The City of New York
Executive Budget
Fiscal Year 2004

Michael R. Bloomberg, Mayor

Office of Management and Budget
Mark Page, Director

Message of the Mayor

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

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

My fellow New Yorkers,

During the past 16 months we have accomplished much together. Crime rates continue to fall thanks to the efforts of the New York Police Department, and, despite recent economic difficulties, welfare rolls have persisted in their historic decline. Our streets remain clean, our parks well maintained, and the Department of Sanitation continues to manage the disposal of almost 13,000 tons of waste each day. Perhaps most importantly, we have begun to restore standards of achievement and accountability to the education of our children through Mayoral control of the public school system. We have a lot to be proud of.

The challenges we face today, and the solutions we find, will define our City for generations to come. By State law, New York City must balance its own budget. I am determined to do so in a sustainable fashion - we must not pass the burden of spending today on to our children, and we must not surrender our destiny to a Financial Control Board. Times are tough, and we must find ways to stretch what resources we have. We must ensure that we remember the lessons of the past - New York City must not be permitted to deteriorate as it did in the late 1970s. Seeking our fair share of State and Federal resources to preserve New York City's status as the greatest city in the world is not only the necessary thing to do, it is the right thing to do.

The ongoing national economic downturn, compounded by the fight against terrorism, and, most recently, by reduced international travel stemming from the emergence of SARS, continues to wreak havoc on our economy. Although we know there will be a recovery, the reality we must face is that of a persistent slump in the economic outlook for the foreseeable future. In 2002, the City lost 117,000 jobs, and the unemployment rate in the City is currently 8.8% - the highest level in four years. Securities firms are still shedding jobs, down almost 40,000 since 2000. War concerns have hit the City's tourism industry hard, with hotel occupancy falling to levels seen in the aftermath of September 11th. These same trends extend to other sectors and industries as well. When compared to past forecasts cited in the Preliminary Budget, current tax forecasts project an additional $371 million reduction in expected tax revenue for the remainder of Fiscal Year 2003 and for Fiscal Year 2004; the cumulative reduction in forecast City non-property tax revenue for Fiscal Year 2004 is now $1.6 billion lower than was forecast last June.

The January 2003 Preliminary Budget projected a $2.9 billion gap between forecast revenues and expenditures for Fiscal Year 2004. Primarily as a result of the continued decline in the tax revenue forecast and added costs arising from the State's Executive Budget (published after my Preliminary Budget), the budget gap is now of greater magnitude. Despite reductions in spending, additional gap-closing actions totaling $2.6 billion[1], and the enactment by the City Council of a much-needed 18.5% increase in the property tax to raise revenue, we face a gap of approximately $3.8 billion for Fiscal Year 2004.

This Executive Budget details City gap-closing actions currently being implemented, totaling over $600 million for Fiscal Year 2004. Since the City's labor force representatives have made no concrete productivity commitments to mitigate these necessary reductions, regrettably, substantial layoffs are unavoidable. It is now too late for any labor productivity to forestall some part of the current $600 million gap-closing program. Instead, future productivity savings, if realized, will be necessary to avoid additional and even more damaging cuts to the City's workforce.

New York City's substantial need for tax equity and a fair share of State resources remains unaddressed. In fact, faced with its own unresolved budget needs for its fiscal year, which began on April 1, 2003, the State has yet to address our needs, or those of other localities. Nevertheless, taking into consideration the aforementioned added costs to the City proposed in the State's Executive Budget, this plan to balance the budget relies on State actions totaling $2.7 billion.

Responsible financial management dictates that we include in this Executive Budget a further Contingency Plan with an additional $1 billion in gap-closing actions. Implementation of this Contingency Plan will have a devastating impact on services, and will require 10,000 more layoffs of City personnel. However, if the State fails to act responsibly on our tax equity and aid proposals, the City will implement these actions in order to comply with the law requiring a balanced City budget.

No one can say the City has not taken action on its own to address its budget imbalance. Over the past sixteen months, we have detailed $3.2 billion in gap closing actions for Fiscal Year 2004, and have increased the property tax, the only locally controlled tax, by 18.5%. The City-funded workforce has been reduced by almost 14,000, while making every effort to avoid substantial layoffs and to preserve City services. Unfortunately, the additional $600 million gap-closing program included in the Executive Budget necessitates decreasing costs through additional workforce reductions, requiring a projected 4,500 layoffs of City employees, and some diminution in services provided to New Yorkers.

- In the Fire Department, layoffs of 75 full-time and 119 part-time civilian positions will occur. The Fire Marshal Program will be reduced by 25% to 100 Marshals.
- The Administration for Children's Services will close 4 congregate care facilities and eliminate 528 positions agency-wide.

1) *The cumulative value of the Agency Programs to Reduce the Budget Gap from January 1, 2002 to January 31, 2003 is $2.6 billion.*

- The Department of Health and Mental Hygiene will close 12 of 30 Child Health Clinics, and will terminate 165 employees in the School Health Program, ending the Hepatitis B Immunization Initiative.
- The Department for the Aging will eliminate take-home weekend meals for 7,500 senior citizens.
- The Department of Transportation will reduce service on the Staten Island Ferry from 4 to 3 boats per hour during rush hour.
- The Department of Education will eliminate 864 paraprofessional positions and 767 school aides.
- The Department of Parks and Recreation will eliminate subsidies to the Wildlife Conservation Society for Prospect Park Zoo, and the Queens Wildlife Center, and will not hire approximately 1,155 part-time seasonal parks and playground workers.

In addition to the $600 million gap closing program detailed above, we will streamline the delivery of social services through structural reorganization, generating $75 million in savings.

If the $1 billion contingency plan is implemented, the cumulative reduction in the City workforce will exceed 28,000 - this will require another 10,000 layoffs, and will do damage to every vital City service.

- In the Police Department, the July 2003 cadet class will be eliminated, reducing peak headcount to its lowest levels since Fiscal Year 1993. There will also be a 35% reduction in trade titles, administrative and clerical positions, resulting in over 1,700 layoffs.
- The Department of Corrections will lay off 1,300 uniform positions and 110 civilians, impairing their ability to meet mandated standards, assure security and respond to violence.
- The Department of Sanitation will lay off 846 uniform employees and 211 civilian employees, severely impacting core collection, recycling, snow removal and street cleanliness functions.
- The Department of Social Services will eliminate City-funded HIV/AIDS case management and the Emergency Food Assistance Program.
- The Department of Parks & Recreation will lay off 194 workers and close all 31 outdoor pools and all 21 City-funded recreation centers, which together have approximately 3 million visitors annually. The Department will also lay off 538 full-time employees - 20% of the remaining workforce - resulting in a significant decline in park cleanliness.
- The Department of Education will eliminate all after school educational programs.
- The Department of Homeless Services will lay off an additional 109 employees who currently provide cleaning services in City-operated shelters. Also, outreach to the homeless on City streets would virtually end.

Hoping to avoid this draconian Contingency Plan, we request from the State the taxing authority of $1.4 billion for the restructuring of the City's personal income tax. This will not only bring in much needed revenue, but will enable us to spread the tax burden equitably to include both non-residents who work in New York City and those of us who live here. We need $252 million in gap-closing actions by the State, and have provided a list of over $800 million in actions, which would cost the State nothing. The Governor's proposed budget reduces the City's baseline education aid by almost $478 million and does not fund the continuing annual cost of $275 million for the extended school day, a program instituted last year with the help of State funds. In this Executive Budget, the City has allocated its share of local funding to maintain its support of education, a requirement rightly established by the State when it granted the Mayor the power and responsibility to improve education in this City last year. If City schools are to be given a chance to meet the ambitious goals of their new management, continued baseline education aid from the State is vital. These funding cuts must be restored.

This economic climate forces all of us to make do with less, and New York City government is no different. This Executive Budget lays out a plan that will stretch our resources, and increase revenues to maintain basic services, with the goal of upholding, and improving, our accomplishments to date. However, without the support of other levels of government, our immediate prospects are disheartening. The quality of life, and the overall attractiveness of this great City as a place to live, work and do business, will be harmed.

No problem is intractable if we focus on our common goals. To that end, I pledge to work with all levels of government to find a resolution. Time after time, New Yorkers have shown that, by working together, we can overcome any obstacle. Now, we will prove our strength once more.

