drop by 6.5 percent in 2002, and then rise by an average of 5.8 percent per year from 2003-2006. The bonus pool, the aggregate measure of bonus payouts for all FIRE employees, increases from an estimated $13.8 billion in 2001 (which represented a decline of 43 percent over 2000) to $15 billion in 2002, and then increases by just over $1 billion per year thereafter. Excluding FIRE, private sector wages are expected to rise by 3.3 percent in 2002, and then by approximately 4.0 percent per year in 2003-2006. With inflation averaging a tame 2.8 percent over the same period real wages grow at about 1.5 percent per year. Overall wage earnings, the measure of total wages paid to all employees, rose by an estimated 5.3 percent in 2001, and is forecast to fall by 3.5 percent in 2002 before rising by an average 4.9 percent per year in 2003-2006.

The Commercial Real Estate Market

Although the commercial real estate market is being hailed as one of the healthier segments of the City's economy in the current recession, the market was certainly affected in 2001 by job cuts and diminishing confidence in the near-term future business environment. Most of the deterioration has been the result of September 11, although signs of weakness were already apparent in the second quarter of 2001.

At that time, vacancy rates were approximately double what they were one year prior, with primary market rates rising from 2.7 percent in Q2 2000 to 5.6 percent in Q2 2001 and secondary rates increasing from 4.6 percent to 8.5 percent.[4] Rents were $58.00 per square foot in the primary market, down 7.0 percent from the previous quarter and essentially the same as they had been in Q2 2000. Secondary rents were down 8.7 percent in Q2 2001 from the previous quarter.

Despite the loss of 30 million square feet in the City's commercial real estate market, vacancy rates climbed in Q4 2001 to over 7 percent in the primary market and 10 percent in the secondary market.



The deterioration in the latter part of 2001, which included the effects of September 11, was much more pronounced. The loss of eight percent of primary

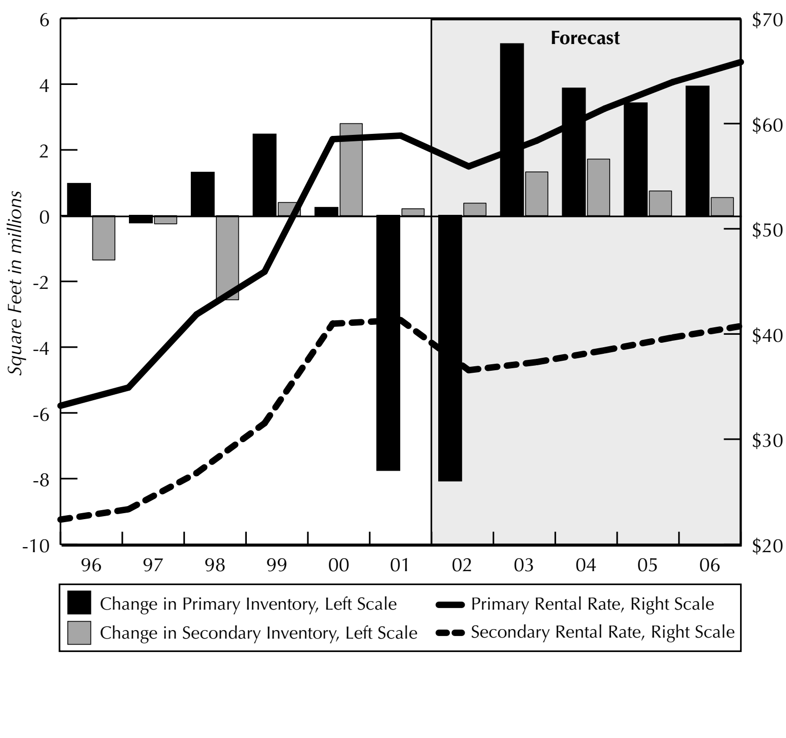
4) Office market data are compiled using statistics published by Cushman & Wakefield.

inventory in the fourth quarter was a direct result of the destruction of the World Trade Center, as nearly 30 million square feet were deemed inoperable. Of these, approximately 13 million square feet were permanently destroyed with the rest expected to be usable sometime in the next year.

With the loss of that square footage, vacancy rates were generally expected to tighten. But on the contrary, rates began to rise as many firms anticipating unused space offered it up for sub-lease. The amount of space that appeared suddenly on the market more than offset the amount needed by firms displaced by September 11, as many of them were also finding temporary or permanent space outside of Manhattan. By the end of 2001, vacancy rates had climbed to 7.6 percent in the primary market, almost three times what they were one year prior, and 11.2 percent in the secondary market, more than double what they were in Q4 2000.

Given the anticipated decline in employment, vacancy rates are expected to continue to rise in 2002, to 9.1 percent in the primary market and to 12.6 percent in the secondary market. Vacancy rates then stabilize as office employment steadies, leveling off at about 8.8 percent in the primary market and 13.6 percent in the secondary market from 2003-2006. Despite the anticipated rebound in employment, vacancy rates will not tighten significantly in the outyears because of the pipeline of new construction currently in place. Almost 10 million square feet of new office space is assumed to arrive on the market between 2003-2006 in addition to the damaged and usable space around the World Trade Center most of which could return to the market by the end of 2002. Therefore, total inventory in the primary market shows a drop in 2002 over 2001, but increases 2.4 percent in 2003 and then at 1.6 percent on average from 2004-2006. Rents, after falling in 2002 by 5 percent in the primary market (to $56 per square foot) and 11.5 percent in the secondary market (to $37 per square foot), rise in 2003-2006 at approximately 4.2 percent per year in the primary market and 2.8 percent in the secondary market.

In 2002, rental rates fall by 5 percent in the primary market and 11 percent in the secondary market. As the market stabilizes in 2003-2006, rents rise by an average of 4 percent in the primary market and 2.8 percent in the secondary market.



Financial Plan 2003
Forecasts of Selected United States and New York City Economic Indicators
Calendar Years 2001-2006

	2001	2002	2003	2004	2005	2006	1970-2000*
NATIONAL ECONOMY							
Real GDP							
Billions of 1992 Dollars	9,317	9,367	9,754	10,106	10,409	10,715	
Percent Change	1.0	0.5	4.1	3.6	3.0	2.9	3.2
Non-Agricultural Employment							
Millions of Jobs	132.2	131.8	133.3	135.4	137.1	138.5	
Change from Previous Year	0.5	-0.4	1.5	2.1	1.7	1.4	
Percent Change	0.4	-0.3	1.1	1.6	1.3	1.0	2.1
Consumer Price Index							
All Urban (1982-84=100)	177.4	180.5	184.8	189.7	194.8	200.2	
Percent Change	3.0	1.8	2.4	2.7	2.7	2.8	5.1
Wage Rate							
Dollars Per Year	38,543	39,648	41,338	43,025	44,582	46,317	
Percent Change	5.0	2.9	4.3	4.1	3.6	3.9	5.3
Personal Income							
Billions of Dollars	8,725	8,965	9,476	9,999	10,501	11,052	
Percent Change	4.9	2.7	5.7	5.5	5.0	5.2	7.9
Before-tax Corporate Profits							
Billions of Dollars	704.5	723.9	779.0	820.0	857.2	913.5	
Percent Change	-16.7	2.7	7.6	5.3	4.5	6.6	8.2
Unemployment Rate							
Percent	4.8	6.2	5.7	5.1	5.0	5.0	6.3 (avg)
10-Year Treasury Bond Rate							
Percent	5.0	5.2	5.8	6.0	5.9	6.0	8.2 (avg)
Federal Funds Rate							
Percent	3.9	2.5	4.5	5.0	5.0	5.0	7.4 (avg)
NEW YORK CITY ECONOMY							
Real Gross City Product**							
Billions of 1996 Dollars	433.4	413.6	430.5	446.0	460.7	478.0	
Percent Change	1.1	-4.6	4.1	3.6	3.3	3.7	3.0
Non-Agricultural Employment							
Thousands of Jobs	3,740	3,624	3,646	3,700	3,742	3,787	
Change from Previous Year	19.7	-116.0	22.1	53.8	42.4	44.8	
Percent Change	0.5	-3.1	0.6	1.5	1.1	1.2	-0.02
Consumer Price Index							
All Urban NY-NJ Area (1982-84=100)	187.7	191.6	196.5	201.8	207.8	214.0	
Percent Change	2.8	2.1	2.5	2.7	3.0	3.0	5.1
Wage Rate							
Dollars Per Year	61,778	61,504	63,966	66,733	69,664	72,967	
Percent Change	4.7	-0.4	4.0	4.3	4.4	4.7	6.5
Personal Income							
Billions of Dollars	310.6	305.6	316.5	333.9	352.5	372.1	
Percent Change	3.4	-1.6	3.5	5.5	5.6	5.6	7.0
NEW YORK CITY REAL ESTATE MARKET							
Manhattan Primary Office Market							
Asking Rental Rate***							
Dollars Per Sq Ft	58.86	55.93	58.38	61.43	63.95	65.85	
Percent Change	0.6	-5.0	4.4	5.2	4.1	3.0	N.A
Vacancy Rate***							
Percent	5.8	9.1	9.1	8.8	8.7	8.5	N.A

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

Real Estate-Related Taxes

The September 11th terrorist attack on the World Trade Center (WTC) has changed the New York City real estate market profoundly. The real estate market recovered from the early 1990s recession by 1996 and took off in 1998 as the City achieved record employment gains. By 2001, however, the real estate market began to cool as the dot.com boom went bust. As job growth slowed, occupied inventory growth flattened out and started to decline. Building owners responded by cutting asking rents for both primary and secondary commercial office space by the second half of the year. How this slowdown may have played out into 2002 we will never know.

On September 11th, over 13 million square feet of primary commercial office space at the WTC was destroyed. Damage to surrounding properties rendered another 17 million square feet of primary space uninhabitable, at least for the short term. The City's real estate market has shown remarkable resiliency to this tragic attack. First, the removal of this inventory (30 percent of the downtown market and 10 percent of the total) from the market did not create the anticipated pressure on asking rents. Faced with a slowing national economy and a local economy struggling to recover from an unprecedented terrorist attack, many businesses reviewed their real estate needs, cancelled expansion plans and put large unused blocks of space on the sublet market, precipitating the first significant decline in asking rents since 1994. Commercial leasing activity, strong through the first half of calendar year 2001, slowed down significantly in the latter half of the year. For some commercial properties, especially downtown office buildings and hotels citywide, the attack has lead to large drops in revenues which together with the destruction of so much space has cut billable assessments by an estimated $2.3 billion or $230 million in tax levy or payments in lieu of taxes (PILOTs).*

The attack's impact on the residential real estate market has been less dramatic. Although down from recent peaks, sales of homes and apartments have continued at a brisk pace, bolstered by low interest rates. However, sales prices and rental rates have softened, particularly at the high end.

Real Property Tax

In 2002 the real property tax is forecast at $8,536 million, growth of 4.7 percent over the prior year, primarily due to market value growth on the 2002 final roll of 10.7 percent and the momentum of previous years' pipeline.** In 2003 the property tax is forecast at $8,861 million, growth of 3.8 percent over 2002. The average tax rate for the plan period, 2003 through 2006, is held at the current rate of $10.366.

The assessed value forecast for 2003 is based on the tentative roll which was released by the Department of Finance on January 15, 2002. The billable assessed value on the

* *The WTC was expected by the City to begin paying property taxes in 2002. Battery Park City Authority properties pay PILOTs.*

** *Increases and decreases in value are phased into billable assessments over five years for Classes 2 and 4. Increases in value not yet phased into billable assessed value are referred to as the pipeline.*

tentative roll (after the veterans and STAR exemptions) grew by 6.4 percent. The billable assessed value (before the veterans and STAR exemptions) grew by 6.2 percent and increased $5.6 billion to $95.1 billion. However, the final roll to be released in May is expected to be about $1.1 billion lower than the tentative roll level ($93.975 billion) as a result of Tax Commission actions, Department of Finance changes by notice and completion of exemption processing. The levy is expected to increase by $459 million over 2002 to $9,730 million, an increase of 5.0 percent. The market value growth estimated for 2003's final roll is 8.9 percent, which, coupled with average market value growth of 7.1 percent seen over the last four years, generates a substantial pipeline of assessed value to be phased in. This pipeline leads to growth in billable assessed value of about 5.0 percent in 2003. However, with a forecast slowdown in market value growth, the real property tax is expected to grow at a more moderate pace in 2004, 2005 and 2006 at 4.8 percent, 4.3 percent and 4.3 percent, respectively.

Class 1 properties (one-, two-, and three-family homes) saw a 13.5 percent market value growth on the tentative roll, the largest increase for any tax class, attributable to strong sales prices. All boroughs shared in the double digit increase, with Staten Island showing the highest growth at 16.0 percent. The operation of the real property tax law (S7000 A) limits the annual assessment increases for Class 1 properties to no more than six percent annually and 20 percent over five years. Due to this limitation, the billable assessed value of Class 1 properties on the 2003 tentative roll showed growth of only 5.6 percent over 2002. The final roll billable assessed value is expected to increase by only 3.9 percent over the prior year. Class 1 billable assessed value is expected to grow by an average of 3.4 percent from 2004 through 2006.

Class 2 properties (apartments, condominiums and cooperatives) saw 9.6 percent market value growth on the tentative roll. This increase is largely driven by rental properties in Manhattan, which registered a market value growth of 11.2 percent over last year on the tentative roll. The strength in market value on the 2003 tentative roll coupled with momentum from the previous three years leads to billable assessed value growth of 8.8 percent on the 2003 tentative roll. The billable assessed value on the final roll is expected to show a growth of 7.6 percent. Since Class 2 properties are assessed as income producing properties, market value increases stem mainly from increases in a building's net income. With employment declines in 2002 and below trend employment growth in the outyears of the forecast period, the market value growth in Class 2 is expected to slow from over eight percent on the 2003 final roll to an average of 4.1 percent from 2004 through 2006. Billable assessed value is expected to average growth of 6.0 percent in 2004 through 2006 for Class 2.

With flat market value growth, the billable assessed value of Class 3 (utility) properties grew by 0.6 percent over the prior year on the 2003 tentative roll. The tentative roll reflects the destruction of two Con Ed substations at 7 World Trade Center in addition to damaged equipment owned by Verizon which was located at 140 West Street. The 2003 final roll is expected to show an increase of 0.6 percent over the prior year. Class 3 billable assessed value is expected to remain flat from 2004 through 2006.