Very truly yours,

Michael R. Bloomberg
Mayor

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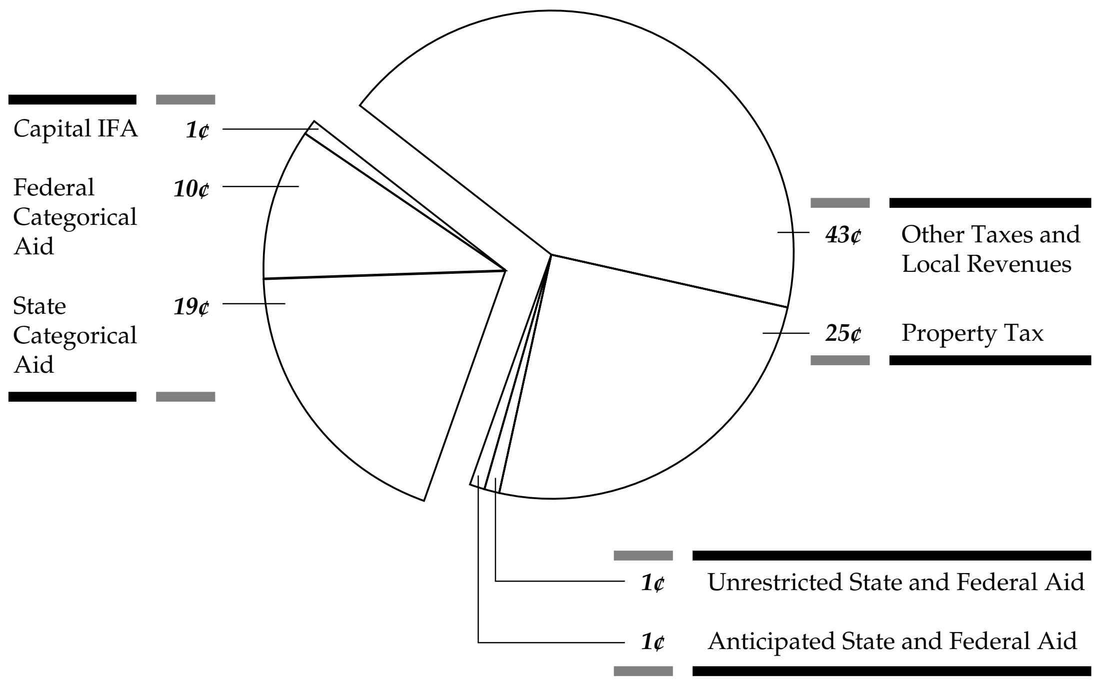
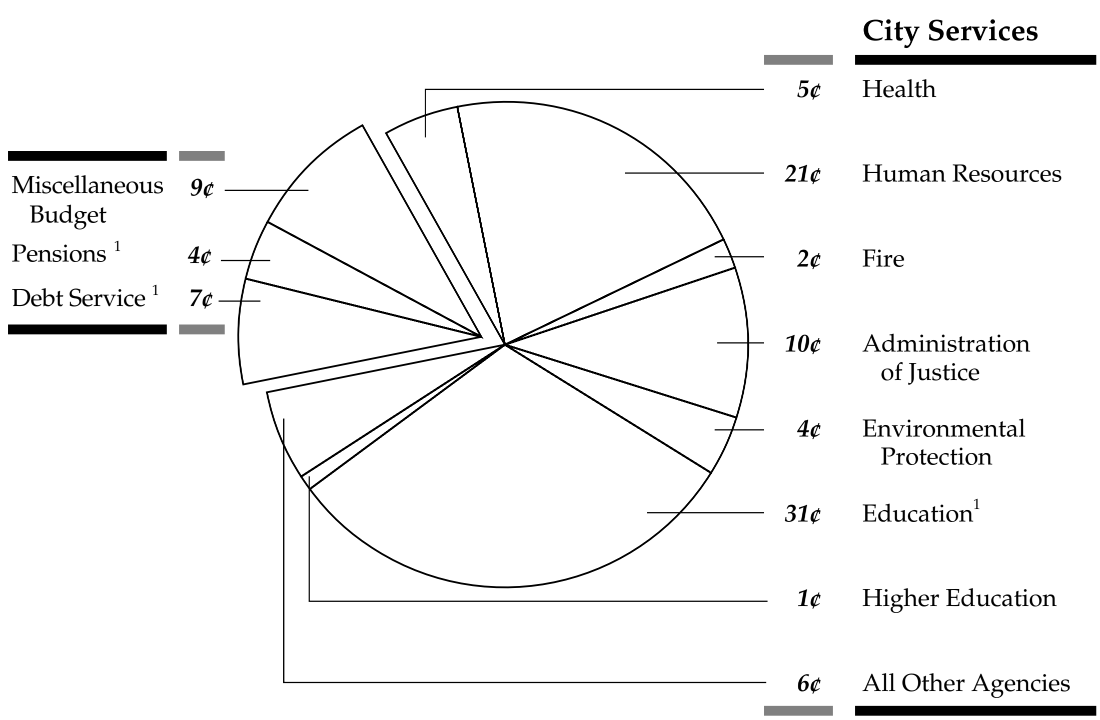
Note: A summary of agency expenditure reductions since January 2002 and details of the $1 Billion Contingency Program are detailed in a separate document – Summary of Reduction Programs.

Budget and Financial Plan Summary

Where the 2004 Dollar Comes From



Where the 2004 Dollar Goes To



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

REVIEW OF REVENUE AND EXPENSE BUDGETS

The 2004 Executive Budget is $44.5 billion, an increase of $ 0.9 billion from the forecasted results for 2003. This is the twenty-fourth consecutive budget which is balanced under generally accepted accounting principles.

For fiscal year 2003 an operating surplus of $1,023 million is projected, which provides for prepayments of $238 million of Covered Organization subsidies and lease debt service and delayed receipt of revenues from the Transitional Finance Authority and TSASC of $775 million. The 2003 forecast also provides for a general reserve of $40 million to offset any adverse changes, which may surface during the remainder of the fiscal year or during the audit of the operating results. The 2004 budget provides for a general reserve of $300 million, which is $100 million more than was included in the 2003 Adopted Budget.

Financial Summary—1998-2004
($ in Millions)

	Fiscal Years Ending June 30						
	1998*	1999*	2000*	2001*	2002*	2003**	2004***
Revenues							
Taxes:							
General Property Tax	$7,239	$7,631	$7,850	$8,246	$8,648	$9,966	$11,176
Other Taxes	12,528	13,123	13,993	14,564	12,585	12,532	12,414
Tax Audit Revenues	458	536	416	401	485	502	525
Tax Program	—	—	—	—	—	—	1,400
Criminal Justice Fund	185	—	—	—	—	—	—
Miscellaneous Revenues	3,541	3,473	4,239	4,953	5,129	4,130	4,316
Transitional Finance Authority – 9/11	—	—	—	—	—	1,500	—
Unrestricted Intergovernmental Aid	621	652	631	634	666	1,404	555
Anticipated State & Federal Actions	—	—	—	—	—	—	600
Less: Intra-City Revenue	(705)	(780)	(1,150)	(1,330)	(1,390)	(1,119)	(1,075)
Disallowances	(15)	(39)	(5)	(46)	—	(15)	(15)
Discretionary Transfers	—	—	—	—	—	(775)	775
Sub-Total City Funds	$23,852	$24,596	$25,974	$27,422	$26,123	$28,125	$30,671
Other Categorical Grants	412	367	431	492	615	1,095	816
Inter-Fund Revenues	252	249	240	284	305	324	317
Total City & Inter-Fund Revenues	$24,516	$25,212	$26,645	$28,198	$27,043	$29,544	$31,804
Federal Categorical Grants	4,292	4,262	4,417	4,550	6,097	5,582	4,464
State Categorical Grants	6,372	6,639	7,062	7,768	8,030	8,509	8,255
Total Revenues	$35,180	$36,113	$38,124	$40,516	$41,170	$43,635	$44,523
Expenditures							
Personal Service	$17,642	$18,535	$19,178	$21,182	$22,756	$23,368	$23,611
Other Than Personal Service	14,393	14,469	16,165	17,405	18,409	19,000	18,145
Debt Service	1,460	1,269	739	310	704	1,884	3,259
MAC Debt Service Funding	304	—	—	—	5	214	531
Discretionary Transfers							
Debt Service	1,476	2,091	2,599	2,199	667	73	(73)
MAC Debt Service	468	386	451	458	—	—	—
Other	137	138	137	287	14	175	(175)
	2,081	2,615	3,187	2,944	681	248	(248)
General Reserve	—	—	—	—	—	40	300
	$35,880	$36,888	$39,269	$41,841	$42,555	$44,754	$45,598
Less: Intra-City Expenditures	(705)	(780)	(1,150)	(1,330)	(1,390)	(1,119)	(1,075)
Total Expenditures	$35,175	$36,108	$38,119	$40,511	$41,165	$43,635	$44,523
Surplus/(Deficit) GAAP Basis	$5	$5	$5	$5	$ 5	$ —	$ —

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

Summary of Financial Plan

The City's financial plan sets forth projected operations on a GAAP basis for the 2004 through 2007 fiscal years. In accordance with the City Charter a four-year financial plan is to be included in the Executive Budget submission. The financial plan will also be submitted to the Financial Control Board in accordance with the Financial Emergency Act. The assumptions, upon which the four-year plan revenue and expenditure estimates are based, are summarized in the Appendix section of this Mayor's Message.

Four-Year Financial Plan
($ in Millions)

	2004	2005	2006	2007
Revenues				
Taxes:				
General Property Tax	$11,176	$11,579	$12,002	$12,446
Other Taxes	12,414	13,136	13,967	14,837
Tax Audit Revenues	525	505	505	505
Tax Program	1,400	1,483	1,575	1,686
Miscellaneous Revenues	4,316	4,558	4,052	4,077
Unrestricted Intergovernmental Aid	555	555	555	555
Anticipated State & Federal Actions	600	1,050	1,250	1,250
Less: Intra-City Revenues	(1,075)	(1,072)	(1,070)	(1,070)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Discretionary Transfers	775	—	—	—
Sub-Total City Funds	$30,671	$31,779	$32,821	$34,271
Other Categorical Grants	816	739	759	774
Inter-Fund Revenues	317	310	310	310
Total City & Inter-Fund Revenues	$31,804	$32,828	$33,890	$35,355
Federal Categorical Grants	4,464	4,363	4,347	4,357
State Categorical Grants	8,255	8,346	8,409	8,481
Total Revenues	$44,523	$45,537	$46,646	$48,193
Expenditures				
Personal Service				
Salaries and Wages	$ 16,095	$16,099	$16,102	$16,106
Pensions	2,719	3,443	4,398	4,986
Fringe Benefits	4,797	5,057	5,354	5,651
Sub-Total – PS	$23,611	$24,599	$25,854	$26,743
Other Than Personal Service				
Medical Assistance	$4,238	$4,387	$4,531	$4,535
Public Assistance	2,092	2,099	2,101	2,103
All Other	11,815	11,972	12,184	12,393
Subtotal – OTPS	$18,145	$18,458	$18,816	$19,031
Debt Service	3,259	3,514	3,655	3,868
MAC Debt Service	531	490	492	494
General Reserve	300	300	300	300
Discretionary Transfers	(248)	—	—	—
	$45,598	$47,361	$49,117	$50,436
Less: Intra-City Expenses	(1,075)	(1,072)	(1,070)	(1,070)
Total Expenditures	$44,523	$46,289	$48,047	$49,366
Gap To Be Closed	**($—)**	**($752)**	**($1,401)**	**($1,173)**

The following table details changes to the revenue and expense forecasts for 2003 through 2006 since the 2003 budget adoption. A comparison of the gaps in this financial plan to the gaps that existed when the 2003 budget was adopted and the actions that have been taken to close those gaps are provided.

For fiscal year 2004, cumulative budget actions taken in the November and January financial plan updates and this Executive Budget have closed a budget gap of $6.4 billion. Included in these actions were City agency revenue and expense changes of $2.3 billion, $1.7 billion from an 18.49% increase in the property tax, $1.4 billion from personal income tax reform, $652 million of other initiatives requiring State and Federal actions, $200 million from the phased payment of Airport Settlement and $100 million from the sale of tax benefits.

FINANCIAL PLAN UPDATE

($ in Millions)

	2003	2004	2005	2006
FY 2003 Adopted Budget Surplus/(Gap) – Restated	**$—**	**$(3,729)**	**$(4,224)**	**$(4,590)**
Projected Revenue Changes				
Taxes	(873)	(1,659)	(1,818)	(1,863)
Sale of OTB	—	(250)	—	—
Other Non Tax Revenues	(210)	(391)	(329)	(60)
Total Projected Revenue Changes	$(1,083)	$(2,300)	$(2,147)	$(1,923)
Projected Expense Changes				
Pensions	101	(317)	(573)	(888)
Fringe Benefit Cost Containment	(223)	(296)	(291)	(412)
Allocation of Early Retirement	(50)	(100)	(100)	(100)
Medicaid	(28)	(74)	(76)	(77)
Judgments and Claims	(25)	(40)	(40)	(40)
Debt Service	205	(64)	(2)	(6)
Education	11	(91)	(42)	(43)
Other Agency Spending	(289)	(263)	(230)	(246)
Prior Payables	200	—	—	—
General Reserve	160	(100)	(100)	(100)
Total Expenditure Changes	$62	$(1,345)	$(1,454)	$(1,912)
Prepayments	(1,023)	1,023	—	—
Gap to Be Closed - Executive Budget	**$(2,044)**	**$(6,351)**	**$(7,825)**	**$(8,425)**
Gap Closing Program				
City Actions				
Agency Program	887	2,272	2,121	2,192
18.5% Mid-Year Property Tax Increase	837	1,727	1,800	1,875
Sale of Tax Benefits	(100)	100	—	—
Subtotal City Actions	**$1,624**	**$4,099**	**$3,921**	**$4,067**
State Actions				
PIT Reform	—	1,400	1,483	1,575
Regional Transportation Initiatives	—	200	600	800
Other State Actions	—	252	236	236
Subtotal State Actions	**$—**	**$1,852**	**$2,319**	**$2,611**
Federal Actions	420	200	250	250
Phased Payment of Airport Settlement	—	200	583	96
Subtotal	**$420**	**$400**	**$833**	**$346**
Total Gap Closing Program	**$2,044**	**$6,351**	**$7,073**	**$7,024**
Remaining (Gap)	**$—**	**$—**	**$(752)**	**$(1,401)**

Employment Levels

Over the last year staffing level reports have been enhanced to include the effect of part-time, seasonal and hourly spending. On a monthly basis the full-time headcount for City agencies and the full-time equivalent headcount associated with part-time, seasonal and hourly spending have been reported. A comparison of actual staffing for December 2001 and February 2003 compared to the June 2004 projected staffing levels based on the 2004 Executive Budget is provided in the following table.

In addition, the staffing levels of non-city employees paid in part by City subsidies are also being reported. For these agencies the December 2001 data reflects staffing as of February 2002.

	December 2001	February 2003	Executive Plan June 2004
City Employees			
City Funded Employees	264,105	250,282	244,678
Non-City Funded Employees	42,206	45,469	45,266
Total Employees	**306,311**	**295,751**	**289,944**
Covered Orgainzations and Non-City Employees Substantially Paid by City Subsidies			
Health and Hospitals Corporation	37,941	38,348	37,350
Housing Authority*	14,863	14,846	16,000
Libraries	4,428	4,201	3,738
Cultural Institutions	1,728	1,786	1,321
School Construction Authority	933	682	453
All Other	1,241	1,299	1,391
Sub-Total	61,134	61,162	60,253
Total – All Employees	**367,445**	**356,913**	**350,197**
Total – City Funded Employees	**310,376**	**296,598**	**288,931**

* Non-City funded employees

A more detailed presentation by agency is presented in Exhibits 5 and 5A.

STATE AND FEDERAL AGENDA

OVERVIEW

The State and Federal Agenda for 2004-2007 is designed to control the growth of costly mandated programs and produce savings for the City, and in many cases, the State government. In addition to the City's proposed reform of the personal income tax and regional transportation initiatives, the City is seeking from the State a full restoration of $478 million in education cuts and an additional $275 million to fund the ongoing costs of the new teachers' contract, $100 million to offset other State budget cuts and $252 million from other State initiatives to help close the City's budget gap. The State can choose from a menu of programs that total approximately $1.5 billion, of which $815 million have no additional cost to the State. This budget plan provides a menu of items which can help the City reach this target.

The City is also seeking $200 million of Federal initiatives to help close the budget gap. A menu of Federal gap closing initiatives totaling approximately $1.5 billion is provided to help meet this target.

STATE AGENDA

State Education Aid

Last year, the State made a commitment to the children of the City of New York by creating a new system of accountability and by providing additional resources to spare budget cuts to the classroom and fund the first year cost of a longer school day. Granting the Mayor direct control of the school system has provided the City with the unprecedented opportunity to rebuild a broken system. Through the Children First Initiative the City will provide students with the tools they need to succeed and give parents the ability to voice their opinions and concerns.

In order to ensure that no budget cuts affected the classroom during this current school year, and to help pay for the first year cost of extending the school day, the State gave the City an additional $200 million in incremental education aid and created a new mechanism to clear the City's books of all prior year aid claims. Providing access to the Municipal Bond Bank was a creative method to raise one-time revenues and fund the portion of the new teachers' contract associated with lengthening the school day, a cost of $275 million each year, funded in the first year by using the Municipal Bond Bank and other one-time revenue sources provided by the State.

This year's State Executive Budget proposes a Statewide reduction of $1.2 billion in education aid for School Year 2004, an overall reduction of 8.23 percent. As a result, State Education Aid to the City of New York will be reduced by $478 million, approximately 38 percent of the Statewide reduction. Included in this cut is a $152 million reduction in computerized operating aid and the elimination of the LADDER program. The elimination of the LADDER program will result in a reduction of $147 million for Universal Pre-Kindergarten, $89 million for class size reduction and $33 million for the minor maintenance program in the City of New York.

In order to maintain this commitment to educating our children, the City seeks $753 million, $478 in restored State education aid cuts and $275 million to fund the ongoing costs of the teachers' contract.

Restoration of Other State Budget Cuts

In addition to the State education cuts discussed above, this year's Governor's Budget also cuts hundreds of millions of dollars in other areas that will adversely impact the City's financial plan. The net cost of all of these other cuts to the City of New York is $100 million. Specifically in 2003 and 2004, the City of New York is significantly impacted by the proposed Medicaid Program Swap ($290 million), elimination of the Temporary Assistance for Needy Families Maintenance of Effort Settlements ($120 million), a reduction in the Social Services

Administration cap and other social services programs ($48 million), cuts in the Article VI Public Health Matching Program ($50 million) and by other Medicaid Cost Containment Measures which significantly impact the Health and Hospitals Corporation ($200 million). The City is requesting that the State restore these proposed cuts or provide the City with an additional $100 million to offset these proposals.

Gap Closing Initiatives – No Cost Proposals

Medicaid Cost Containment

Medicaid spending is one of the biggest components of New York City's budget, and costs continue to rise at a dramatic rate. In 2002, Medicaid expenditures amounted to $3.6 billion dollars (excluding Disaster Relief Medicaid). Costs are projected to increase to $3.8 billion in 2003 and grow to over $4 billion by 2004. The growth in Medicaid expenditures far outpaces the City's ability to raise revenue.