Class 4 properties (office and commercial space) saw 4.4 percent market value growth on the tentative roll, after averaging 6.0 percent over the last four years. This slowdown results from the September 11th terrorist attack, which destroyed office buildings (WTC market value excluding land is down 100 percent). The attack also disrupted the economy and transportation infrastructure of lower Manhattan (WTC neighbors' market value is down 25 percent). In addition, the market values of the hotel sector were adversely affected, as the terrorist attack resulted in lower hotel room occupancy rates due to the general decline in tourism and travel. Even with slowing market value growth, the considerable pipeline built in previous years leads to a billable assessed value growth on the 2003 tentative roll of 5.8 percent. The 2003 final roll is expected to show an increase of 4.0 percent over 2002, after incorporating the estimated reductions due to Tax Commission actions, changes by notice and completion of exemption processing by the Department of Finance. With below trend employment growth in the outyears of the forecast period, the market value growth in Class 4 is expected to remain slow, averaging 3.3 percent from 2004 through 2006. As a result of the diminished but still present pipeline, Class 4 billable assessed value is forecast to show an average annual increase of 4.2 percent from 2004 through 2006.

Real Property Transfer and Mortgage Recording Taxes

The real property transfer tax and the mortgage recording tax are forecast at $404 million and $399 million, respectively, in 2002. This represents a decline in real property transfer tax collections of 14.6 percent in 2002 from the previous year's levels. Collections from the mortgage recording tax are forecast to decline 1.9 percent in 2002.

Residential real estate market activity has remained strong, despite the uncertainties created by the events of September 11th and the generally weakening economy. Buoyed by attractive mortgage interest rates, collections from residential real property transfers are forecast to decrease only 3.0 percent from historically high 2001 levels. Collections from residential mortgage recordings are projected to increase 8.6 percent in 2002, supported by the continued strength in mortgage refinancing. Collections in 2002 from residential real estate activity are now forecast to total $257 million for the real property transfer tax (as compared to $265 million in 2001) and $235 million for the mortgage recording tax (as compared to $216 million in 2001).

Despite several large transactions, commercial real estate activity has slowed substantially in 2002. In the first quarter of 2002, real property transfer tax collections were 8.9 percent under the 2001 first quarter level, and 57 percent below the previous quarter. While several large transactions bolstered second quarter collections, third and fourth quarter collections are projected to decline 30 percent and 61 percent below 2001 levels, respectively. Collections are projected to rebound late in 2003 as the market improves. Revenue from commercial real property transfers is forecast at $147 million in 2002, down 29 percent from 2001.

While the World Trade Center mortgage transaction raised first quarter 2002 collections growth to 52 percent above 2001 levels, mortgage recording tax collections from commercial transactions fell 15 percent from 2001 levels in the second quarter. In the third and fourth quarters, collections from commercial mortgages are projected to decline 26 percent and 47 percent below 2001 levels, respectively, before beginning to rebound in 2003. Revenue from commercial mortgage recordings is forecast at $163 million in 2002, down 14 percent from 2001.

Overall, real property transfer tax collections are forecast to remain flat at $404 million in 2003, while mortgage recording tax collections are estimated to decline 8.8 percent to $364 million as interest rates begin to rise and the inventory of refinancing is exhausted. Real property transfer tax collections are expected to grow an average of 7.8 percent per year from 2004 through 2006. Mortgage recording tax collections are forecast to grow an average of 5.8 percent per year from 2004 through 2006.

Commercial Rent Tax

Commercial rent tax revenue is forecast at $367 million for 2002, a decline of 2.7 percent from the prior year. Adjusting for the tax cut enacted last year, effective June 1, 2001, the commercial rent tax is forecast to grow 3.9 percent in 2002. Revenue for 2003 is estimated at $371 million, an increase of 1.1 percent.

The projected decline in the 2002 commercial rent tax collections is largely due to the tax program enacted on June 1, 2001, which raised the exemption threshold to $250,000 from $150,000 at an estimated cost of $25 million. The 2002 forecast also reflects the tax revenue reductions due to physical damage to the commercial buildings in lower Manhattan caused by the September 11th attack and a slowdown in the local economy. Primary market asking rents are forecast to decline 8.5 percent in 2002, while the vacancy rates jump from 3.6 percent to 7.8 percent. The secondary market asking rents are estimated to drop 8.6 percent in 2002 with vacancy rates rising to 11.5 percent in 2002 from 6.2 percent the prior year. With asking rents forecast to firm in 2003 and grow moderately in the outyears and vacancy rates forecast to soften in 2003 and start to decline in the outyears, commercial rent tax collections are projected to grow an average of 4.6 percent from 2004 through 2006.

Personal Income Tax

Personal income tax revenue is forecast at $4,412 million for 2002, a decline of 17.2 percent from the prior year. This year, personal income tax receipts are suffering the combined effects of a sharp drop-off in the FIRE sector bonus payout, large employment declines in the aftermath of the September 11th terrorist attack and a sharp decline in capital gains realizations in tax year 2001. As a result, collections are forecast to decline 12.0 percent in 2002 on a common rate and base (before the impact of the STAR program, the nonresident tax repeal, the cut in the 14 percent additional tax effective for tax year 2001, and TFA retention), following growth of 9.2 percent in 2001. Personal income tax receipts are forecast to rebound in 2003 (3.4 percent on a common rate and base), reflecting an increase in wage earnings of 2.6 percent and flat nonwage income in tax year 2002. This forecast includes $171 million, $348 million, $378 million, $410 million and $438 million added back in 2002 through 2006, respectively, for the expiration of the reductions in the 14 percent additional tax enacted for tax year 2001. Tax receipts retained by the TFA for debt service reduce the forecast by $416 million in 2002 and $704 million in 2003.

Withholding is forecast to decline 4.9 percent (common rate and base) in 2002, after average growth of 14.4 percent from 1999 through 2001. This weakness has two sources. First, overall wage earnings are forecast to decline 2.6 percent, stemming from 86,000 fewer jobs over the course of the year after September 11th. Second, the bonus payout on calendar year 2001 Wall Street profits is estimated to have fallen 43 percent from the previous year's level (bonuses on 1999 and 2000 profits rose 43 percent and 31 percent, respectively). From July through November, withholding (common rate and base) fell 2.8 percent paralleling the wage earnings decline. From December through March (the bonus period) withholding is forecast to decline 5.0 percent after growth of 8.0 percent the prior year. In the last quarter, withholding growth (common rate and base) is forecast to decline 8.2 percent as the full impact of the job losses experienced throughout the year is felt.

Taxable income from nonwage sources in calendar year 2001 fell 13.5 percent after the strong growth evidenced in recent years. Dividends, interest and rent, and proprietors' income are forecast to grow 4.3 percent and 1.1 percent, respectively, in calendar year 2001, after growth of 7.4 and 6.8 percent the prior year. Capital gains realizations are forecast to decline 42.2 percent in calendar year 2001, after growth of 25.5 percent in calendar year 1999 and estimated flat growth in 2000. Installment payments on tax year 2001 are forecast to decline 13.1 percent (common rate and base), after growth of 17.8 percent in tax year 2000.

The settlement on tax year 2001 (the net of final returns, refunds, extensions and offsets) is forecast to decline 38.0 percent (common rate and base) from the prior year. Total liability on tax year 2001 is forecast to decline 1.5 percent (common rate and base), and 11.4 percent after including the impact of the recent tax programs (the STAR program, the nonresident tax repeal and the cut in the 14 percent additional tax).

The personal income tax revenue for 2003 is forecast at $4,424 million, an increase of 0.3 percent from 2002. The stabilization in 2003 stems from strength in both wage and nonwage income sources. On a common rate and base, personal income tax revenue is forecast to grow 3.4 percent in 2003, after falling 12.0 percent in 2002. Withholding growth is 2.9 percent (common rate and base) while installment payments are expected to decline 3.2 percent (common rate and base) as capital gains realizations decline 7.8 percent in calendar year 2002.

Moderate growth in the national and local economies results in personal income tax revenue growth averaging 6.7 percent (common rate and base) from 2004 through 2006, and 5.9 percent after including the effects of tax programs and TFA debt service retention.

Business Taxes

Business tax revenue (general corporation, banking corporation and unincorporated business) is forecast at $2,524 million in 2002, a decline of 15.3 percent from the prior year's level. Business tax revenue is forecast at $2,596 million in 2003, growth of 2.9 percent from 2002, corresponding to the slow rebound in the national as well as the local economy in calendar year 2002.

Through January, business tax collections have declined 19.4 percent from the prior year. General corporation tax collections are exhibiting the most weakness, down 28.4 percent year-to-date. The decline in New York Stock Exchange (NYSE) member-firm profits from $21 billion in calendar year 2000 to an estimated $8.5 billion in calendar year 2001 has resulted in lower FIRE sector liability and payments in 2002. Collections have also been adversely affected by the slump in national corporate profits, which are forecast to decline 16.7 percent in calendar year 2001, and weakness in some of the non-FIRE sectors of the City's economy. For 2002, general corporation tax collections are forecast to decline 18.9 percent.

Through January, banking corporation tax collections have declined 24.3 percent from the prior year, mainly due to lower payments from money center banks, leaving cash payments for liability year 2001 at historically low levels. Despite the Federal Reserve's eleven interest rate cuts in tax year 2001, deteriorating credit conditions and a decline in capital market activity led banks to report sharply lower earnings in calendar year 2001. Ongoing consolidation in the banking industry has resulted in large restructuring charges which also lowered earnings and liability. In addition, loan losses related to the Enron collapse are expected to have a negative impact on collections in the near future. Banking corporation tax collections are forecast to remain weak for the remainder of the year, leading to a forecast decline of 26.2 percent in 2002.

In contrast to general corporation and banking corporation tax revenues, year-to-date through January unincorporated business tax collections grew 2.7 percent over the prior year. It is not clear why the unincorporated business tax is outperforming the other business taxes. One possibility is that fewer overpayments in prior years are available to suppress current year cash payments than for the other business taxes. Consequently, the level of refund payments on prior years' liability is expected to decline in 2002. Falling NYSE member-firm profits have resulted in lower liability for FIRE sector firms and unincorporated business tax collections are forecast to weaken in the remainder of the year, leading to a decline of 2.1 percent in collections in 2002 from the prior year.

In 2003, business tax collections are forecast at $2,596 million, a rebound over the prior year of 2.9 percent. With national corporate profits forecast to increase 2.7 percent in calendar year 2002 and securities industry profits projected to post modest growth, general corporation tax collections remain essentially flat from the prior year's level, with growth of 0.9 percent. Banking corporation tax collections are forecast to increase 9.6 percent due to a rebound in payments from money center banks as some overpayments are extinguished, although refunds remain at high levels. Unincorporated business tax collections are forecast to increase 3.7 percent, following the modest growth forecast in securities industry profits and the national economy.

In the outyears of the plan, 2004 through 2006, business tax collections are forecast to grow an average of 7.0 percent on a common rate and base, coinciding with a moderate recovery in the national and the local economies.

Sales and Use Tax

Sales tax revenue is forecast at $3,378 million in 2002, a decline of 7.8 percent (6.9 percent on a common rate and base) from the prior year. Sales tax revenue is forecast at $3,506 million in 2003, growth of 3.8 percent (4.0 percent on a common rate and base). Sales tax revenue is forecast to grow an average of 4.9 percent on the continuing base from 2004 through 2006.

The sales tax is forecast to decline 7.8 percent in 2002 (6.9 percent on a common rate and base), a decline of $284 million from the prior year level of $3,662 million. Following September 11th, hotel occupancy plummeted and hotels responded by slashing room rates. The drop in hotel occupancy and room rates alone is expected to cost approximately $53 million in sales tax in 2002, while the dramatic drop in tourism spending is expected to total an estimated $82 million. The forecast 4.7 percent decline in non-tourist spending, a loss of an estimated $165 million, results from the 2.6 percent forecast decline in wage earnings for 2002, employment losses averaging 86,000 over the course of the year, and a 43 percent decline in the FIRE bonus payout on calendar year 2001. Collections in the first and second quarters of 2002 also reflect a suppression of sales activity in lower Manhattan in the weeks immediately following September 11th. As the economy of lower Manhattan has begun to recover, sales activity remains below normal and is expected to remain so throughout the remainder of the year.

In 2003, sales tax revenue is forecast to increase 3.8 percent (growth of 4.0 percent on a common rate and base). This reflects a strong rebound in tourism consumption, forecast growth of 14.4 percent over the prior year, and a moderate increase in non-tourism consumption paralleling the 2.6 percent rebound forecast in wage earnings for the year.

The impact of utility deregulation on the City sales tax revenue depends upon the participation of businesses and individual consumers in competitive retail access.* Prior

* *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 on September 1, 2003.*

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 prior plan, estimates of participation in competitive retail access have been revised downward in 2005 and 2006. It is expected that fewer businesses and consumers will participate in competitive retail access, reducing the estimated revenue loss by approximately $50 million in 2005 and 2006. The impact of energy deregulation and State utility reform legislation is estimated to reduce sales tax revenue by approximately $8 million in 2002 and, with increasing public participation in the deregulated market, will reduce revenues by over $80 million in 2006. Sales tax revenue is forecast to grow an average of 4.9 percent on the continuing base in 2004 through 2006.

All Other Taxes

The forecast for all other taxes is $573.5 million in 2002, a decline of 12.7 percent from the previous year's level of $656.5 million. The reductions result primarily from the hotel tax collections which are forecast to decline 25.5 percent to $180 million. The reductions reflect the negative impact of the September 11th attack on New York City tourism. Occupancy fell 10 percentage points from September through January over the prior year. The hotel industry has fought back by slashing room rates which are down 24 percent over the same period. Hotel tax collections are expected to rebound 14.4 percent in 2003 as the national recovery is expected to lift tourism and business travel.