There are various ways to reduce the costs of the Medicaid program. A variety of options are available that will enable the State and City to continue their commitment to health care, but will also recognize the need to establish priorities and deploy new management tools to ensure that these priorities are met. In the current environment, local governments cannot be expected to continue to contribute funding without any real ability to ensure that all Medicaid recipients receive the highest quality of care and that continued investments reflect long-term priorities. A new Medicaid reform package should include options that establish priorities, while providing programmatically sound incentives to better manage the Medicaid program at the local level. The State should allocate reductions across the spectrum of the Medicaid system—appropriately targeting both recipients and providers. Comprehensive Medicaid reform will provide recurring savings at both the local and State government levels. It is imperative that the State and localities find ways to control the exploding costs of the Medicaid program. The City estimates savings of approximately $250 million with cost containment.

Establish an Early Intervention Pool (2.4 percent assessment)

The Early Intervention Program (EI) is a federally mandated program that provides coordinated and comprehensive services to children between the ages of 0 and 3 who either already have or are at risk of developmental delays. The goal of EI is to reduce the likelihood of serious developmental disability for the child in the future. While the Federal government requires that the State and City provide EI services, the Federal government does not share in the costs of the program, except for Medicaid-eligible children. New York City, like all the counties in the State, is experiencing a tremendous growth in utilization in the EI program, resulting in higher program costs. In 2002, the entire program cost approximately $345 million, however costs are expected to increase by 15 percent in 2003. In order to address the growing costs an assessment on inpatient hospital stays paid through insurance premiums (including Medicaid) could be used to create a State-wide EI pool of funds. This pool would be used by the State and localities to defray the cost of non-Medicaid EI services. An assessment of approximately 2.4 percent on inpatient hospital care would generate approximately $150 million in savings in EI for New York City, taking into account the offset of increasing Medicaid rates.

Tort Reform

New York City proposes that the State enact far reaching tort reform legislation. Tort liability costs have increased dramatically since the early 1990s. Each year the City pays out approximately $500 million in tort claims. This amount is almost three times the City's payout a decade ago. Due to the dramatic increase in the City's tort liability in recent years, the City is requesting that 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 Governor's 2003-04 Budget includes a number of items that are included in the City's tort reform package. Setting interest rates at the fifty-two week treasury bill rate and transferring jurisdiction to the Court of Claims for actions against the City and quasi-government entities will produce significant savings for New York City.

Debt Finance Reform/Refinance Community College Debt

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 also addresses bond reserves relating to the CUNY Community Colleges. It is anticipated that the passage of this type of debt reform will save the City $80 million in 2004.

Increase the Authorization for Taxi Medallions

The City proposes that the State grant the City the authority to issue 900 taxi medallions over the next three years in order to increase the number of taxis on the City's streets. There are currently 12,187 licensed taxi medallions. The last medallion sale was in 1997, when the City was authorized to sell 400 medallions. According to the Taxi and Limousine Commission, there is a taxi shortage, making it very difficult for residents, commuters and visitors to find one when necessary. Additionally, the sale of taxi medallions would bring in much needed revenue to the City. The issuance of 900 medallions would result in approximately $196 million in additional revenue over three years.

Property Tax Surcharge on Class One Absentee Landlords

Many landlords in New York City own small residential properties and rent them out in order to earn income. Some of these properties are one-, two- and three-family homes that are classified as Class 1 residential properties. These landlords do not reside at these properties and are, therefore, absentee owners who benefit from the Class 1 lower assessment rate, while other income-generating properties, such as rental apartments, are classified as Class 2 properties and are assessed at a higher rate. Since these absentee owners use these homes as investment properties and do not primarily reside in them, they do not contribute toward their fair share in real estate taxes. Out of approximately 652,400 Class 1 homes an estimated 75,000 may not be owner occupied. A surcharge levied on the taxes paid by these Class 1 owners would yield an additional $44 million in revenue in 2004.

Department of Finance Enforcement Initiatives

The following proposals address a number of problems the City has faced regarding the collection of back taxes and the expansion of loopholes that exist within a variety of taxes. The enactment of these proposals will provide the City a total of $39 million in additional revenue in 2004 and $22.8 million each year thereafter.

Amnesty Program for Business Taxes: The City recommends an Amnesty Program for outstanding business tax collectibles in which debtors would be allowed to pay all outstanding liability with no more than three years of outstanding interest. It is estimated that $20 million in additional revenue would be realized with this form of tax amnesty.

Real Property Transfer Tax Administrative Expense Reimbursement: The City proposes an increase in the reimbursement for administrative expenses related to the Real Property Transfer Tax for the State and the Transit Authority. It is anticipated that this increase will produce an additional $2 million in revenue each year.

Close the Real Property Transfer Tax (RPTT), Mortgage Recording Tax (MRT) and REIT (Real Estate Investment Trusts) Taxation Loopholes: An RPTT loophole allows taxpayers to transfer a controlling economic interest in an entity that has assets other than real property without adequately accounting for the value of the real property. The City recommends change that will accurately value the underlying real property. The MRT currently has a loophole that provides an exemption from taxation for certain supplemental mortgages. The City recommends that this loophole be closed so that taxpayers will not be able to manipulate these supplemental mortgage transactions and avoid MRT liability. Finally, it is proposed that the City mirror the Federal tax treatment of REITs. Currently, the City, as well as the State, allow a dividend received deduction for purposes of the Corporate and Bank Taxes on REIT distributions to shareholders. The Federal government has already eliminated this deduction, since REITs already are allowed a deduction for amounts distributed as dividends to their shareholders. The City is requesting that the treatment of REIT dividends for City tax purposes conform to the treatment of REIT dividends for Federal income tax purposes. It is estimated that these changes in tax treatment will provide the City with approximately $14 million in revenue annually.

Interest Rate on Tax Underpayment: This City proposes that the interest rate imposed on underpayments for various City taxes be increased in order to promote compliance with City tax law. It also is intended to ensure that the City's underpayment rate for these taxes remains in conformity with the underpayment rate used for New York State tax purposes. This would generate approximately $4 million annually beginning in 2004. The City will also seek a local law to generate an additional $6 million of revenue.

Bond Act Funds for Municipal Recycling

The City of New York has been eligible to receive State funds from a number of environmental bond acts to offset the costs of providing recycling services. Under the Solid Waste and Air Quality sections of the 1972 Environmental Quality Bond Act (EQBA), approximately $46 million was made available to New York City for recycling. It was not until 1998 (26 years after the Bond Act was enacted) that the Department of Sanitation (DOS) received $24.8 million for Recycling Contracts and Composting at Rikers Island. Approximately $22 million of this Bond Act is still available for payment to the City. In addition, under the 1993 Environmental Protection Fund (EPF), funds were made available to the City for municipal recycling projects. The Department of Sanitation has applied for at least $8 million of these funds. Payment from both the EQBA and the EPF funds would provide New York City with approximately $30 million.

Flexible Use of Child Care Funding

Federal law allows the Child Care Development Fund (CCDF) to be used either for families up to 200 percent of the Federal poverty level or up to 85 percent of a State's median income. New York State unnecessarily limits eligibility for child care subsidies to families at 200 percent of the Federal poverty level. Currently, the City provides child care to families up to 275 percent of the Federal poverty level, by using City tax dollars 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, the City would be able to qualify more families under the Federal funding stream, specifically those currently served by City-funded day care services. The City anticipates $25 million in savings as a result of this proposal.

Nighttime Thoroughbred Racing at OTB

This proposal will create expanded simulcast opportunities for New York City Off Track Betting (OTB). The simulcasting of out-of-state races on a regular basis was authorized by the State Legislature in 1994. Revenues from out-of-state wagers are used, in large measure, to strengthen purses and maintain quality New York racing. These simulcasts have proven to be an enormously successful feature at OTBs and racetracks. Current law prohibits simulcasting of thoroughbred races between 7:30 pm and midnight; racing at harness tracks offer the only authorized wagering opportunities during these hours. By expanding the simulcast menu to allow nighttime out-of-state thoroughbred racing, New York City OTB estimates a $150 million annualized increase in gross handle in New York City alone. This increased handle will result in an additional $15 million in revenue to New York City each year. The State Executive 2003-04 Budget proposes a number of changes to the racing and wagering law, including a new 0.5 percent regulatory fee, an increase in simulcast racing and new flexibilities for racetracks to set different takeout rates. While the Governor is taking steps to address these racing issues, the City recommends that the City's requested nighttime racing proposal be enacted.

Increase Assessment on Fire Insurance Premiums from 2 Percent to 4 Percent

Since 1909, all foreign (out-of-state) and alien (out-of-the-country) mutual and stock insurance companies providing property and casualty insurance within the State of New York are required to pay a 2 percent tax on fire insurance premiums. The City of New York recommends that this assessment be increased from 2 percent to 4 percent. The enactment of this proposal will generate an additional $13.2 million annually with the funds remitted directly to the New York City Fire Department.

Increase the Authorization for Red Light Cameras

The City's Red Light Camera Program has been an extremely effective public safety tool since its inception in 1993. Thousands of cars, taxis and buses have been caught running red lights by the fifty cameras currently in place throughout the City. This program has assisted in the reduction of traffic accidents and has helped modify driver behavior. The cameras have been shown to dramatically reduce the number of violations at the intersections where they are located. Given the success of this program, the City is seeking to increase the number of cameras by 50 each year for the next two years, bringing the total number of cameras throughout the City to 150. Although there will be additional expenses associated with the expansion of this program, the safety of vehicular passengers and pedestrians will be greatly increased.

Other State Initiatives - General Proposals

Cap Medicaid at 2001 Level

An alternative to enacting sweeping Medicaid costs containment measures, is the New York State Association of Counties' proposal that the State cap Medicaid spending for localities at State Fiscal Year 2001 levels. New York City's Medicaid budget is rapidly growing and expected to exceed $4 billion by 2004. Increased utilization, the increased number of eligible individuals (due to expanded eligibility requirements) and the growing cost of healthcare are all contributing to the exploding costs. New York State has one of the most generous Medicaid programs in the country, opting to provide many of the optional services allowed by the Federal government. Most States may have a local match requirement for selected Medicaid services, but do not require local participation for all service provided under the program. However, New York State is an exception. The State requires counties to contribute a 25 percent matching share in the expenditures for most services with the exception of certain long term and mental health care. The localities have very little control over the provision of services, yet still must pay for the expense. Furthermore, the State has taken several actions recently that have expanded the program and placed more financial pressure on the counties and New York City. It is unfair to require localities to provide and pay for expensive State-mandated health services, without allowing any involvement in the decision to provide these services.

Capping local spending at the 2001 levels will force the State to take control of the Medicaid program. Further, New York City and all other localities would realize significant budgetary relief. The City would save close to $400 million annually with the enactment of this proposal.

Relief from Social Services and Administration Caps

Eliminate the Mental Hygiene Reimbursement Cap: State appropriations for local mental hygiene services continually leave New York City with a shortfall that has to be fully funded by the City. The State and City equally share costs for mental hygiene services until the City reaches a State-imposed reimbursement cap. For 2003, the State only reimbursed the City $39 million for mental hygiene programs, while the City spent over $120 million. As the State continues to deinstitutionalize patients from State institutions, localities are struggling with the burden to provide adequate services to the increasing number of the mentally ill. If the State eliminated the reimbursement cap for mental hygiene programs and continued to reimburse localities at 50 percent of the costs for all mental hygiene services, the City would save approximately $24 million each year.

Eliminate the Home Care Savings Target: The State continues to impose a home care savings target on the City of New York. The savings target was first implemented in 1997 and is now at $32 million, as established in the Health Care Reform Act 2000 (HCRA). This target requires the City to show a savings of at least $32 million in home care expenditures based on the cost of services per recipient compared to a cost per recipient determined by the State. The State sets a maximum amount the City can spend per recipient, but in actuality the City is required to spend less than the maximum in order to achieve the savings target. However, even if savings are achieved in the per capita expenditure, if these savings do not reach $32 million the City is still penalized. The State's per recipient cost is determined by the actual per recipient cost during the base period of July 1996 to March 1997 adjusted for inflation. Essentially, New York City is required to bring the cost per recipient in the current year down to the statewide average that existed in 1997.

This target is unfair and disproportionately penalizes New York City. Furthermore, the State has consistently failed to provide localities with the tools necessary to contain costs in the home care program. New York City has made considerable effort to control costs through the years in the Medicaid home care program without jeopardizing quality and availability of care to those who need it. The State needs to share in its responsibility to control costs as well as eliminate the home care savings target.

Relief from the Social Services Administration Cap: Since 1989, the State has imposed a reimbursement cap on local administrative expenditures for temporary and disability assistance, Medicaid and Food Stamps. This cap has never been adjusted for inflation, and the City expects to lose approximately $70 million in unreimbursed claims. While the State's intent is to control administrative expenditures, equal investment in this area dramatically reduces program costs.

Restoration of the Stock Transfer Incentive Fund Payment

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 each year from the Stock Transfer Incentive Fund. However, the 2001-02 State Budget completely eliminated this payment that came to the City. Additionally, since 1998, New York City's unrestricted State aid has decreased by 26 percent with the loss of this payment, while the rest of the State received an overall increase of 36 percent. This reduction in the City's unrestricted State aid, while other localities are receiving more aid is unfair. The City is requesting the reinstatement of the $114 million Stock Transfer Incentive Fund payment in the State's 2003-04 Budget.

Equity in Correctional Reimbursement

State Law requires the State to provide reimbursement to localities for the incarceration of State-ready inmates and parole violators at $40 per inmate per day. 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 are also individuals who are temporarily detained in City correctional facilities. Despite this law, the State only reimburses localities $34 per inmate per day. Both the current statutory rate and the rate actually paid by the State leave the City with a substantial shortfall, since the actual average cost per inmate per day is approximately $252. Given that these individuals are the responsibility of the State, the State should provide the appropriate level of reimbursement to the City for its services. The City is requesting a four-year phase-in to full reimbursement. According to the City's proposal, starting in 2004, 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 2007.

The City also seeks reimbursement for the cost of housing certain State inmates at a rate previously paid by the State. In 1999, the State eliminated the reimbursement rate of $17 per inmate per day for inmates convicted of Class D and Class E felonies who are sentenced to one year or less. Although the reimbursement covered only a small portion of the costs, its complete elimination costs the City $6.2 million each year. The City is seeking a restoration of this reimbursement.

FEDERAL AGENDA

State and Local Government Assistance

Recently, in response to the sluggish national economy a number of economic stimulus plans were introduced in Washington. While New York City desires the speedy economic recovery that these proposals envision, it is imperative that grants to states and localities be part of any economic stimulus package enacted into law by Congress.

From 1972 until 1986 the Federal government provided funds to local governments through a general revenue sharing program. During this time, the City of New York received substantial funds, with awards reaching hundreds of millions of dollars each year. It is time for the Federal government to renew its commitment to the nation's states and localities in much the same way. As State and local coffers are dwindling, an influx of Federal aid would provide much-needed budget relief, in addition to the local economic stimulus that is essential for a nationwide recovery.

Specifically, New York City supports the State and Local Aid and Economic Stimulus Act of 2003, sponsored by Senators Schumer and Stowe, as well as many other proposals introduced in Congress which will provide fiscal relief directly to State and local governments.

Increase in Federal Share of Medicaid Funding by 3 percent

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 in the nation, 50 percent. 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 taxable income generated in a State. With the current FMAP formula, 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 City requests a 3 percent increase in the FMAP to address the current formula inequity. The enactment of this proposal will save the City approximately $241 million in 2004.

Recently, legislation was introduced in the Senate that temporarily increases the FMAP formula by 2.45 percent for 18 months beginning in April 2003. Under this proposal, States are eligible to receive the temporary FMAP increase as long as they do not restrict Medicaid eligibility between September 3, 2003 and September 30, 2004, the date that the temporary FMAP legislation would sunset. New York City would save approximately $294 million over the 18 month period if the bill were to be enacted into law.

First Responder Operating Funds

The City is requesting at least $200 million in Homeland Security and First Responder Grants to compensate the City for the extensive security initiatives currently in place. In order to address the enhanced terrorism threat presented by the war in Iraq, the City has undertaken a large-scale mobilization of specialized New York City Police

Department units through Operation Atlas. This initiative includes increased personnel deployment, transit security, intelligence and airspace security that all aim to protect New York City from possible attacks by terrorist groups and others. The City spends upwards of $13 million a week for Operation Atlas. This program could cost the City at least $150 million for only three months of operation. Additional emergency preparedness costs have been borne by the NYPD expansion of the Counterterrorism Unit. This unit has deployed approximately 1,000 officers at a cost of approximately $60 million on an annual basis. In order to adequately protect the City's landmarks and critical infrastructure the NYPD has created Omega Posts which provide substantial protection at all hours of the day to these vulnerable sites. This additional security effort has cost the City over $30 million in overtime expenses.

Provide Medicare Drug Benefit

The Federal Medicare program does not currently offer a prescription drug benefit to enrollees. However, those individuals enrolled in the New York State's Medicaid program are provided prescription drug services. If the Federal government were to provide similar services under the Medicare program, more individuals would receive coverage. In addition, the City and State's Medicaid costs would be offset since Medicare is fully funded by the Federal government and would provide the same service. A comprehensive Medicare drug benefit would save the New York City Medicaid program up to $145 million in the first year.

Reimbursement of Costs for Protecting Foreign Dignitaries and the United Nations

New York City provides extraordinary security measures for the protection of dignitaries and officials year-round, in addition to providing security for the numerous special international events held in the City. The United Nations General Assembly in November 2001 cost the City $4.5 million to provide the necessary security. In September 2000, the City hosted both the 55th United Nations General Assembly 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 recent terrorist attacks increased awareness of the City's and the nation's vulnerability to 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, this does not cover the numerous other costs associated with these security activities. For example, the State Department does not reimburse the City for the overtime required for security preparations, harbor patrols or Emergency Medical Services personnel and equipment, even when they are requested by the Secret Service. These extraordinary security measures cost New York City approximately $50 million annually.

The City also seeks reimbursement for the cost of Operation BRAVO, which 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 more than 5,000 people. From August 20, 1998 to August 31, 2001, the City expended $4.3 million for security due to the detention, trials and sentencing of these suspects. New York City is requesting full reimbursement for costs associated with Operation BRAVO.

Maintain and Increase in the State Criminal Alien Assistance Program Funding

Currently, the Federal government reimburses localities for a portion of the costs of incarcerating illegal aliens who have been convicted of one felony or two misdemeanor offenses. New York City typically receives approximately $30 million each year to help offset the costs of keeping these individuals in local jails through the State Criminal Alien Assistance Program (SCAAP). This program provides much needed Federal assistance to State and local governments. However, this level of funding only covers a third of the City's costs. The City's jail system held more than 10,000 criminal illegal aliens in 2001, leading to costs of more than $90 million each year. Cuts in this program would force the City to divert already scarce law enforcement resources away from crime prevention and homeland security efforts. The City requests that SCAAP funding be fully restored and increased so that New York City would receive an additional $60 million to cover the full cost of this program.