In 2003, the forecast for all other taxes is $568.1 million, a decline of 0.9 percent from 2002. The reductions result primarily from a decrease in PILOTs ($33.2 million), offset by an increase in the hotel tax ($26 million). The World Trade Center PILOT was reduced by $27.5 million, from the historic level of about $28 million, to $1.7 million in 2003 as a result of the September 11th attack. This reflects the minimum base payment specified in the 1967 PILOT agreement with the Port Authority. The Battery Park City PILOT was reduced from $65.9 million in 2002 to $37.9 million in 2003, to reflect the assessed value decline of $177 million due to physical damage caused by the September 11th attack. The utility tax is forecast at $271 million for 2002, a decline of 9.6 percent from the prior year, reflecting falling electric prices. The utility tax revenue for 2003 is forecast at $280 million, an increase of 3.3 percent for 2002.

Tax Enforcement Revenue

Audit revenue is the result of the Department of Finance's tax enforcement program targeting delinquent taxpayers through agency audit activities, selected use of collection agencies and computer matches. The City's 2002 tax enforcement program is expected to raise $462.1 million. Audit revenue is forecast at $426.6 million in 2003 through 2006.

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Tax Revenue Forecast
($ in Millions)

	Fiscal Year 2002	2003	2004	2005	2006
Real Estate-Related Taxes:					
Real Property	$8,536	$8,861	$9,290	$9,689	$10,105
Commercial Rent	367	371	384	402	424
Mortgage Recording*	401	366	376	403	433
Real Property Transfer	404	404	432	467	506
Income Based Taxes:					
Personal Income (PIT)					
Total PIT	4,828	5,128	5,567	5,908	6,285
Less: TFA Retention	(416)	(704)	(899)	(996)	(1,024)
PIT- General Fund	4,412	4,424	4,668	4,912	5,261
General Corporation	1,408	1,420	1,534	1,639	1,756
Banking Corporation	313	343	410	435	461
Unincorporated Business	803	833	883	935	993
Sales and Use Taxes:					
Sales**	3,378	3,506	3,665	3,817	4,003
Utility	271	280	282	285	294
All Other*	576	568	595	614	632
Subtotal	$20,869	$21,375	$22,518	$23,597	$24,868
Tax Audit Revenue	462	427	427	427	427
Total Baseline	$21,331	$21,802	$22,945	$24,024	$25,295
STAR Aid	632	645	694	711	760
Total	$21,963	$22,447	$23,639	$24,735	$26,055

* *Includes PEG.*

** *Includes amounts for MAC debt service of $505 million in 2003, $489 million in 2004, $490 million in 2005, and $492 million in 2006.*

*** *Totals may not add due to rounding.*

Tax Revenue Forecast
All Other Taxes
($ in Millions)

	Fiscal Year				
	2002	2003	2004	2005	2006
Hotel Tax	$180.0	$206.0	$228.0	$243.0	$258.0
Excise Taxes:					
Cigarette	28.0	28.0	27.0	27.0	27.0
Horse Race Admissions	0.1	0.1	0.1	0.1	0.1
Beer and Liquor	21.5	21.5	21.5	21.5	21.5
Liquor License	3.0	3.0	3.0	3.0	3.0
Off–Track Betting (Dividend)	5.0	10.3	12.0	13.8	15.7
OTB Surtax	21.0	21.6	21.9	22.3	22.6
Auto Related Taxes:					
Commercial Motor Vehicle	44.1	47.5	47.5	47.5	47.3
Auto Use	33.2	33.2	33.2	33.2	33.2
Taxi Medallion	3.6	3.6	3.6	3.6	3.6
Miscellaneous Taxes:					
Stock Transfer	0.0	0.0	0.0	0.0	0.0
Waiver	72.8	67.3	67.3	67.3	67.3
Other Refunds	(15.2)	(15.2)	(15.2)	(15.2)	(15.2)
PILOT*	143.6	107.2	111.7	114.1	115.1
Penalties and Interest:					
P&I Real Estate Current Year	10.0	10.0	10.0	10.0	10.0
P&I Real Estate Prior Year	40.0	38.0	37.0	37.0	37.0
P&I-Other (Refunds)	(14.0)	(14.0)	(14.0)	(14.0)	(14.0)
Total All Other Taxes	$576.7	$568.1	$594.6	$614.2	$632.2

* *Includes PEG.*

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Federal and State Initiatives

The Federal and State Initiatives for 2003-2006 are designed to control the growth of costly mandated programs and produce savings for the City, and in many cases, the State government. The City is carrying $800 million in the budget for Federal and State savings in 2003, and $500 million in the out years. The State and Federal Governments can choose from a menu of programs that total as much as $2.1 billion in 2003 and $1.5 billion in 2004-2006. Actions needed to achieve agency program reductions are also included in the following menu.

FEDERAL INITIATIVES

Proposals of No Cost to the Federal Government

Debt Finance Reform

The ability to refinance tax exempt debt to lower debt service costs is an important tool for state and local governments to use in managing and reducing their costs. In 1986, the Internal Revenue Code was amended to prohibit more than one advance refunding of tax-exempt debt (an advance refunding is a refunding of tax-exempt debt with new debt issued more than 90 days prior to the maturity date or first call date of the existing debt). This prohibition has unnecessarily limited the City's ability to respond to declining interest rates by lowering debt service costs through refunding of existing debt. This proposal permits one additional advance refunding of tax-exempt debt issued for governmental purposes, so long as the refunding resulted in present value savings. The City is anticipating savings of up to $150 million in 2003 from this proposal.

Flexible Use of Hazard Mitigation Grant Program

The Hazard Mitigation Grant Program (HMGP) is a long term action plan taken to eliminate or reduce the impact of a future disaster. The total amount of funds available for the HMGP, in accordance with the Presidential Declaration, will be 5-15 percent of the total FEMA-eligible costs for the disaster (including all Public Assistance, Individual Assistance and Small Business Administration eligible grants and expenditures made by FEMA, as finalized 18 months after the disaster). The HMGP uses a reimbursement system for distributing grant funds, and the City is required to provide a 25 percent match and any cost overruns on funded projects.

A primary objective of the HMGP is to implement projects which solve a repetitive problem, or a problem which poses risk to life and property if left unresolved. In fact, the first two priorities listed by FEMA under the State and City Property Protection section are Protection of Public Infrastructure and Utilities and Protection of Key Governmental and Healthcare Facilities. The best way for the City to accomplish these objectives is through enhanced security measures such as increased police presence and emergency response units. The City requests that the Federal government broaden the definition of eligible projects to include such security measures and provide $150 million for these purposes.

Federal Welfare Spending Mandate Relief

*TANF MOE Relief--*The Federal Government requires that states maintain a requisite level of local funding on welfare-related costs in order to receive Federal Temporary Assistance for Needy Families (TANF). This base level is called the State Maintenance of Effort (MOE). A reduction of $100 million to New York State's MOE requirement for 2003 will provide relief for the City of New York in the amount of $30 million. Since New York City does not access all of the TANF funding made available due to this MOE requirement, this proposal would not require an increased Federal appropriation. Furthermore, this proposal is consistent with the SFY 2002-03 Executive Budget recommendation.

*Extend TANF "Emergency" Homeless Status 4-Month Limit--*Current Temporary Aid to Needy Families (TANF) rules define "emergency" as lasting four months or less. After the four-month cutoff, services, such as homeless shelters, are considered "assistance" and the extensive (70-plus data elements) reporting requirements for "assistance" are required at that point. Since the public assistance data system is the only way to capture the required data, it is not possible to use TANF for the homeless families who are not already in receipt of public assistance. For those non-public assistance families, homeless services are funded exclusively by City funds. In New York City, homeless families generally stay in shelters longer than four months, but the emergency is no less real than in other localities where shelter stays may be shorter. Given the effect of the events of September 11th on the City's economy, the displacement of many families and the loss of many jobs, it is fair to expect that it will take longer than four months for many families to find permanent housing and therefore, it would be reasonable to extend the TANF definition of emergency related to homelessness beyond four months for the City. This proposal will provide $10 million in relief in 2003.

Flexible Use of Community Development Block Grant

Currently, the Department of Housing and Urban Development (HUD) imposes a 15 percent limit on the amount of Community Development Block Grant (CDBG) entitlement funds that can be used for public services. Public services, as defined within the CDBG regulations include programs that are related to employment, crime prevention, child care, health, drug abuse, education, fair housing, energy conservation, welfare, homebuyer down payment assistance or recreational needs, in addition to many others.

Due to the economic impact on New York City from the terrorist actions of September 11th, the City requests an increase in the public services cap. Specifically, the City seeks an increase in the cap from 15 percent to 25 percent for a period of three years commencing July 1, 2002. Furthermore, the City requests a suspension of the requirement that the public service be new or a quantifiable increase in the level of service. The waiver of this provision, in addition to an increase in the level of the cap, will provide New York City with additional funds to be used to address needs that have arisen as a direct result of the events of September 11th. This waiver and cap increase will save the City $20 million annually through 2005.

Federalization of City Sponsored Public Housing Units

As part of the Quality Housing and Work Responsibility Act (QHWRA) of 1998 Congress authorized the Department of Housing and Urban Development (HUD) to federalize up to 7,000 locally developed public housing units in New York State. In the three years since the passage of the legislation, HUD has failed to designate the units as Federal, making them ineligible for Federal operating and capital funding. This issue has been taken to the courts and the New York City Housing Authority (NYCHA) has won in both the District and Circuit Courts.

NYCHA is the largest public housing authority in the United States and operates over 180,000 units, providing housing to over 535,000 low-income residents throughout the City's five boroughs. The Authority manages hundreds of community, senior and day care centers, in addition to a number of health care clinics, Head Start centers and resource centers. Last year, the City provided over $20 million in operating subsidies to the locally developed units. Additionally, the City's capital contributions to NYCHA developments, which include both Federal and locally developed units, are approximately $60 million annually. As a result of the QHWRA provision, NYCHA would become eligible for $28 million in new operating assistance and $16 million in modernization funds. Eligibility for these additional funds will assist both the City and NYCHA in providing necessary services to public housing residents. The City requests that HUD federalize the requisite units as required by Federal law.

Other Proposals

Fair Share of Homeland Security

The President's 2003 budget proposal includes $3.5 billion for the Federal Emergency Management Agency (FEMA). Most of these funds will be used for terrorism-related equipment for states and localities, as well as training grants for first responders, including firefighters, police, and emergency medical technicians. The President would like FEMA to work closely with state and local governments to ensure their planning, training, and equipment needs are addressed, and with other agencies to ensure that the response to weapons of mass destruction threats is well-organized. The City is requesting at least $200 million of this funding for homeland security initiatives.

3 Percent Increase in Federal Share of Medicaid Funding

The Federal government matches state Medicaid spending based on the Federal Medical Assistance Percentage (FMAP). This percentage is calculated by comparing a state's per capita personal income with the national average per-capita income. New York State receives the lowest possible FMAP, 50 percent, in the nation. The current

FMAP formula has unfairly penalized New Yorkers for many years. The Federal General Accounting Office has recommended that a more equitable formula to calculate the FMAP would include the use of state total taxable resources (TTR). TTR is considered a strong indicator of fiscal ability because it taps into taxable resources and captures the entire income generated in a state that is available for taxation. In contrast, the current FMAP formula uses state per capita income, which is sensitive to skewing. In other words, a small percentage of very high wage earners can skew the picture of the ability of state governments to raise revenue. The use of TTR provides a more accurate measure of state poverty indices and thereby provides a more accurate picture of a state's ability to fund programs for the needy.

The State is scheduled to receive approximately $700 million in reallocated Federal child health insurance funds, which upon Federal approval could be programmed to fund the Federal share of the proposed FMAP increase. Moreover, the Governor's SFY 2002-03 budget submission also includes a request for an FMAP increase of 3 percentage points. The enactment of this proposal will save the City approximately $145.5 million in 2003.

Protection of Foreign Dignitaries

The City provides extraordinary security measures for the protection of dignitaries and officials year-round, in addition to providing security for special international events held in the City. In September 2000, the City hosted both the 55th General Assembly for the United Nations and the Millennium Summit of Heads of State and Heads of Government. 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.

The current military efforts overseas increase the possibility of further attacks on American soil. Therefore, the security provided at foreign missions, the United Nations, and for visiting officials will need to be greatly intensified. 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 does not reimburse the City for concrete barriers and harbor patrols or Emergency Medical Services personnel and equipment, even when they are requested by the Secret Service. 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 hosting international events. These extraordinary security measures cost New York City approximately $50 million annually.

Operation BRAVO was a multi-agency anti-terrorism security effort led by the New York Police Department (NYPD). The NYPD provided anti-terrorism security as a direct result of the August 7, 1998 bombings of the United States embassies in Nairobi, Kenya and Dar es Salaam, Tanzania. These simultaneous terrorist acts killed 257 African nationals and 12 United States citizens while also injuring over 5,000 people.

From August 20, 1998 to August 31, 2001, the City expended $4.3 million in security costs resulting from the detention, trials and sentencing of these suspects. New York City is requesting full reimbursement for costs associated with Operation BRAVO.

STATE INITIATIVES

Proposals of No Cost to the State Government

Increase New York City's Cigarette Tax

Currently, New York City imposes a tax of 8 cents per pack on the sale of cigarettes. Recently, both the Federal cigarette tax and the New York State cigarette tax have been increased. The Federal cigarette tax was increased from 34 cents to 39 cents beginning January 1, 2002. The State's cigarette tax was increased by 39 cents for a total State tax of $1.50, effective April 2, 2002. The City is recommending an increase of $1.42 to the City's current cigarette tax, bringing the total City tax to $1.50, the same level as the State's tax. This proposed increase simply follows the combined 44 cent increase instituted recently by the State and Federal governments. It is anticipated that these large tax increases on cigarettes will serve to dissuade many thousands of children from adopting smoking as a habit. The enactment of this proposal will also provide revenue of approximately $250 million in the first year.

Refinancing Pension Liabilities

In 2000, the Governor enacted into law pension legislation that provided automatic cost of living adjustments (COLA) to all public employee retirees. Prior to this legislation, the Legislature would provide ad hoc supplementation to retirees, every few years. This automatic COLA was estimated to cost the City of New York over $500 million per year. In order to minimize this significant fiscal impact, the legislation allowed the City to phase-in the financing mechanism of these new benefits over five years, without impacting pension benefits.

In light of the recent poor performances of the City's five actuarial pension systems, the City must revisit this financing schedule. Refinancing the automatic cost of living adjustment to allow for a ten year phase-in will meet standard actuarial procedures, while saving the City approximately $275 million in 2003. In addition, refinancing the unfunded accrued liabilities in the Fire Pension Fund will save the City approximately $10 million.