Federal Welfare Spending Mandate Relief

As the Federal government revisits the reauthorization of the welfare reform act, the City seeks relief from Federal mandates within this law. The Federal government requires States to 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 will provide relief for the City of New York in the amount of $30 million.

In addition, 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. This proposal would provide $10 million in savings each year.

Restore Federal Medicaid Funding for Legal Immigrants

With the passage of welfare reform in 1996, the Federal government expressly prohibited Medicaid funding for legal immigrants. However, in 2001 the New York State Supreme Court ruled that the State of New York must provide Medicaid to those legal immigrants that meet the income eligibility requirements. Since the Federal government can no longer provide reimbursement, Medicaid costs for this population are split between the City and the State. The City seeks to repeal the prohibition of Federal funds for legal immigrants which would save the City approximately $27 million each year.

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 attacks of September 11th, the City requested an increase in the public services cap from 15 percent to 25 percent commencing July 1, 2002. Furthermore, the City also requested a suspension of the requirement that the public service be new or a quantifiable increase in the level of service. In response to this request, HUD granted a one year waiver in 2003, which saved the City $20 million. This waiver was already renewed for 2004 saving the City another $20 million.

BASELINE RISKS

Federal Budget Baseline Risks

Elimination of the State Criminal Alien Assistance Program (SCAAP)

The President's 2004 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. In the past, New York City has received more than $30 million each year. However, last year's Federal budget reduced the program by approximately one half, costing the City $15 million. A total elimination of this program will result in the loss of the remaining $15 million.

Elimination of the Local Law Enforcement Block Grant (LLEBG)

The President's 2004 Budget proposal also eliminates LLEBG which was a part of the Office of Justice Program. LLEBG was funded at $400 million for the past several years. These grants are specifically for local public safety efforts. New York City typically receives more than $20 million from LLEBG each year, which is used for basic police department functions. The elimination of this program would strain the City's already limited law enforcement resources.

CONTRACT BUDGET

The Contract Budget is presented as part of the 2004 Executive Budget submission. The Contract Budget includes all projected expenditures for contracts that are personal service, technical or consulting in nature, as defined in Section 104 of the City Charter. Contracts for the purchase of supplies, materials and equipment are not included. Purchase orders and open market orders, as well as small purchases that do not require registration by the Comptroller's Office, are also included in the Contract Budget.

The 2004 Executive Contract Budget contains approximately 18,000 contracts totaling over $6 billion. Over 60 percent of the total contract budget dollars will be entered into by the Department of Social Services, the Administration for Children's Services, the Department of Homeless Services and the Department of Education. The Administration for Children's Services has over $1.1 billion in contracts, 75 percent of which represents contracts allocated for Children's Charitable Institutions ($564 million) and Day Care ($307 million). Of the over $1.4 billion in Department of Education contracts, approximately 42 percent are allocated for pupil transportation contracts ($591 million).

Each agency's Contract Budget is delineated by object code within the agency's other than personal service units of appropriation. The Executive Budget Supporting Schedules further break down the Contract Budget by budget code within unit of appropriation. All object codes in the 600 object code series are included in the Contract Budget. In addition, the Executive Budget Supporting Schedules reference the 2003 Modified Budget condition for these contract object codes.

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

	Est. # of Contracts	Dollars (Millions)	% Total Dollars
Social Service Related and Health Services • Home Care, Child Welfare, Employment Services, Public Assistance, Day Care, Family Services, Homeless Programs, AIDS, Senior Citizen Programs, Health, Mental Hygiene, & Prison Health, etc.	4,481	$3,400	55.4%
Youth and Student Related Services • (including Transportation of Pupils and Payments to Contract Schools)	1,291	1,210	19.7
Other Services • Custodial, Security Services, Secretarial, Cultural Related, Employee Related, Economic Development, Transportation, etc.	3,371	697	11.3
Professional Services/Consultant • Accounting, Auditing, Actuarial, Education, Investment Analysis, Legal, Engineering & Architectural, System Development & Management Analysis, etc.	4,550	388	6.3
Maintenance & Operation of Infrastructure • Lighting, Streets, Buildings, Parks, Water Supply, Sewage and Waste Disposal, etc.	1,971	332	5.4
Maintenance of Equipment • Data Processing, Office Equipment, Telecommunications & Motorized Equipment, etc.	2,427	118	1.9
TOTAL	18,091	$6,145	100.0%

Borough Presidents' Proposed Reallocations

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

The Queens Borough President proposed increasing allocations by $760 million. Among the suggested increases are $330 million to the Department of Education, $21.5 million to the Queens Public Library, $32.1 million to Cultural Affairs, $9.9 million for Youth programs, $3 million for seniors, $41 million for Sanitation to maintain refuse collections, $25.2 million for the Fire Department including funds to avert firehouse closings, $200 million for Transportation in lieu of imposing tolls on the East River bridges, and $4.1 million for Parks. The proposed funding sources come from the tobacco settlement, procurement consolidations and efficiencies, energy conservation at municipal agencies, expanding the bottle bill and returning unclaimed deposits to municipalities, a temporary one percent personal income tax surcharge on incomes above $250,000 and creation of a progressive personal income tax.

The Manhattan Borough President submitted proposals increasing allocations by $276 million. Among the suggested increases is $21 million to the Department of Education, $30 million for the Administration for Children's Services, $9.7 million for housing programs, $94.7 million for the Police Department to maintain staffing levels and recruitment class strength, $25.9 million for Fire Department programs including funds to keep fire houses open, $10 million for health and mental hygiene programs, $3.7 million for the New York Public Library and $20.2 million to Cultural programs. The proposed funding source is a restructuring of the City's personal income tax.

The Borough Presidents of Manhattan and Queens have not proposed specific borough reallocations of appropriations.

ECONOMIC OUTLOOK

Overview

While some of the uncertainty regarding the U.S. economy has been mitigated by what appears to be a decisive victory in Iraq, the near-term economic fundamentals remain weak. Although the economy has been expanding for over a year now, real GDP growth has exhibited an erratic pattern. By the last quarter of 2002, growth had slowed to an annual rate of 1.4 percent, with disturbing signs that the economy continued to be hampered by the overhang from the late 1990s bubble. The early months of 2003 continued this trend, as weak consumption, rising unemployment and hesitant production growth placed the economy on the edge of another contraction. Although the heightened apprehension of a prolonged war has dissipated, the economy is still constrained by fragile conditions in labor and capital markets.

Given these weaknesses, our current outlook takes a guardedly optimistic stance that the economy will grow just 1.9 percent in 2003, with most of the growth reflected in productivity gains as the job market remains frozen. It is not until 2004 that the U.S. economy steadies, with positive employment growth and a moderate rebound in investment. From 2005-2007 the U.S. economy is forecast to return to trend growth, with GDP and consumption rising by 3 percent each year on average.

The uncertainties of the war's cost and the implications of an already fragile U.S. economy will no doubt reverberate throughout the City's economy, which was already poised for a difficult year. Employment in the City deteriorated sharply in 2002 by 117,000 jobs, with 18,000 layoffs in the important securities industry. The retail and tourism-related sectors which had been struggling to recover from 9/11 are now confronted by the outbreak of the SARS epidemic. The securities industry is still expected to shed jobs in 2003 as it continues to adjust for the end of the 1990s market boom. The forecast specifically calls for continuing employment losses throughout 2003, of 75,000, with most of the major sectors affected.

With the City's employment expected to lag the U.S. economic recovery, City employment is forecast to pick up only slowly in 2004, adding a slight 20,000 jobs, or 0.6 percent. Employment is then expected to average a modest one percent growth per year (or 40,000 jobs), in line with the moderate growth outlook at the U.S level. Conditions in the commercial real estate market mirror the employment situation. Market conditions deteriorate further in 2003, with vacancy rates exceeding 14 percent and rents dropping 12 percent. The outyear forecast shows modest improvements in line with overall employment growth.

The crippling effect of layoffs in securities has been compounded by the drastic cuts in compensation for those who have remained employed. Bonus payouts in the securities industry are estimated to have declined by almost twenty percent since peaking in 2000. While there are still lingering and potentially significant issues, not the least of which includes the outstanding settlements from litigation and the geo-political uncertainty of the war's aftermath in the Middle East, there is some anecdotal evidence suggesting that things may have bottomed on Wall Street. This does not by any means signal a return to the heyday of the late 1990s, however, as the market, after dropping close to 40 percent since 2000, can still by some measures be considered richly valued. Bonus payouts are expected to increase 5 percent in 2003 before increasing thereafter by 8 percent on average. Outside of the FIRE (finance, insurance and real estate) sector, wage gains remain moderate. Private non-FIRE average employee wages are forecast to rise just over 3 percent per year from 2003-2007, only slightly ahead of inflation. Given the employment and average employee wage forecast, overall wage income is expected to grow by five percent in the outyears after two unprecedented years of decline in 2002-2003.