Debt Finance Reform

The City of New York proposes that the State grant the City the authority to maximize the benefits of the municipal bond market in order to reduce debt service costs. Current law unnecessarily restricts a number of refinancing mechanisms that would allow the City to take advantage of lower interest rates. The City's Debt Finance Reform package will also update current amortization schedules to reflect the true useful life of certain projects. It is anticipated that the passage of omnibus debt reform will save the City $100 million in 2003.

Early Retirement

In order to reduce headcount in City agencies without layoffs, it is essential that the State provide localities with the ability to offer early retirement. The City proposes that the Mayor be allowed to target specific job titles for an early retirement package that includes one additional month of pension credit for every year served, and the elimination of early reduction penalties for retiring prior to meeting the eligible age requirement. This generous package will provide a large enough incentive for city workers to retire, so the city can begin achieving budget savings. The City will realize savings of $100 million in 2003 with the passage of this early retirement proposal.

Tort Reform

New York City proposes that the State enact tort reform legislation. Tort liability costs have increased dramatically since the early 1990s. In 2001 the City paid out over $500 million in tort claims. This amount is almost three times the City's pay out a decade earlier. Due to the dramatic increase in the City's tort liability in recent years, the City is requesting the State enact tort reform legislation. The City's proposal includes several initiatives that will produce savings for both the City and the State. The City anticipates approximately $100 million in savings annually as a result of far reaching tort reform.

Parking Violation Fine Increases

With the destruction and subsequent rebuilding of downtown Manhattan the City's streets have become increasingly congested. The City has already attempted to address this problem through a variety of traffic pattern changes and car occupancy restrictions. In order to further ease traffic congestion, the City is requesting the State to provide an increase in the maximum fine for certain parking violations. Assessing greater penalties for both stopping and standing violations will discourage such behavior and therefore, greatly improve the flow of traffic. The fines associated with these parking violations have not been increased since 1995 and the enactment of this proposal will provide the City with approximately $62 million in additional revenue in 2003.

Flexible Use of Child Care Funding

Federal law allows the Child Care Development Fund be used either for families up to 200 percent of the Federal poverty level or up to 85 percent of the State median income. The State unnecessarily limits eligibility for Child Care subsidies to families at 200 percent of the Federal poverty level. Currently, the City provides childcare to families up to 275 percent of poverty level, by using City tax levy to fund those families above the 200 percent level. If the State were to change the eligibility to 85 percent of the State median income, it will allow the City to use $50 million more of TANF Child Care funding.

Bond Act for Municipal Recycling

The 1996 Clean Water/Clean Air (CWCA) Bond Act authorized $50 million statewide for municipal recycling projects for localities. New York City was promised at least half of this authorization. To date, the State has appropriated $35.5 million for municipal recycling, of which the City has received none. Therefore, the City is expecting $15.5 million in municipal recycling funds to balance its 2002 budget. The City requests the remaining balance of recycling funds be appropriated and committed to New York City to fulfill the original commitment of $25 million. and anticipates $9.5 million in 2003. Furthermore, the City's 2002 budget anticipates $34.5 million to be disbursed for the closure of the Fresh Kills Landfill as previously committed by the State.

E-911 Land-Line Surcharge

Currently there is a thirty-five cent E-911 surcharge on non-cellular telephones, and the City is seeking to increase this surcharge to one dollar. It is estimated that the proposed sixty-five cent increase will allow the City to generate an additional $35 million annually. The additional surcharge collected is intended to support both capital and operating costs of the E-911 program.

Other Proposals

Restoration of Recent Budget Cuts (SFY 1998-2001)

Restore the Stock Transfer Incentive Fund

In 1978 the State began a three-year phase-out of the City's stock transfer tax. As a result of this action, the State provided for annual appropriations of up to $120 million in compensation to the City of New York. For the past decade, the City received approximately $114 million annually from the Stock Transfer Incentive Fund.

The SFY 2001-02 Budget completely eliminated the Stock Transfer Incentive Fund payment that came to New York City. This elimination not only impacts the City budget in the coming fiscal years, but created a $114 million budget gap in 2001 and 2002, which requires closing. The City is requesting the reinstatement of the $114 million Stock Transfer Incentive Fund in the SFY 2002-03 Budget.

Reinstate State's Payment of Rent Regulation Administration

Since 1982, the State has administered the rent regulation program in the City of New York and, until two years ago, the City had reimbursed the State at a capped rate of $10 per rent-regulated unit, or $8.8 million per year. In SFY 2000-01 the State Budget removed the cap for which the State could charge the City for administration of the program, but did not increase the amount the City can collect from an owner. The SFY 2001-02 Budget failed to transfer the cost to administer the rent regulation program back to the State. Not only did the State shift the cost of administering the program to the City, but in addition, the actual amount budgeted for administration of the program has increased dramatically over the past few years. In SFY 1999-00 the State spent $26.3 million to administer the program and by SFY 2001-02 the administration costs for the program increased to over $40 million.

The City urges the State to restore funding to administer the rent regulation program to cover the entire cost of the program. The State's ability to shift the full administration costs to New York City, without providing a way to control program costs or raise the amount assessed unit owners, is clearly unfair. This funding shift cost the City $20 million in the first year alone, and grew by almost $3 million in SFY 2001-02.

Restore CHIPS O & M Funding

The SFY 2001-02 Budget included a statewide funding reduction of $34.9 million for the Operation & Maintenance (O&M) component of the Consolidated Highway Improvement Program (CHIPs). This reduction totally eliminated O&M funding for New York City and the counties. New York City received approximately $13 million annually under the CHIPs O&M program. This funding typically financed the repair and installation of more than one million traffic signs in New York City; furthermore, this State funding supported approximately 250 employees. The City requests that the SFY 2002-03 Budget include CHIPS O&M funding at the level provided in SFY 2000-01.

Restore Aid to Local Law Enforcement

The SFY 2001-02 Budget eliminated the Aid to Local Law Enforcement Funds. Five counties (Westchester, Rockland, Orange, Suffolk and Nassau) and four cities (Rochester, Syracuse, Buffalo and the City of New York) received various levels of funding since the inception of this grant. The elimination of this program cost the City $5 million annually.

The City supports the full restoration of the Aid to Local Law Enforcement grant, which has allowed the New York Police Department to establish and expand the Fugitive Enforcement Division. Approximately 40 detectives are assigned to this unit which is comprised of the Cold Case Squad, Juvenile Crime Squad and the Warrant Section. A portion of this grant was also used to fund the Bronx Auto Theft Program. The City requests the restoration of Aid to Local Law Enforcement funds to the SFY 2000-01 Budget level.

PIT Administrative Costs

In SFY 1997-98 the State raised the City's charge for administration of its personal income tax (PIT) by almost $9 million. In SFY 1998-99 this amount was increased by $1.3 million, in SFY 1999-00 the increase was $10 million and in SFY 2000-01 the increase was $1.5 million, for a total of over $20 million in the past four years. 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 from $19.6 million to the $32.3 million, an increase of 65 percent.

Given the repeal of the commuter tax, the PIT administrative charges should be adjusted proportionately for New York City. In 1997, New York City nonresidents made up 21 percent of all City filers. In SFY 2001-02 the City will pay almost $33 million in PIT administrative charges, however, given the 21 percent decrease in City filers, the administrative charges should also be decreased by 21 percent, or $6.9 million. Thus, the adjusted PIT administrative charge should be $25.8 million. The City should not pay an increase in administrative costs when in fact the volume of filers has decreased.

Restore Adult Shelter Cap

The Adult Shelter cap was reduced in the SFY 2000-01 Budget, from $82 million to $72 million. This funding supports critical services to over 7,000 homeless adults in New York City, and the State's appropriation should be adjusted to reflect the State's commitment to the homeless. The City requests the restoration of the Adult Shelter Cap to the SFY 1999-00 level.

Restore State Takeover of Medicaid Managed Care

In SFY 1994-95 the State implemented a modest takeover of local costs associated with Medicaid managed care and long- term care. The SFY 1999-00 Budget repealed the Medicaid managed care portion of the State takeover. As a result, New York City's spending for Medicaid managed care has increased by $24 million per year. In light of the State mandate to require the enrollment of Medicaid recipients in managed care plans during the next few years, the local burden imposed by the growth in managed care enrollment will also increase. Therefore, this State requirement goes against the cost-savings objective of Medicaid managed care as the increased local share serves as a disincentive for localities to pursue managed care and continue Medicaid on a fee-for-service basis. The City seeks the State restoration of the enhanced State share for Medicaid costs associated with managed care that continues to cost the City $24 million annually.

Restore D & E Felon Reimbursement

New York State Correction Law requires that the State reimburse localities for the cost of housing sentenced inmates up to $20 per day. Prior to SFY 1999-00, the City was reimbursed by the State at a rate of $17 per inmate per day for D, E, and certain C class felons sentenced to one year or less. The reimbursement for housing this class of inmate was completely eliminated as of April 1, 1999 and the City is now required to fund 100 percent of this cost. The City's actual cost per inmate per day is $252 and the elimination of this reimbursement costs the City approximately $6.2 million per year. New York City supports the full restoration of this reimbursement.

Equity in Correctional Reimbursement

State-ready prisoners are convicted felons who have been sentenced and committed to the State Department of Correctional Services, but have not yet been accepted by the State. Parole violators who have violated the conditions of their release are also temporarily detained in City correctional facilities. Chapter 262 of the Laws of 1987 changed the reimbursement rate for these inmates from $20 to $40 per day. However, the state budget continues to provide appropriations to reimburse localities at $34 per day.

The State reimbursement leaves a substantial shortfall for the City. The actual average cost per inmate per day is approximately $252. The City of New York is requesting a four-year phase-in to full reimbursement. According to the City's proposal, starting in 2003, the reimbursement rate would be 25 percent of the actual cost and this rate would grow 25 percent each fiscal year until reaching 100 percent of the actual cost in 2006. Based on the 2001 New York City Department of Corrections population figures, the difference between the actual reimbursement rate ($34 per day) and 25 percent of the $252 rate per day ($63 per day) is $34 million.

Fair Share of Federal Disaster Administration Fee

New York City should receive the State's share of the Administration fee provided through the Federal Emergency Management Agency (FEMA) Pubic Assistance program. The State of New York is eligible to receive approximately ½ of one percent of the total public assistance provided to the State for the September 11th disaster. In most disaster cases, the State works closely with FEMA to prepare project worksheets and other necessary paperwork in order to process reimbursement claims. However, the City of New York is a unique sub-grantee and has the ability to provide the resources necessary for administration without assistance from the State. For this reason, the City should receive the State's share of the FEMA Administration fee (about $15 million) on the portion of Public Assistance program that the State receives on behalf of the City of New York.

Foster Care Rate Increase

Since 1995, New York State has imposed a block grant on services for children in foster care. Over time, the State has amended the block grant to remove critical service components from the block and has moved those child welfare programs to open-ended funding streams. This year, again recognizing the importance of children's services, the State has proposed removing preventive child welfare services from the block appropriation, leaving behind only foster care services in the grant. However, coupled with the newly revised State set rates for foster care agencies and increased State mandates through expanded obligations for Persons in Need of Supervision (PINS), the block grant does little other than to shift financial burdens to the localities. The City urges the State to eliminate the block grant and provide its fair share to localities for the costs of services to children. This $12.5 million in State funds will fully fund revised

State set Maximum State Aid Rate (MSAR) for the non-profit agencies and the foster parents who care for New York City's children.

Fair Share of Wireless E911 Surcharge

State revenues from the monthly E-911 surcharge on wireless telephones continue to increase at a rate of thirty-five percent per year. Receipts from this seventy cent surcharge are estimated to be in excess of $60 million in this year alone. Currently these monthly surcharges are paid to the State to supplement the operation of the New York State Police and the New York State E-911 program.

The current system where surcharge receipts are given directly to the New York State Police is clearly inequitable. The City generates at least 50 percent of the total wireless E-911 revenues with no benefit to City taxpayers since New York State Police do not perform functions in the City of New York. The City recommends that any proposal for E-911 wireless assistance include an equitable share of the surcharge revenues to localities at a level commensurate with the number of wireless telephones registered in the locality. This proposal will result in at least a $10 million savings for the City each year.

BASELINE RISKS

Federal Budget Baseline Risks

Elimination of the State Criminal Alien Assistance Program (SCAAP)

The President's 2003 budget proposal eliminates the State Criminal Alien Assistance Program (SCAAP) which provides Federal assistance to states and units of local government incurring costs for incarcerating illegal aliens convicted of one felony or two misdemeanor offenses. The program is also intended to expedite the transfer of custody for certain deportable aliens. New York City receives approximately $30 million per year from the SCAAP program.

Federal Highway Funding

The President's 2003 budget proposal includes a $9 billion decrease in spending from the Federal Highway Trust Fund. The City of New York is expected to lose at least $40 million in funding for highway capital projects from this proposed decrease.

State Budget Baseline Risks

State Education Aid

The SFY 2002-03 Executive Budget projects a decrease in State Education Aid to the City of New York by $15 million over last year's level. In addition, the Board of Education estimates that the Governor overstated Transportation Aid by $27 million, and that there will be a decrease of $51 million in Building Aid. Therefore, the year-to-year decrease in State Education Aid in the Governor's proposal totals $93 million.

Limiting the Length of Stay for Youth in Detention

The SFY 2002-03 Executive Budget proposes to limit the duration of detention for persons in need of supervision (PINS) and juvenile delinquents (JDs) as well as requiring the Office of Children and Family Services (OCFS) to assess the need for juvenile detention capacity in certifying or re-certifying juvenile detention programs. Counties would be required to submit justification for requested bed capacity as part of the certification or recertification process. The Governor's proposal would also reduce State reimbursements from 50 to 25 percent of county expenditures for youth who remain in detention or PINS-foster care beyond 45 days. The incentive cited by the Governor is for counties to monitor detention usage and court delays; however, localities have no jurisdiction over the judiciary and cannot control delays in family court proceedings. This proposal would cost the City approximately $9.5 million each year.

Capital Program

The Modified Capital Commitment Plan for Fiscal Years 2002-2005 authorizes agencies to commit $27.8 billion, of which $25.6 billion will be City-Funded. City funds include proceeds of bonds issued by the City Municipal Water Finance Authority, the New York City Transitional Finance Authority, and the New York State Dormitory Authority, as well as City general obligation and Tobacco Settlement bonds (as described in the Financing Program section).

The targeted level for City-funded commitments is $6.0 billion in Fiscal Year 2002. The aggregate agency-by-agency authorized commitments of $9.2 billion exceed the Fiscal Year Financial Plan by $3.2 billion. Excess authorizations in this proportion have proven necessary to achieve commitment spending targets by accommodating such factors as scope changes and delays.

The Capital Program Since 1998

The following table summarizes capital committments over the past four years.

FY 1998-2001 Commitments
*($ in Millions)**

	1998 City Funds	1998 All Funds	1999 City Funds	1999 All Funds	2000 City Funds	2000 All Funds	2001 City Funds	2001 All Funds
Environmental Protection								
Equipment	$98	$98	$81	$81	$74	$85	$60	$68
Sewers	184	184	185	185	224	224	90	90
Water Mains	152	152	200	203	212	212	178	178
Water Pollution Control	320	321	198	198	408	412	970	970
Water Supply	58	58	4	4	85	85	130	130
Subtotal	*$812*	*$813*	*$668*	*$671*	*$1,003*	*$1,018*	*$1,428*	*$1,436*
Transportation								
Mass Transit	$123	$122	$116	$116	$109	$109	$91	$91
Highways	168	185	171	184	111	115	214	223
Highway Bridges	119	123	92	94	193	228	147	198
Waterway Bridges	152	127	177	355	82	86	127	269
Subtotal	*$561*	*$557*	*$556*	*$749*	*$496*	*$538*	*$579*	*$781*
Education & Hospitals								
Education	$1,246	$1,246	$1,400	$1,400	$1,123	$1,160	$2,178	$2,429
Higher Education	9	11	12	14	10	11	7	8
Hospitals	23	23	56	56	19	19	65	65
Subtotal	*$1,278*	*$1,279*	*$1,468*	*$1,470*	*$1,152*	*$1,191*	*$2,250*	*$2,502*
Housing & Economic Development								
Housing	$116	$241	$161	$259	$182	$294	$261	$390
Economic Development	55	69	54	59	21	21	202	213
Port Development	4	4	0	0	0	0	0	0
Subtotal	*$175*	*$314*	*$215*	*$318*	*$203*	*$315*	*$463*	*$603*
City Operations & Facilities								
Correction	$81	$81	$63	$74	$59	$59	$107	$108
Fire	56	56	66	66	49	49	120	120
Police	47	47	46	46	37	11	43	43
Public Buildings	54	54	65	67	80	84	79	81
Sanitation	102	102	63	63	198	198	150	150
Parks	153	165	158	174	141	147	205	207
Other	390	434	323	352	304	364	554	626
Subtotal	*$882*	*$939*	*$784*	*$842*	*$868*	*$912*	*$1,257*	*$1,336*
Total Commitments	$3,709	$3,904	$3,691	$4,050	$3,721	$3,974	$5,977	$6,658
Total Expenditures	$3,631	$3,985	$4,385	$4,786	$3,919	$4,256	$4,389	$5,310

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

FY 2002-2005 Commitment Plan

*($ in Millions)**

	2002 City Funds	2002 All Funds	2003 City Funds	2003 All Funds	2004 City Funds	2004 All Funds	2005 City Funds	2005 All Funds
Environmental Protection								
Equipment	$220	$343	$49	$49	$56	$101	$47	$47
Sewers	293	293	195	195	151	151	79	79
Water Mains	539	543	291	291	394	394	475	475
Water Pollution Control	995	1,020	1,037	1,067	821	846	605	630
Water Supply	181	181	181	181	432	432	11	11
Subtotal	*$2,228*	*$2,380*	*$1,753*	*$1,784*	*$1,854*	*$1,924*	*$1,216*	*$1,241*
Transportation								
Mass Transit	$536	$536	$106	$106	$106	$106	$106	$106
Highways	328	353	259	282	277	331	301	333
Higway Bridges	190	231	434	498	345	377	625	738
Waterway Bridges	67	55	212	289	280	311	15	15
Subtotal	*$1,121*	*$1,175*	*$1,011*	*$1,175*	*$1,008*	*$1,125*	*$1,047*	*$1,191*
Education & Hospitals								
Education	$1,156	$1,159	$876	$886	$888	$898	$836	$836
Higher Education	62	73	5	7	5	6	4	5
Hospitals	301	301	275	275	90	90	16	16
Subtotal	*$1,519*	*$1,533*	*$1,156*	*$1,167*	*$983*	*$995*	*$857*	*$857*
Housing & Economic Development								
Housing	$424	$552	$290	$424	$268	$400	$310	$432
Economic Development	598	939	173	202	78	78	87	87
Port Development	0	0	0	0	0	0	0	0
Subtotal	*$1,022*	*$1,492*	*$464*	*$626*	*$346*	*$478*	*$397*	*$519*
City Operations & Facilities								
Correction	$176	$176	$66	$66	$118	$122	$138	$138
Fire	246	246	117	117	42	42	97	97
Police	265	265	108	108	65	65	47	47
Public Buildings	209	210	127	129	93	93	92	92
Sanitation	247	247	224	237	159	159	252	252
Parks	317	338	147	166	69	69	48	48
Other	1,897	2,087	739	967	1,165	1,205	311	325
Subtotal	*$3,357*	*$3,568*	*$1,527*	*$1,791*	*$1,711*	*$1,754*	*$985*	*$999*
Total Commitments	$9,247	$10,148	$5,911	$6,543	$5,902	$6,275	$4,501	$4,807
Reserve for Unattained Commitments	(3,236)	(3,236)	34	34	15	15	496	496
Commitment Plan	$6,011	$6,912	$5,945	$6,577	$5,917	$6,290	$4,997	$5,303
Total Expenditures	$5,072	$5,632	$5,082	$5,673	$5,612	$6,198	$5,821	$6,308

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

The Department of Design and Construction

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

In the past 18 years, the Mayor's Office of Management and Budget(OMB) has successfully utilized several "tools" of value management as a means of maximizing the City's return on investment. These include the value engineering, value analysis and cost estimating methodologies, defined below:

- *Value engineering (VE) systematically reviews construction designs, costs and functions for the purpose of achieving the most effective project at the lowest life–cycle costs, both capital and operating. Value engineering is conducted on selected major capital projects at an early enough phase to confirm that their scope includes all required elements, to identify potential problems and to incorporate solutions and recommendations into the design.*

- *Value analysis (VA) fundamentally redesigns key operational functions to effect increased efficiency and improvements. Value analysis is applied to the review of the City's operational processes and procedures to assist agencies in streamlining their procedures.*

- *Cost estimating (CE) determines whether the expected cost for construction projects is in line with the proposed budget. Independent cost estimates of capital projects are used to verify adequacy of capital funding and to provide a "check" on the reliability of agency design estimates.*

In its role as technical support to OMB, the Value Engineering Unit is able to provide expertise otherwise unavailable in–house. Also, working with a VE team of outside consultants and experts, along with input from agency clients, the VE Unit is able to review capital projects and processes, and greatly contribute to the effectiveness of how the City conducts its business and manages its resources. This truly collaborative effort also provides a forum to address the concerns of the interested parties.

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Financing Program

The City's financing program projects $32.5 billion of long-term borrowing for the period of 2002 through 2006 to support the City's current capital program. Over 93 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 or the Authority) and TSASC, Inc. In addition, the City will utilize the Dormitory Authority of the State of New York (DASNY), and the Jay Street Development Corp. (JSDC) to fund several capital initiatives. On September 13, 2001, the TFA was given statutory authority to finance costs related to or arising from the terrorist attack on New York City that occurred on September 11. Pursuant to that authority, the TFA also plans to issue approximately $1 billion of debt in fiscal year 2003. The JSDC will issue bonds secured by City rental payments to fund the completion of 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. 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 $13.2 billion of its GO bonds, which represents the largest share, 41 percent, of the total program. NYW's

2002-2006 Capital Funding Program

($ In millions)

	2002	*2003*	*2004*	*2005*	*2006*	Total
Sources of Funds:						
City General Obligation Bonds	$2,000	$1,500	$2,400	$3,820	$3,520	$13,240
Transitional Finance Authority *(1)*	2,950	2,210	847	—	—	3,997
TSASC *(2)*	660	590	590	—	—	1,840
Water Finance Authority *(3)*	2,654	1,600	1,622	1,714	1,706	9,296
DASNY and Other Conduit Debt *(4)*	548	696	373	311	230	2,158
Total *	$8,812	$6,596	$5,832	$5,845	$5,456	$32,541

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

(2) $130 million of TSASC FY2002 financing will fund the closing costs of Fresh Kill. The City expects to derive net proceeds of approximately $2.2 billion from TSASC for capital purposes, including the $604 million of proceeds from the November 1999 TSASC financing and the $150 million TIFIA loan.

(3) NYW includes commercial paper and refunding bonds issued to date in FY2002 and reserve amounts. Figures do not include bonds that defease commercial paper.

(4) DASNY and other conduit debt includes DASNY financing of the City court capital program and three HHC projects, Jay Street Development Corp. financing of the 330 Jay Street project, and other conduit financings. The amounts reflected in fiscal years 2002 through 2006 include a total allocation for reserve funds and other costs of issuance during the period of $253 million.

* *Numbers may not tally due to rounding.*

annual bonding amount will average about $1.6 billion, except in FY2002, which includes $960 million of refunding bonds. The aggregate NYW financing during the plan period will account for approximately 29% of the total program. TSASC, Inc. will have an annual issue of about $600 million in the current and next two fiscal years. TFA financing during the plan period will account for 18% of the total program, including the $2 billion financing for recovery costs.

The Events of September 11, 2001

Within hours of the collapse of the Twin Towers of the World Trade Center, the bond financing staff of the City and of its various financing authorities had re-established regular and effective communication with its financial advisors, bond counsels, underwriters, remarketing agents, trustees and paying agents, auction agents, letter of credit banks, bond insurers, rating agencies and with the Depository Trust Corporation. This was particularly important with regard to the variable rate debt of the City and its financing authorities, much of which is remarketed on a daily or weekly basis. All of parties named above functioned effectively on behalf of the City in the hours and days immediately after the events of September 11th. There were no failed remarketings or auctions on variable rate debt and no missed debt service payments on any debt. The rating agencies were kept fully informed of the City's response to the tragedy and of its plans for recovery. Investor conference calls were held which were widely advertised as being open to participation by all investors. The bond finance and finance legal staff from the Office of Management and Budget, the City Law Department and the various City financing authorities established temporary office quarters in the headquarters of the City pension systems in Brooklyn until the Office of Management and Budget was able to consolidate its staff and the bond finance staff in Lower Manhattan in November, 2001.

Transitional Finance Authority

The TFA is a corporate governmental agency constituting a public benefit corporation and instrumentality of the State of New York created by Chapter 16 of the Laws of 1997 in March 1997. The TFA was created to provide for the issuance of debt to fund a portion of the capital program of the City. The TFA was originally authorized to issue up to $7.5 billion of bonds and notes. 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 previously existing variable rate capacity.

As noted above, on September 13, 2001, the State of New York authorized the TFA to issue additional debt to finance costs (whether capital or expense) related to or arising from the September 11th terrorist attack in an amount outstanding of up to $2.5 billion. In October 2001, the TFA issued $1 billion in New York City Recovery Notes to pay such costs. The Recovery Notes, which mature on October 2, 2002, have a yield of 2.13%. TFA plans to issue another $1 billion in notes to cover costs associated with September 11 in July 2002. Both note issues are expected to be refinanced with TFA subordinated bonds or additional notes shortly before their respective due dates.

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 14 TFA bond financings (totaling $8.3 billion) issued to date, the average interest rates were approximately 10 basis points lower than those for the City GO bonds with comparable maturities. After September 11, the spread between GO and TFA debt in the secondary market widened, underscoring the value of the TFA as a financing vehicle for the City.

Since 1998, the TFA has completed three bond financings a year, averaging about $500 million to $600 million per issue to date. In fiscal year 2002, TFA completed two bond transactions: Series 2002A in July 2001 ($150 million, the TFA's first competitive financing) and Series 2002B in November 2001 (a combined $620 million tax exempt and taxable financing). The TICs for the two tax exempt financings were 5.0% for Series 2002A and 5.4% for Series 2002B. No more bond financings are planned for the remainder of FY2002. However, TFA plans to implement a debt restructuring program for a portion of its debt to realize $65 million in debt service savings in FY 2002. Four long-term borrowings of $600 million each are scheduled in FY2003, one in each quarter. The proceeds of the bonds will be used to refund TFA BANs issued earlier. In FY2004, TFA will issue $850 million of bonds, which will bring its total issuance to $11.5 billion, the maximum authorized bonding capacity for non-September 11 related costs.

The TFA's tax-exempt variable rate bonds have averaged 1.75 percent for the first 8 months of 2002, resulting in approximately $35 million of savings in interest costs on an annual basis compared with fixed-rate debt. During fiscal year 2002, the TFA also added $200 million of taxable floating rate debt to its $1.050 billion floating rate debt portfolio.

The TFA Bond Anticipation Note (BAN) program, initiated in November 1999, continues to provide low-cost interim financing for the City. The 2002 Series 1 tax-exempt BANs issued in August 2001 realized a true interest cost (TIC) of 2.47 percent, which was 7 basis points lower than the MIG-1 index. (The MIG-1 index is a short-term index for notes.). The 2002 Series 2 taxable BANs, also issued in August 2001, realized a TIC of 3.73 percent. This represented the first issuance of taxable notes by the TFA. The 2002 Series 3 tax-exempt BANs issued in November 2001 realized a TIC of 1.75 percent, which was the lowest ever for the TFA. TFA will continue to utilize its low cost BAN program with all its future new money needs. There are four $600 million BANs scheduled to be issued in the next 18 months: in February 02, August 02, November 02 and August 03, respectively. These BANs, currently expected to be issued with six-month maturities, are expected to be refinanced with long-term TFA bonds shortly before their respective maturity dates.