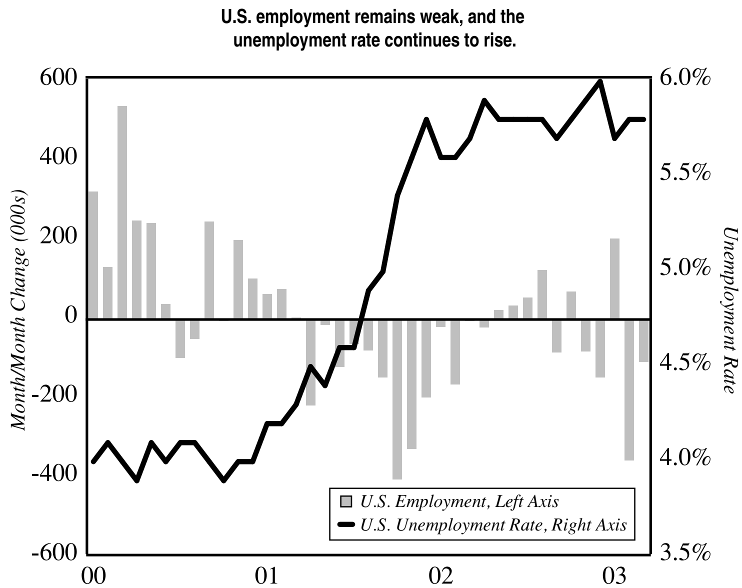
The U.S. Economy

Even before the war in Iraq, the U.S. economy was struggling to get off the ground. Since January, the signs suggest that the momentum that had slowly been building for most of 2002 has stalled. No doubt the uncertainties of the war contributed in part to this lull. Even with the apprehensions of a long war now largely erased, the attention has shifted to the costs of the war, namely the cost of rebuilding Iraq, the impact this will have on the Federal deficit, the effects of a global slowdown and the future direction of energy prices. It has also become apparent that the excesses of the late 1990s continue to plague some key sectors of the economy.

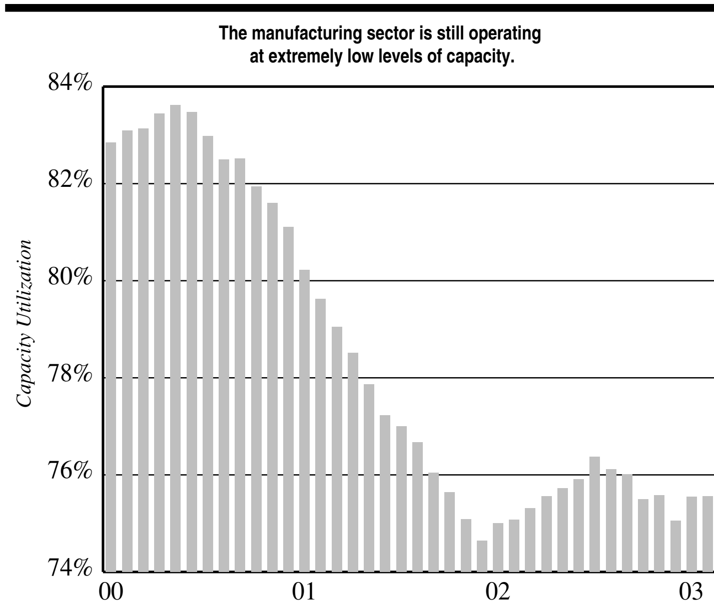
In 2002 real GDP grew in all four quarters, up 2.4 percent on a year-over-year basis. However, in the last quarter of 2002 real GDP slowed to just 1.4 percent, and recent data indicate that growth in Q1 2003 is also likely to be anemic. Payroll employment data for March showed a drop of over 100,000 jobs, following a steeper decline of over 350,000 jobs in February, while the unemployment rate hovers at almost 6.0 percent. Weekly initial claims for unemployment insurance have registered readings near 400,000 for the past two months, further pointing to deteriorating job prospects. The manufacturing sector is still operating at extremely low levels of capacity as confirmed by a drop below 50 in the March ISM (Institute of Supply Management) Index. Personal bankruptcies are at a three-year high and concerns of war combined with weak labor markets have, not surprisingly, caused consumers to tighten their belts. As a result, retail sales increased a modest 1.4 percent in the first quarter of this year.

Our current outlook assumes that the war's quick resolution will remove some of the clouds lingering over the economy. However, given the weak fundamentals reflected in employment and consumption growth in the first part of this year, the expected rebound following the resolution of the war will not be enough to lift growth

U.S. EMPLOYMENT AND UNEMPLOYMENT



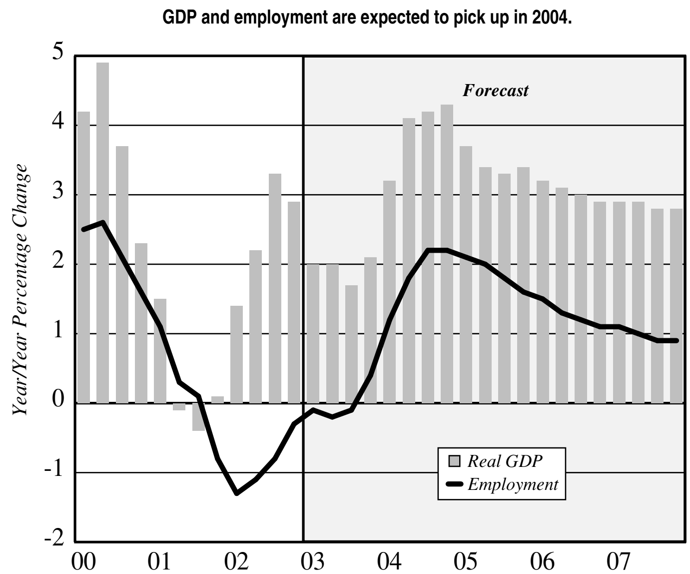
U.S. CAPACITY UTILIZATION



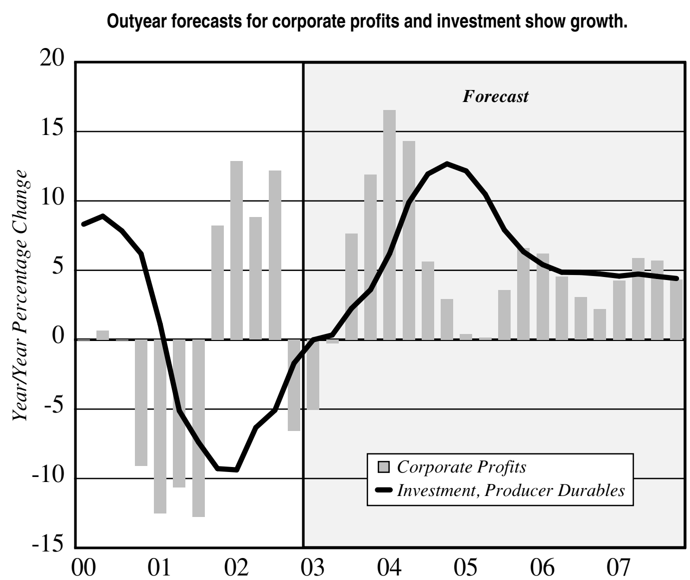
significantly in 2003. GDP is expected to increase by a mere 1.9 percent in 2003, with consumption rising 1.5 percent. Most of the GDP growth is expected to result from productivity gains, implying anemic employment growth in 2003. In fact, employment is forecast to be essentially flat for the year. On the business side, 2003 is shaping up to be a difficult year, with many executives indicating that they are postponing key decisions until the the pace of recovery is more certain.

A more convincing rebound is expected in 2004 once the employment situation finally turns around. Overall employment is forecast to increase by 1.8 percent and brighter prospects are expected to lift consumption by almost four percent. Clearer growth prospects and improving profit margins finally lift investment spending by 10 percent. This follows the declines of 2001 and 2002 and only a marginal improvement in 2003. Similarly, financial markets also stabilize and the S&P 500 index increases by 8 percent in 2004 with corporate earnings rebounding at a healthy pace. However, despite three years of declines which have erased most of the excesses of the late 1990s, some analysts on Wall Street still feel that the market is trading at historically high price/earnings ratios.

U.S. GDP AND EMPLOYMENT



CORPORATE PROFITS AND INVESTMENT



The outyear forecast for 2005-2007 assumes that overall growth will continue at about trend rate. GDP and consumption are expected to average growth of 3 percent per year, enough to sustain employment gains of about 1fi percent. This, combined with wage rate gains of about 3fi percent, leaves personal income growth averaging 5 percent per year in 2005-2007 and about 2fi percent after discounting for inflation (assuming that oil prices remain stable). Investment spending, corporate profits and the S&P 500 also grow in line with their historical averages. More specifically, investment grows by an average of 6.2 percent per year while the S&P 500 index grows by 8 percent per year.

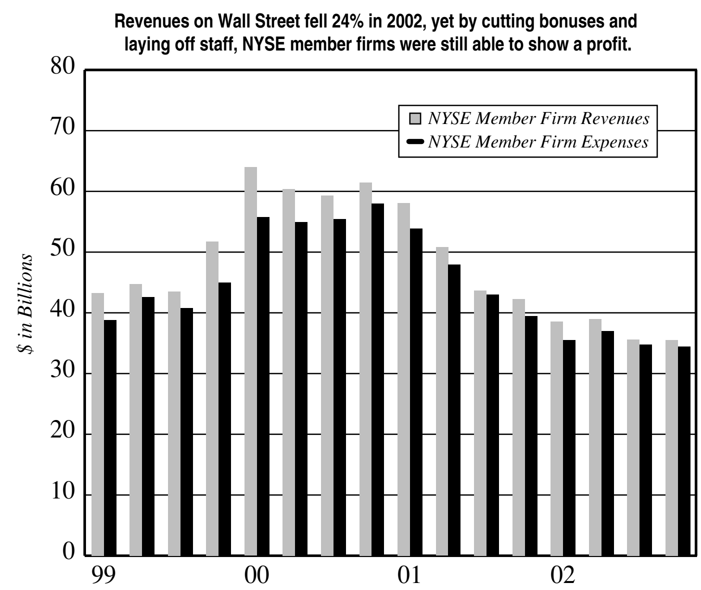
Once again the current U.S. outlook relies on the resilience of American consumers to help the economy through the current rough patch. So far their track record has stood up to the tragic events of 9/11 and the enormous loss of wealth from the bursting of the stock market bubble. We expect this resilience to take us through the current geo-political situation and weakness in labor markets.