The City's personal income tax revenues are projected to grow at an average of 5.6% percent between 2002 and 2006 despite the elimination of various surcharges and implementation of tax cuts. TFA is projected to continue to have very strong coverage of debt service. 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 $4 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 $13.2 billion during the Financial Plan period through FY2006. The amount of annual GO financings will be under $2.4 billion for new money purposes during the plan period of 2002-2004. Beginning in FY2005, when both TFA and TSASC have exhausted their bonding capacity, the City will increase its GO financing program to $3.8 billion and $3.5 billion in FY2005 and 2006, respectively. In addition, the City plans to implement a debt restructuring program for a portion of its debt to realize approximately $300 million in debt service savings in FY 2003.

Currently the debt service for the City and its related financing entities (GO, TFA, TSASC, MAC and lease debt, excluding the effect of pre-payments) is 9 percent of the City's total budgeted revenues in FY 2002. The ratio will rise to 12.2 percent in FY 2006. As a percentage of tax revenues, the debt service ratio is 16.8 percent in FY 2002 and is projected to increase to 19.8 percent in FY 2006.

In FY 2002 to date, short-term interest costs as reflected in the GO $3.5 billion of VRDBs have been 1.7 percent on average for tax-exempt debt and 3.0 percent for the taxable floating rate debt. These VRDBs, which have been traded on average at rates that are at least 300 basis lower than those for the fixed-rate debt, are expected to generate an annual debt service savings of over $100 million.

In October 2001, the City issued $1.4 billion RANs for its seasonal cash flow needs. The TIC for the RANs was 2.04%. The City expects to issue $2.4 billion of RANs or TANs in the next fiscal year.

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, NYS UDC and DASNY. Most recently, projects the City has financed in this manner include Health and Hospitals Corporation projects under the Municipal Health Facilities program of DASNY and the City's courts capital program, financed through DASNY and through the newly created JSDC.

In May 2001, JSDC issued $270 million of lease appropriation bonds to finance the construction of a large multi-court facility at 330 Jay Street in Brooklyn. This financing covered a portion of the construction costs through approximately August 2002 and the JSDC is expected to finance the remaining construction costs in FY03 in accordance with anticipated construction drawdown schedule. The May 2001 financing was fully supported by bond insurers and letter of credit banks, which allowed JSDC to issue floating-rate debt. Taking advantage of the low interest rate environment, JSDC average interest costs for the first nine months have been at 1.96%

In December 2001, the City also financed a portion of the costs for three hospital projects through DASNY, totaling $548 million. The projects include a new DNA lab, ambulatory service facilities at Bellevue hospital and phase two of the reconstruction of Kings County Hospital. Of the $548 million financing, $127 million was in fixed-rate mode and the remaining $421 million was variable debt in seven day auction mode. The fixed-rate bonds were sold with yield ranging from 3.63% in 2005 to 4.91% in 2014. In addition, the December financing, similar to the 1998 financing by DASNY for Kings and Queens Hospitals, is secured with a Medicaid intercept and the City's lease payments. The structure received a rating upgrade from both Moody's (from A3 to A2) and Fitch (from A to A+). S&P maintains its rating at A. The City plans to finance the remainder of the construction costs for the three hospitals in FY2004.

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 $17.55 billion in General and Second Resolution bonds and subordinated crossover refunding bonds. Refunding bond issuance amounted to $6.09 billion. Of this aggregate bond par amount, $10.9 billion is outstanding, $5.55 billion was refinanced with lower cost debt, and $1.1 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.

NYW enjoys a strong credit rating by all three rating agencies. NYW is rated "AA" by Standard and Poor's and Fitch and "Aa2" by Moody's. Additionally, bonds issued by the New York State Environmental Facilities Corporation (EFC) for eligible NYW State Revolving Fund (SRF) projects are rated in the highest rating category by Moody's ("Aaa"), Standard & Poor's ("AAA") and Fitch ("AAA"). The bonds which NYW places with EFC are unrated Second Resolution bonds of NYW, but are an element of security for the EFC bonds.

To date in Fiscal Year 2002, the Authority has closed ten financing transactions. The First Resolution Series A, B, C, D, E, F and G issuances consisted of bond sales directly to the public. Series B through F were crossover refundings, providing NYW with over 5% savings in each case. The Second Resolution Series 1, 2 and 3 bonds were issued to the EFC and secure bonds issued by EFC.

The projected financing activity for the remainder of Fiscal Year 2002 will consist of a bond sale by NYW directly to the public for $200 to $400 million and approximately $200 million in bonds issued to EFC. Additionally, NYW may be able to take advantage of potential refunding opportunities during the year should the interest rate environment be favorable.

On June 13, 2001, the FY 2002 Series A bonds were sold, with a par amount of $216 million in a common plan of finance with $204 million of 2002 Series 1 EFC bonds. Interest rates on the Series A issue were very favorable relative to other comparable issuers, with yields 12 to 13 basis points higher in various maturities compared to the MMD Triple-A Scale. The structure included term bonds maturing in 2027, 2032 and 2033 with yields-to-maturity on the 2027 premium term bond selling at 5.33% and yields on the 2032 and 2033 term bonds selling at 5.32%. The true interest cost was 5.366%. Proceeds from this sale defeased NYW's Series Five commercial paper, funded the debt service reserve fund, and paid certain costs of issuance.

The 2002 Series 1 EFC bonds took advantage of the 33 to 50 percent interest rate subsidy available for qualifying projects, helping to minimize the overall costs of NYW's sizable financing program. The June sale was the first to incorporate the longer 30-year amortization now allowed under New York State's Clean Water SRF program by the United States Environmental Protection Agency. Relative yields on individual maturities for the NYW sale through EFC were very low, with yields ranging from 8 to 10 basis points above the MMD Triple-A Scale. The sale included serial bonds from 2002 through 2023 and 2026. Term bonds maturing in 2027 and 2031 were also included, with yields of 5.22% and 5.27%, respectively. The true interest cost was 5% with an effective all in yield of 2.87% after subsidy. Proceeds from this sale defeased a portion of NYW's Series Four commercial paper and paid certain costs of issuance.

On August 3, NYW sold $171 million of 2002 B Issue and $47 million of 2002 C Issue crossover refunding bonds, the second such issuance using this structure. The proceeds from the B and C Issue crossover refunding bonds were placed in escrow and invested in guaranteed investment contracts (GIC). Proceeds from the GICs will pay interest on the crossover refunding bonds prior to the crossover dates and will refund $166 million of Fiscal 1996 Series B term bonds on a crossover date in 2006 and $44 million of Fiscal 2000 Series B term bonds on a crossover date in 2010. The yield of 5.14% on the B Issue term bonds due in 2026 and the yield of 5.18% on the C Issue term bonds due in 2032 were among some of the lowest yields in NYW's history. Yields also continued to remain at historic lows when compared with the MMD Triple-A scale.

The combined B and C issue bonds had a true interest cost of 5.17%. Present value savings of $11.7 million or approximately 5.6% over the refunded bonds exceeded NYW's 5% savings threshold.

Continuing to take advantage of an improvement in interest rates, the NYW's second issuance followed shortly thereafter on August 24, 2002 with a refunding of $361 million, again using a crossover refunding structure. The NYW sold $42 million of 2002 D Issue, $214 million of 2002 E Issue and $106 million of 2002 F Issue crossover refunding bonds. The proceeds from the D, E and F Issue crossover refunding bonds were placed in escrow and invested in guaranteed investment contracts (GIC). Proceeds from the GICs for the 2002 D, E and F Issues will pay interest on the crossover refunding bonds prior to the crossover dates. The Series D bonds will refund $40 million of Fiscal 1994 Series F term bonds on a crossover date in 2004, the Series E bonds will refund $211 million of Fiscal 1996 Series B bonds on a crossover date in 2006 and the Series F bonds will refund $100 million of Fiscal 1997 Series B bonds on a crossover date in 2007.

The yields of 4.97 % on the D Issue term bonds due in 2020, 5.07% on the E Issue term bonds due in 2026 and 5.10% on the F Issue term bonds due in 2029 were again among some of the lowest yields in the NYW's history. Yields also continued to remain at historic lows when compared with the MMD Triple-A scale. The combined D, E & F Issue bonds had a true interest cost of 5.1%. Present value savings of $18.8 million or approximately 5.4% over the refunded bonds exceeded NYW's 5% savings threshold.

On October 11, 2001, $216 million of FY 2002 Series G bonds were offered for sale in a common plan of finance with $72 million of 2002 Series 2 EFC bonds. Despite this being the first NYW financing after the events of September 11, relative interest rates on the Series A issue were only slightly higher than other recent NYW issues, ranging from 13 to 18 bp above the MMD Triple-A Scale. The structure included term bonds maturing in 2032 and 2034 with yields of 5.18% and 5.13%, respectively. The true interest cost was 5.2%. Proceeds from this sale defeased NYW's Series Five commercial paper, funded the debt service reserve fund, and paid certain costs of issuance.

The 2002 Series 2 EFC bonds were offered through a competitive sale using an internet-based bidding platform with nine bidders responding. The successful bid included serial maturities from 2002 through 2021 and two term bonds in 2026 and 2031. Yields ranged from 3% in 2002 to 5.01% on the term bonds due in 2031. The yield on the 2031 term bond was a very favorable 2 bp lower than the MMD Triple-A Scale. The true interest cost was 4.7 % with an effective all in yield of 2.9%, after subsidy. Proceeds from this sale defeased a portion of the NYW's Series Four commercial paper and paid certain costs of issuance.

NYW's latest transaction was also a sale of bonds through EFC. The $519 million 2002 Series 3 EFC bonds, the second largest offering made by NYW through EFC, were sold on January 25,2002. The transaction fully refunded two earlier 20-year direct loans (NYW FY 2000 Series 1 and 2001 Series 1) with bonds extending to 30 years, defeased all of NYW's Series Three and a portion of the NYW's Series Four commercial paper and paid certain costs of issuance. The sale included serial bonds from 2002 to 2022 and two term bonds in 2027 and 2031. Yields on the term bonds were 5.15% (2027) and 5.17% (2031) with a 6 basis point spread above the MMD Triple-A Scale. The true interest cost on the EFC bonds was a favorable 4.9% with an effective all-in yield to the Authority of 2.9% after subsidy.

During the period of 2002 and 2005, NYW 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 expected series of Tobacco Flexible Amortization Bonds (Tobacco Bonds) in 1999 to finance a portion of the City's capital program. Those bonds are the highest-rated bonds secured by TSRs issued to date by various states and localities. 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 subsequent tobacco bond financings which compared well with TSASC were traditional serial bonds in the early maturities.

In December 2001, TSASC and the City completed a $150 million loan agreement with the US Department of Transportation (USDOT) under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). The loan agreement provides for funding by the USDOT for one third of the capital costs associated with the Staten Island ferries and ferry terminals project. The loan is scheduled to be drawn down over the next three to four years based on actual capital expenditures. The repayment of the loan is secured with TSASC's revenues, payable over the next 30 years on a parity with other TSASC senior bonds.

The 5.52% interest costs on the TIFIA loan was estimated to be at least 30 basis points lower than the TSASC's borrowing rate under comparable market conditions. TSASC plans to implement its second public offering in April 2002 for approximately $660 million. A small portion of the proceeds is expected to fund the closing costs of Fresh Kill and the remainder will fund the City's overall capital program.

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 about 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. As listed below, TSASC has received a total of $549 million payments from tobacco manufactures since its inception.

TSASC's Tobacco Settlement Revenues Received
($ In millions)

Calendar Year	Upfront Payment	Initial Payment (Due and Received on or About Jan 10	Annual Payment (Due and Received on or About April 15)	Total
1999	84	—	—	84
2000	—	73	118	191
2001	—	66	140	206
2002	—	68	—	68
Total	84	291	258	549

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 2002 Initial Payment was also about $10 million lower than the originally projected amount, largely due to a dispute raised by an OPM on the methodology used by the Independent Auditor to calculate prior years Annual Payments obligations of the OPM and on the application of the "non-participating manufacturer" (NPM) adjustment under the MSA. The dispute caused a portion of the OPM's January 2002 Initial Payment to be deposited in a disputed payment account until the resolution of the dispute. The 2000 Annual Payment was about $4 million less than originally forecast in TSASC's 1999 Official Statement due to an NPM adjustment. The 2001 Annual Payment received was about the same as originally forecast.

Based on data available to TSASC, the relative market share among the PMs changed from year to year and the overall US cigarette shipment in 1999 and 2000 were roughly the same as those forecast in the TSASC Series 1999-1 official circular. 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. The City is lowering its overall 2002 residual revenues receipt from TSRs by approximately $23 million, reflecting the actual January 2002 receipt and a projected lower than expected Annual Payment in April 2002. However, the City is not adjusting the original TSASC forecast for future TSRs assuming the average annual cigarette consumption decline of approximately 2 percent.

All planned debt service due in fiscal years 2001, 2002 and 2003 were fully funded by the January preceding the start of each fiscal year upon receipt of the Initial Payment, assuming that the first year's interest costs on TSASC's next borrowing schedule in April 2002 is fully capitalized and no principal amortization will be scheduled in the first year.

Supplemental Information

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Expenditure Assumptions

The baseline expenditure estimates in the plan are derived from the four-year financial plan submitted on December 31, 2001 adjusted for approved Federal and State categorical grants through February 1, 2002. The new estimates also reflect other approved budget modifications, new needs, changes in inflation assumptions and other adjustments as discussed below.

Personal Services

The estimates for Personal Services over the five-year period of the plan are as follows:

	($ in millions)				
	2002	*2003*	*2004*	*2005*	*2006*
Salaries & Wages	$16,306	$15,860	$15,905	$15,980	$15,985
Pension	1,630	2,014	2,309	2,613	3,066
Other Fringe Benefits	4,266	4,439	4,709	5,079	5,370
Reserve for Collective Bargaining:					
Board of Education	381	472	485	485	485
Other	375	490	479	481	484
Total	**$22,958**	**$23,275**	**$23,887**	**$24,638**	**$25,390**

Salaries & Wages

The baseline projections for salaries and wages reflect personnel costs associated with current and projected headcount levels including most wage adjustments for the 2000-2002 round of collective bargaining.

Pensions and Other Fringe Benefits

Pension expenses for 2002 and beyond are based on the draft valuation projections prepared by the Office of the Actuary. These projections are based on the funding assumptions adopted by the trustees of the City's retirement systems. Consistent with State law, the costs of funding a portion of retiree benefit increases are being phased-in over a five year period. The valuation projections also provide for the estimated costs associated with investment losses that occurred in 2001. Additional adjustments are made to capture the costs of planned payroll changes as well as the estimated costs of benefit improvements resulting from recent State legislation.

Total pension expenses for the financial plan are shown below:

	($ in millions)				
	2002	*2003*	*2004*	*2005*	*2006*
City Actuarial	$1,574	$1,953	$2,247	$2,550	$3,001
Non-City Actuarial	28	31	31	32	33
Non-Actuarial	28	30	31	31	32
Total	**$1,630**	**$2,014**	**$2,309**	**$2,613**	**$3,066**

Social Security costs are estimated to increase annually by approximately two percent in 2004, 2005 and 2006. These increases are reflective of the projected tax rates and wage ceilings issued by the Social Security Administration as well as planned payroll growth. Unemployment Insurance costs are projected to increase annually by approximately five percent in 2004, 2005 and 2006. These growth rates are consistent with the statutory maximum weekly benefit levels and expected growth in wages. Workers' Compensation costs are estimated to increase each year based on the compensation rate schedule mandated by State law and the projected growth in medical costs. Health Insurance estimates reflect current levels of coverage based on the latest population and premium data available from the City's health insurance providers. The inflation rates used in the out-year projections reflect anticipated increases in both hospital and medical trends.

Reserve for Collective Bargaining

The Labor Reserve contains funding not already included in baseline salaries. These funds of collective bargaining principally represent the undistributed portion of the 2000-2002 round of collective bargaining, as well as smaller amounts from the prior round. Funds for Board of Education collective bargaining have been transferred to the Board and are held in a discrete collective bargaining Unit of Appropriation.

Other Than Personal Services

The following items are included in this category:

	2002	2003	2004	2005	2006
			($ in millions)		
Administrative OTPS	$11,563	$10,167	$10,274	$10,347	$10,471
Public Assistance	2,294	2,185	2,141	2,149	2,149
Medical Assistance	3,728	3,908	4,149	4,289	4,427
Health and Hospitals Corp.	214	205	196	197	197
Covered Agency Support & Other Subsidies	1,551	1,813	1,860	1,916	1,980
City & MAC Debt Service	948	3,057	3,698	3,875	4,139
General Reserve	100	200	200	200	200
Total	**$20,398**	**$21,535**	**$22,518**	**$22,973**	**$23,563**

Administrative OTPS

The estimates in this category include new needs in the baseline. For 2003 through 2006 most expenditures have been increased to reflect the effect of inflation. The inflation adjustment, which is shown in a citywide account, represents a 2.6 percent increase in 2003, and a 2.8 percent increase in 2004, 2005, and 2006. Baseline costs for energy and lease requirements are shown in the appropriate operating agency, while out-year inflationary costs are primarily shown in city-wide accounts as noted in the following two sections.

Energy

The financial plan for 2002 through 2006 reflects the current projection for energy related purchases. For the remainder of 2002 stable prices for gasoline and fuel oil are projected. For 2003 through 2006 projections of energy costs assume the following inflation rates.

Energy Inflation Rates

	2003	2004	2005	2006
Gasoline and Fuel Oil	(5.0)%	7.5%	6.0%	4.0%
Heat Light and Power	(1.0)%	0.5%	0.5%	1.0%

Usage adjustments are held constant, with the exception of varying workload adjustments, the privatization initiative in the In-Rem program, and the annualization of 2002 adjustments, where applicable.

The annual cost projections are as follows:

Energy Costs

($ in millions)

	2002	*2003*	*2004*	*2005*	*2006*
Gasoline	$25	$24	$25	$26	$28
Fuel Oil	34	33	34	36	38
HPD-In Rem	14	11	3	2	0
HPD-Emergency Repairs	2	2	2	2	0
Heat, Light & Power	440	494	496	498	503
Total	**$515**	**$564**	**$560**	**$564**	**$569**

Leases

Agency baseline expenditures carry the cost of leases at a constant level of $474 million for 2003 through 2006 with the exception of the annualization of 2002 adjustments where applicable. A citywide adjustment for 2003 through 2006 provides for the increased cost of leases based on a 3.0 percent annual inflator. The four-year plan includes $491 million for leases in 2003, $508 million in 2004, $524 million in 2005, and $539 million in 2006. Of these amounts, the citywide adjustment is $17 million, $34 million, $50 million and $65 million respectively in 2003 through 2006.

Public Assistance

The financial plan for Public Assistance projects 452,442 persons on Public Assistance in June 2002, remaining at that level for the balance of the plan.

Medical Assistance

The financial plan for Medical Assistance funds 1.7 million eligibles including 480,000 in Medicaid Managed Care. Medicaid expenditure growth is projected at 7.5 percent for fiscal year 2003.

Health and Hospitals Corporation

The City support for the Health and Hospitals Corporation reflects the costs incurred by HHC in providing healthcare to prison inmates and uniformed service employees, as well as various other City services and debt service costs for HHC bonds. This amount is estimated at $118 million in fiscal years 2002 and 2003 and $116 million in fiscal years 2004 through 2006. Personnel services expenses remain essentially flat for fiscal years 2002 through 2006 pending the next collective bargaining agreement. Affiliation costs start with a baseline of $507 million in fiscal year 2002 and assume incremental increases in each subsequent year. The Corporation's third party revenue is expected to increase. The full assumptions underlying the plan are set forth in the covered organization submissions for the Health and Hospitals Corporation.

Covered Agency Support and Other Subsidies

Included in this category are the contributions made by the City to the Transit Authority, Housing Authority, Libraries and various Cultural Institutions. Also included in this category are the estimated projections for the cost of Judgements and Claims.

General Reserve

The General Reserve is projected at $100 million for FY 2002, and $200 million for FY 2003-2006 to provide for uncontrollable increases in expenditures as well as shortfalls in revenue. The General Reserve has been increased above the required $100 million in the out-years to allow for any further uncertainties that may occur in the future.

Debt Service

Debt Service projections estimate payments of debt service on currently outstanding City and MAC debt and future City issuances in accordance with the financing program for 2002-2006. Actual debt service payments in these years will be affected by the timing of such issuances as well as market conditions. Projections of debt service on debt to be issued are based on estimates of the periods of probable usefulness of the expenditures to be financed for the City.

City debt service payments also include payments to MAC for amortization and interest on City obligations held by MAC. During 2002-2006 the City estimates that payments to MAC will be $0 million, $505 million, $489 million, $490 million, and $490 million respectively. To the extent that City debt service payments to MAC are from revenues derived from the real property tax, payments to MAC have the effect of reducing MAC's funding requirements from certain State revenues otherwise available to the City.

A Budget Stabilization account has been established in 2002 for the prepayment of future years' debt service costs. Funding of $260 million has been provided in 2002 for this purpose.

The details of the program are provided in the Capital and Financing Section. The baseline debt service estimates, are as follows:

($ in millions)

	Long Term	*Short Term*	*Lease Purchase*	*Budget Stabilization*	*Total City*	*MAC*	*Total City and MAC*
2002	$561	$14	$113	$260	$948	$0	$948
2003	2,301	52	199	0	2,552	505	3,057
2004	2,914	74	221	0	3,209	489	3,698
2005	3,050	75	260	0	3,385	490	3,875
2006	3,235	75	339	0	3,649	490	4,139

Five Year Financial Plan Revenues and Expenditures
($ in millions)

REVENUES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Taxes					
General Property Tax	$ 8,526	$ 8,861	$ 9,290	$ 9,689	$ 10,105
Other Taxes	12,960	13,157	13,920	14,617	15,521
Tax Audit Revenue	462	427	427	427	427
Miscellaneous Revenues	4,174	4,225	4,392	4,087	3,863
Unrestricted Intergovernmental Aid	661	575	555	555	555
Other Categorical Grants	681	372	358	364	370
Less: Intra-City Revenue	(1,323)	(1,344)	(1,333)	(1,333)	(1,333)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 26,126	$ 26,258	$ 27,594	$ 28,391	$ 29,493
Inter-Fund Revenues	322	318	316	316	316
Total City Funds & Inter-Fund Revenues	$ 26,448	$ 26,576	$ 27,910	$ 28,707	$ 29,809
Federal Categorical Grants	6,234	4,146	4,048	4,050	4,052
State Categorical Grants	8,065	7,978	8,081	8,165	8,194
Total Revenues	$ 40,747	$ 38,700	$ 40,039	$ 40,922	$ 42,055
EXPENDITURES					
Personal Service	$ 22,958	$ 23,275	$ 23,887	$ 24,638	$ 25,390
Other Than Personal Service	19,350	18,278	18,620	18,898	19,224
Subtotal: Personal Service & Other Than Personal Service	42,308	41,553	42,507	43,536	44,614
Debt Service	688	2,552	3,209	3,385	3,649
Budget Stabilization	260	-	-	-	-
MAC Debt Service	-	505	489	490	490
General Reserve	100	200	200	200	200
	$ 43,356	$ 44,810	$ 46,405	$ 47,611	$ 48,953
Less: Intra-City Expenses	(1,323)	(1,344)	(1,333)	(1,333)	(1,333)
Total Expenditures	$ 42,033	$ 43,466	$ 45,072	$ 46,278	$ 47,620
Gap To Be Closed	$ (1,286)	$ (4,766)	$ (5,033)	$ (5,356)	$ (5,565)
Gap Closing Program	$ 1,286	$ 4,766	$ 2,459	$ 2,430	$ 2,453
Remaining Gap To Be Closed	$ -	$ -	$ (2,574)	$ (2,926)	$ (3,112)

NEW YORK CITY
Five Year Expenditure Analysis
After PEG Implementation
(All Funds - $ in million)

Uniformed Forces	2002	2003	2004	2005	2006
Police	$3,705	$3,289	$3,347	$3,339	$3,337
Fire	1,199	1,067	1,064	1,063	1,062
Correction	902	931	938	940	936
Sanitation	1,089	978	1,006	1,031	1,031
Health and Welfare					
Social Services	5,766	5,760	5,932	6,055	6,175
Children Services	2,321	2,337	2,353	2,353	2,353
Homeless Services	549	557	587	596	596
Health	1,002	1,492	1,528	1,574	1,601
Mental Health	654	—	—	—	—
Other Mayoral					
Housing Preservation & Development	463	324	323	327	328
Environmental Protection	702	683	680	679	679
Finance	193	185	186	188	188
Transportation	535	481	481	482	482
Parks and Recreation	239	189	202	202	202
Citywide Administrative Services	688	697	704	703	702
All Other Mayoral	2,626	1,608	1,619	1,617	1,620
Covered Organizations					
Board of Education	11,703	11,677	11,808	11,943	12,082
City University	474	440	440	440	440
Health and Hospitals Corporation	917	920	935	953	971
Other					
Miscellaneous Budget	3,938	4,290	4,515	4,867	5,143
Citywide Pension Contributions	1,620	2,006	2,280	2,585	3,038
Debt Service	948	2,552	3,209	3,385	3,649
M.A.C. Debt Service	—	255	489	490	490
Fringe Benefit Cost Containments	—	(500)	(525)	(550)	(575)
Early Retirement / Severance	—	(100)	(100)	(100)	(100)
Prior Payable Adjustment	(210)	—	—	—	—
State and Federal Actions	—	—	—	—	—
General Reserve	100	200	200	200	200
Energy Adjustment	(19)	(21)	(18)	(11)	(11)
Lease Adjustment	—	17	34	50	65
OTPS Inflation Adjustment	—	—	31	61	92
ELECTED OFFICIALS					
Mayoralty	124	79	79	79	79
All Other Elected	388	343	343	343	343
Total Including Intra-City	**$42,616**	**$42,736**	**$44,670**	**$45,884**	**$47,198**
Less Intra-City	1,320	1,338	1,333	1,333	1,333
Total Excluding Intra-City	**$41,296**	**$41,398**	**$43,337**	**$44,551**	**$45,865**

NEW YORK CITY
Five Year Expenditure Analysis
After PEG Implementation

(City and Other Categorical Funds - $ in million)

Uniformed Forces	2002	2003	2004	2005	2006
Police	$3,306	$3,133	$3,207	$3,202	$3,199
Fire	1,095	1,066	1,062	1,061	1,060
Correction	837	863	871	872	869
Sanitation	974	942	977	1,001	1,001
Health and Welfare					
Social Services	3,803	3,938	4,195	4,314	4,434
Children Services	628	642	677	677	677
Homeless Services	258	269	294	298	298
Health	584	682	709	746	765
Mental Health	86	—	—	—	—
Other Mayoral					
Housing Preservation & Development	72	60	59	62	63
Environmental Protection	656	645	642	642	642
Finance	187	181	181	184	184
Transportation	277	287	292	292	293
Parks and Recreation	172	151	164	164	164
Citywide Administrative Services	198	211	219	218	217
All Other Mayoral	1,184	1,128	1,147	1,149	1,148
Covered Organizations					
Board of Education	4,906	4,854	4,908	4,976	5,090
City University	274	267	267	267	267
Health and Hospitals Corporation	832	848	863	881	899
Other					
Miscellaneous Budget	3,661	4,075	4,301	4,654	4,930
Citywide Pension Contributions	1,463	1,870	2,143	2,447	2,900
Debt Service	934	2,533	3,190	3,366	3,638
M.A.C. Debt Service	—	255	489	490	490
Fringe Benefit Cost Containments	—	(500)	(525)	(550)	(575)
Early Retirement / Severance	—	(100)	(100)	(100)	(100)
Prior Payable Adjustment	(210)	—	—	—	—
State and Federal Actions	—	(800)	(500)	(500)	(500)
General Reserve	100	200	200	200	200
Energy Adjustment	(19)	(21)	(18)	(11)	(11)
Lease Adjustment	—	17	24	35	47
OTPS Inflation Adjustment	—	—	30	60	90
Elected Officials					
Mayoralty	66	67	67	67	67
All Other Elected	356	323	323	323	323
TOTAL	**$26,680**	**$28,086**	**$30,358**	**$31,487**	**$32,769**

PEG Program

(City Funds- $ in 000's)

	Fiscal Year 2002			Fiscal Year 2003			Fiscal Year 2004		
	Expense	Revenue	Total	Expense	Revenue	Total	Expense	Revenue	Total
UNIFORMED FORCES									
Police	($79,056)	($208,611)	($287,667)	($102,736)	($86,057)	($188,793)	($77,239)	($66,349)	($143,588)
Fire	(38,388)	(52,846)	(91,234)	(40,637)	(1,402)	(42,039)	(47,396)	(1,402)	(48,798)
Sanitation	(52,600)	(31,468)	(84,068)	(112,106)	(7,207)	(119,313)	(77,771)	(2,550)	(80,321)
Correction	(66,739)	(1,500)	(68,239)	(77,025)	(1,000)	(78,025)	(68,394)	(1,000)	(69,394)
HEALTH AND WELFARE									
Social Services	(12,814)	(1,006)	(13,820)	(69,139)	—	(69,139)	(34,487)	—	(34,487)
Admin. for Children's Services	(125,523)	—	(125,523)	(125,701)	(1,828)	(127,529)	(96,911)	(1,828)	(98,739)
Homeless Services	(13,815)	—	(13,815)	(30,094)	—	(30,094)	(26,935)	—	(26,935)
Public Health	(24,375)	(26,066)	(50,441)	(56,987)	—	(56,987)	(55,237)	—	(55,237)
Aging	(12,300)	—	(12,300)	(26,088)	—	(26,088)	(26,088)	—	(26,088)
Youth & Community Dev.	(5,184)	—	(5,184)	(16,548)	—	(16,548)	(16,548)	—	(16,548)
OTHER MAYORAL									
Housing Preservation & Dev.	(5,506)	(20,951)	(26,457)	(9,445)	(1,000)	(10,445)	(9,445)	—	(9,445)
Finance	(19,719)	(9,213)	(28,932)	(14,350)	(2,800)	(17,150)	(9,385)	(2,800)	(12,185)
Transportation	(41,774)	(9,051)	(50,825)	(11,596)	(11,490)	(23,086)	(6,331)	(13,163)	(19,494)
Parks & Recreation	(2,844)	(6,369)	(9,213)	(19,803)	(2,150)	(21,953)	(6,907)	(3,150)	(10,057)
Citywide Admin. Services	(9,685)	(33,610)	(43,295)	(7,281)	(9,700)	(16,981)	(4,145)	(3,500)	(7,645)
Libraries	(8,139)	—	(8,139)	(39,318)	—	(39,318)	(39,318)	—	(39,318)
Cultural Affairs	(9,667)	—	(9,667)	(19,128)	—	(19,128)	(19,128)	—	(19,128)
All Other Agencies	(132,762)	(98,517)	(231,279)	(142,904)	(62,704)	(205,608)	(155,663)	(57,552)	(213,215)
COVERED ORGANIZATIONS									
Board of Education	(92,667)	(7,451)	(100,118)	(354,219)	(4,050)	(358,269)	(355,789)	—	(355,789)
HHC	(7,154)	—	(7,154)	(9,212)	—	(9,212)	(7,836)	—	(7,836)
CUNY	(4,792)	(13,556)	(18,348)	(12,887)	—	(12,887)	(12,887)	—	(12,887)
OTHER									
M.A.C. Debt Service	—	—	—	(250,000)	—	(250,000)	—	—	—
Procurement Savings	—	—	—	(27,127)	—	(27,127)	(27,127)	—	(27,127)
Sale of Tax Benefits	—	—	—	—	(100,000)	(100,000)	—	—	—
Subtotal Agency Programs	**($765,503)**	**($520,215)**	**($1,285,718)**	**($1,574,331)**	**($291,388)**	**($1,865,719)**	**($1,180,967)**	**($153,294)**	**($1,334,261)**
CITYWIDE INITIATIVES									
Early Retirement/ Severance	—	—	—	(100,000)	—	(100,000)	(100,000)	—	(100,000)
Fringe Ben. Cost Containment	—	—	—	(500,000)	—	(500,000)	(525,000)	—	(525,000)
TFA Fin. Req'd by 9/11 Events	—	—	—	—	(1,500,000)	(1,500,000)	—	—	—
State & Federal Actions	—	—	—	(800,000)	—	(800,000)	(500,000)	—	(500,000)
GRAND TOTAL	**($765,503)**	**($520,215)**	**($1,285,718)**	**($2,974,331)**	**($1,791,388)**	**($4,765,719)**	**($2,305,967)**	**($153,294)**	**($2,459,261)**

Technical Note: *PEG Program includes initiatives from the December 4, 2001, December 31, 2001 and the February 13, 2002 Financial Plans.*

PEG Program

(City Funds- $ in 000's)

	Fiscal Year 2005			Fiscal Year 2006		
	Expense	Revenue	Total	Expense	Revenue	Total
UNIFORMED FORCES						
Police	($79,189)	($66,349)	($145,538)	($81,729)	($66,349)	($148,078)
Fire	(48,033)	(1,402)	(49,435)	(49,062)	(1,402)	(50,464)
Sanitation	(50,833)	(2,550)	(53,383)	(50,833)	(2,550)	(53,383)
Correction	(64,194)	(1,000)	(65,194)	(64,194)	(1,000)	(65,194)
HEALTH AND WELFARE						
Social Services	(34,487)	—	(34,487)	(34,487)	—	(34,487)
Admin. for Children's Services	(96,911)	(1,828)	(98,739)	(96,911)	(1,828)	(98,739)
Homeless Services	(26,561)	—	(26,561)	(26,629)	—	(26,629)
Public Health	(55,237)	—	(55,237)	(55,237)	—	(55,237)
Aging	(26,088)	—	(26,088)	(26,088)	—	(26,088)
Youth & Community Dev.	(16,548)	—	(16,548)	(16,548)	—	(16,548)
OTHER MAYORAL						
Housing Preservation & Dev.	(9,445)	—	(9,445)	(9,445)	—	(9,445)
Finance	(9,385)	(2,800)	(12,185)	(9,385)	(2,800)	(12,185)
Transportation	(6,192)	(13,942)	(20,134)	(5,817)	(15,710)	(21,527)
Parks & Recreation	(6,907)	(4,150)	(11,057)	(6,907)	(150)	(7,057)
Citywide Admin. Services	(4,145)	(3,500)	(7,645)	(4,145)	(3,500)	(7,645)
Libraries	(39,318)	—	(39,318)	(39,318)	—	(39,318)
Cultural Affairs	(19,128)	—	(19,128)	(19,128)	—	(19,128)
All Other Agencies	(151,612)	(34,593)	(186,205)	(150,432)	(32,452)	(182,884)
COVERED ORGANIZATIONS						
Board of Education	(355,789)	—	(355,789)	(355,789)	—	(355,789)
HHC	(7,836)	—	(7,836)	(7,836)	—	(7,836)
CUNY	(12,887)	—	(12,887)	(12,887)	—	(12,887)
OTHER						
M.A.C. Debt Service	—	—	—	—	—	—
Procurement Savings	(27,127)	—	(27,127)	(27,127)	—	(27,127)
Sale of Tax Benefits	—	—	—	—	—	—
Subtotal Agency Programs	**($1,147,852)**	**($132,114)**	**($1,279,966)**	**($1,149,934)**	**($127,741)**	**($1,277,675)**
CITYWIDE INITIATIVES						
Early Retirement/ Severance	(100,000)	—	(100,000)	(100,000)	—	(100,000)
Fringe Ben. Cost Containment	(550,000)	—	(550,000)	(575,000)	—	(575,000)
TFA Fin. Req'd by 9/11 Events	—	—	—	—	—	—
State & Federal Actions	(500,000)	—	(500,000)	(500,000)	—	(500,000)
GRAND TOTAL	**($2,297,852)**	**($132,114)**	**($2,429,966)**	**($2,324,934)**	**($127,741)**	**($2,452,675)**

Technical Note: ***PEG Program includes initiatives from the December 4, 2001, December 31, 2001 and the February 13, 2002 Financial Plans.***

Revenue Detail

($ in million)

Taxes:	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
• Real Property	$8,536	$8,861	$9,290	$9,689	$10,105
• Personal Income Tax	4,412	4,424	4,668	4,912	5,261
• General Corporation Tax	1,408	1,420	1,534	1,639	1,756
• Banking Corporation Tax	313	343	410	435	461
• Unincorporated Business Tax	803	833	883	935	993
• Sale and Use	3,378	3,506	3,665	3,817	4,003
• Commercial Rent	367	371	384	402	424
• Real Property Transfer	404	404	432	467	506
• Mortgage Recording Tax	401	366	376	403	433
• Utility	271	280	282	285	294
• All Other	576	567	594	613	632
• Tax Audit Revenue	462	427	427	427	427
• State Tax Relief Program	632	645	694	711	760
Total Taxes	**$21,963**	**$22,447**	**$23,639**	**$24,735**	**$26,055**

Miscellaneous Revenue:					
• Licenses, Franchises, Etc.	$329	$338	$337	$338	$333
• Interest Income	81	73	118	124	126
• Charges for Services	417	421	420	421	422
• Water and Sewer Charges	866	841	858	879	897
• Rental Income	104	266	406	367	122
• Fines and Forfeitures	451	489	486	485	485
• Miscellaneous	938	710	561	272	271
• Intra-City Revenue	1,320	1,338	1,333	1,333	1,333
Total Miscellaneous	**$4,506**	**$4,476**	**$4,519**	**$4,219**	**$3,989**

Revenue Detail

($ in million)

Unrestricted Intergovernmental Aid:	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
• N.Y. State Per Capita Aid	$327	$327	$327	$327	$327
• Other Federal and State Aid	505	280	253	228	228
Total Unrestricted Intergovernmental Aid	**$832**	**$607**	**$580**	**$555**	**$555**
Transitional Finance Authority 9/11	—	**1,500**	—	—	—
Other Categorical Grants	**714**	**409**	**394**	**400**	**406**
Inter Fund Agreements	**323**	**323**	**317**	**317**	**317**
Reserve for Disallowances against Categorical Grants	**(15)**	**(15)**	**(15)**	**(15)**	**(15)**
Less: Intra City Revenue	**(1,320)**	**(1,338)**	**(1,333)**	**(1,333)**	**(1,333)**
TOTAL CITY FUNDS	**$27,003**	**$28,409**	**$28,101**	**$28,878**	**$29,974**
Federal Categorical Grants:					
• Community Development	$357	$266	$266	$265	$265
• Welfare	2,460	2,317	2,222	2,225	2,225
• Education	1,192	1,237	1,237	1,237	1,237
• Other	2,255	786	618	618	620
Total Federal Grants	**$6,264**	**$4,606**	**$4,343**	**$4,345**	**$4,347**
State Categorical Grants					
• Welfare	$1,512	$1,569	$1,566	$1,572	$1,572
• Education	5,593	5,577	5,653	5,720	5,745
• Higher Education	161	164	164	164	164
• Health and Mental Health	436	387	402	410	419
• Other	327	686	534	536	532
Total State Grants	**$8,029**	**$8,383**	**$8,319**	**$8,402**	**$8,432**
TOTAL REVENUE	**$41,296**	**$41,398**	**$40,763**	**$41,625**	**$42,753**

FULL-TIME HEADCOUNT
(Total Funds)

	Dec. 2001 Actual	June 2003 Feb. Plan	Inc/(Dec)
Uniformed Forces			
Police Department - Civilian	9,268	9,160	(108)
Police Department - Uniform [1]	39,297	36,878	(2,419)
Fire Department - Civilian	4,418	4,472	54
Fire Department - Uniform	11,120	11,156	36
Department of Correction - Civilian	1,563	1,820	257
Department of Correction - Uniform	10,617	10,671	54
Sanitation Department - Civilian	2,216	2,099	(117)
Sanitation Department - Uniform	7,957	7,468	(489)
Health and Welfare			
Social Services	12,409	12,826	417
Child Services	7,306	7,613	307
Homeless Services	1,531	1,570	39
Public Health	3,123	3,395	272
Other Agencies			
HPD	2,365	2,706	341
Environmental Protection	5,369	6,064	695
Finance	2,033	2,122	89
Transportation	3,967	3,994	27
Parks	1,907	1,958	51
Citywide Admin. Services	1,549	1,746	197
All Other	15,931	16,109	178
Covered Organizations			
Board of Education - Peds [2]	94,595	94,595	-
Board of Education - Non-Peds [2]	8,118	8,118	-
C.U.N.Y - Peds	2,263	2,302	39
C.U.N.Y - Non-Peds	1,567	1,385	(182)
Total	**250,489**	**250,227**	**(262)**

[1] Police Department uniform headcount will be at 39,110 with the swearing-in of attrition replacement recruit classes July 1, 2002 and each July 1 thereafter.

[2] Forecast as of June 2003 reflects the Dec. 2001 Actual. Final forecast to be determined by the Board of Education.

FULL-TIME HEADCOUNT
(City and Other Categorical Funds)

	Dec. 2001 Actual	June 2003 Feb. Plan	Inc / (Dec)
Uniformed Forces			
Police Department - Civilian	8,655	9,086	431
Police Department - Uniform [1]	39,297	36,878	(2,419)
Fire Department - Civilian	4,414	4,467	53
Fire Department - Uniform	11,113	11,148	35
Department of Correction - Civilian	1,448	1,705	257
Department of Correction - Uniform	9,874	9,928	54
Sanitation Department - Civilian	2,004	1,801	(203)
Sanitation Department - Uniform	7,810	7,306	(504)
Health and Welfare			
Social Services	9,128	9,731	603
Child Services	7,263	7,451	188
Homeless Services	1,522	1,567	45
Public Health	2,198	2,494	296
Other Agencies			
HPD	536	580	44
Environmental Protection	270	301	31
Finance	2,033	2,110	77
Transportation	2,149	2,065	(84)
Parks	1,662	1,612	(50)
Citywide Admin. Services	970	1,093	123
All Other	12,330	12,626	296
Covered Organizations			
Board of Education - Peds [2]	77,568	77,568	-
Board of Education - Non-Peds [2]	6,088	6,088	-
C.U.N.Y - Peds	2,263	2,302	39
C.U.N.Y - Non-Peds	1,566	1,385	(181)
Total	**212,161**	**211,292**	**(869)**

[1] Police Department uniform headcount will be at 39,110 with the swearing-in of attrition replacement recruit classes July 1, 2002 and each July 1 thereafter.

[2] Forecast as of June 2003 reflects the Dec. 2001 Actual. Final forecast to be determined by the Board of Education.