The New York City Economy

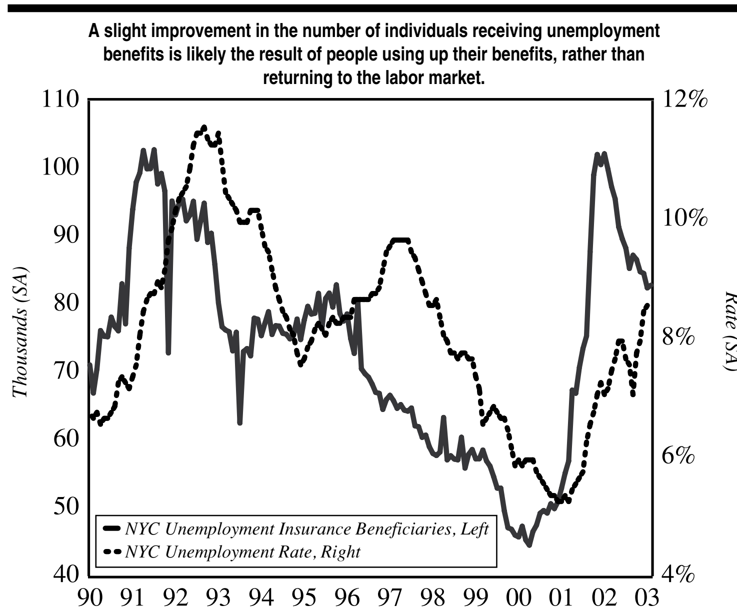
The sluggishness that plagues the nation at the time of this publication has embedded in it particularly perilous undertones for New York City's economy. Even with the relatively swift victory in Iraq, there are constraints put upon the local economy. The current environment heightens certain concerns, particularly on Wall Street, the City's most important sector. The troubles unfortunately are not isolated to Wall Street as the slowdown in the national economy, the geo-political situation and fears over the SARS epidemic are likely to have major implications on the local tourism and retail industries. These factors suggest that after a dismal 2002, the City should be prepared for another year of poor labor market conditions, little income growth, and further commercial real estate woes.

On Wall Street, New York Stock Exchange member firms saw their profits fall in 2002 to just under $7 billion from $10.4 billion in 2001. The drop in profits was primarily caused by a dearth of business activity that drastically cut revenues by 24 percent. With the exception of the industry's commission-generating businesses, all other areas showed declines. Yet, by reducing expenses nearly 23 percent, NYSE member firms were able to show a profit for the year. The cost cutting was accomplished in part by reducing compensation expenses 11 percent, which translated locally into layoffs of nearly 18,000 jobs in 2002 and a reduction in bonuses[1]. The FIRE sector bonus pool is estimated to have fallen by 21 percent[2]. Both of these factors, layoffs and declining bonuses, had a wide-scale impact across the City, as these high wage earners help support various other industries in the local economy.

WALL STREET PROFITABILITY



UNEMPLOYMENT INSURANCE BENEFICIARIES



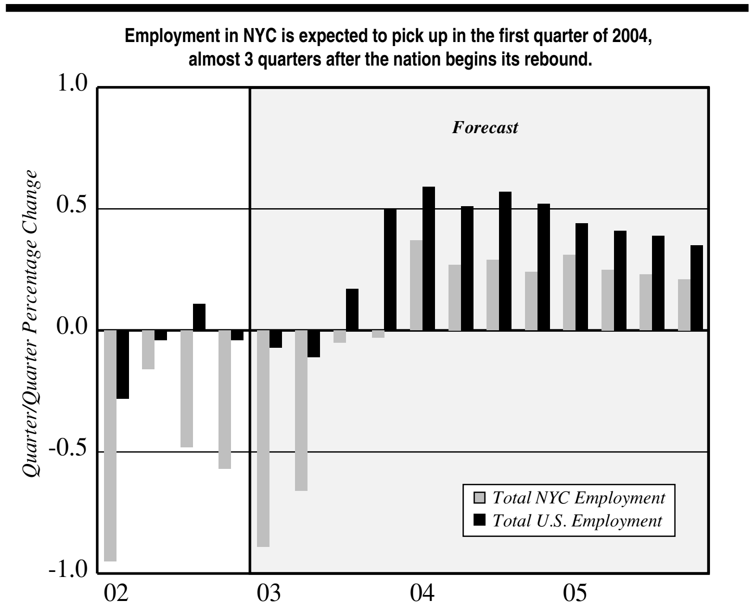
1) *This follows 7,000 jobs eliminated in 2001.*

2) *The FIRE sector bonus pool is the aggregate amount of bonuses paid in the year to FIRE sector employees. The bonus pool is calculated by OMB.*

Coupled with the remaining fallout from the dot-com bubble and an overall melancholy U.S. economy, the loss of 18,000 securities industry employees reverberated throughout the rest of the economy. The private sector lost 120,000 jobs in 2002 (revised downward from a loss of 88,000 after the New York State Department of Labor re-benchmarked the series). Other indicators confirm the overall malaise in the local labor market. Although the number of unemployment insurance beneficiaries has recently been declining (after peaking in the beginning of 2002 at levels not seen since the last Gulf War), they still remain high by historical standards. A rising unemployment rate in 2002, averaging almost 8 percent for the year, suggests that the drop in beneficiaries may be more indicative of people using up their benefits than of people finding employment. The 3.2 percent fall in total City employment combined with the poor results on Wall Street, which dragged the City's average employee wage down 1.9 percent, resulted in a 5.1 percent fall in total wage earnings in the City in 2002, the largest recorded wage earnings decline in the history of the series.

After the below par performance in 2002, the City is not expected to recover quickly. Much of the City's rebound relies on the performance of Wall Street. While initial first quarter 2003 reports suggest a slight rebound in revenues, largely from increased trading and bond market activity, it is currently forecasted that profits on Wall Street will rise only slightly to $7.5 billion in 2003. Unfortunately, without much new business activity the industry is expected to contract by an additional 13,000 jobs in 2003 before stabilizing in 2004 when profits rebound to $9.8 billion. The bonus pool inches up only 5 percent in 2003 to $14.8 billion, and then increases to $19.5 billion by 2007, a level still well below 2000's record estimated bonuses of $24.5 billion.

U.S. AND NYC EMPLOYMENT

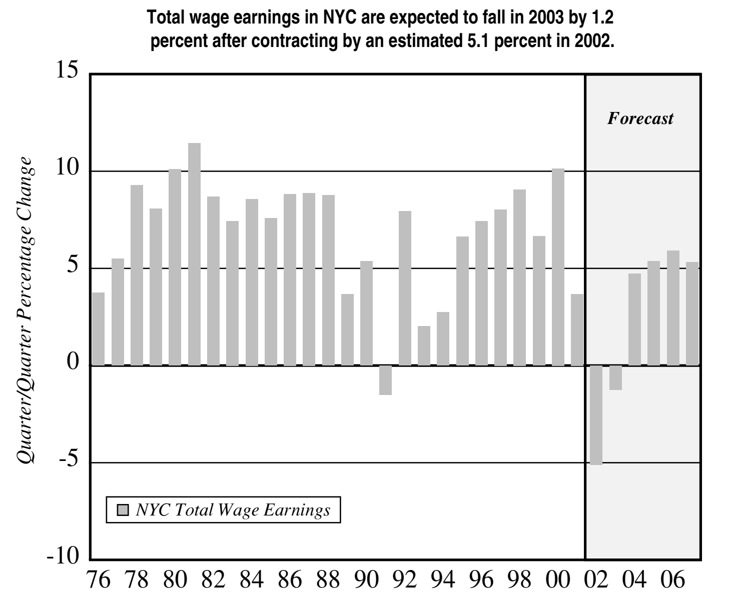


As for the rest of the City, employment growth is anticipated to lag the U.S. recovery by approximately three quarters. Private sector employment declines by almost 60,000 jobs in 2003. In addition to the above-mentioned layoffs in the securities industry, losses are widespread. Business services and other professional services continue to contract, as do the tourism-related industries. Cuts in airline schedules, due to the war and the outbreak of SARS, combined with low hotel occupancy rates, result in service, retail and air transportation job losses in the second quarter of 2003. Private sector job growth is not forecast to reappear in the City until 2004, with 20,000 new jobs added. By 2005-2007 the labor market should strengthen to add approximately 40,000 new jobs per year. Government employment declines in 2003 and then remains stable in the outyears, bringing total employment to a loss of 75,000 jobs in 2003. Total employment grows by 20,000 in 2004 and then averages 42,000 per year in 2005-2007.

Average employee wage growth is forecast to rise only 0.9 percent in 2003, dampened by a 0.5 percent decline in the average FIRE sector wage, but offset by moderate 2.9 percent growth in the non-FIRE sectors. The paltry growth in the average wage along with the 2.1 percent employment losses in 2003 result in a 1.2 percent decline in wage earnings. This could be the second consecutive year of declining wage earnings in the

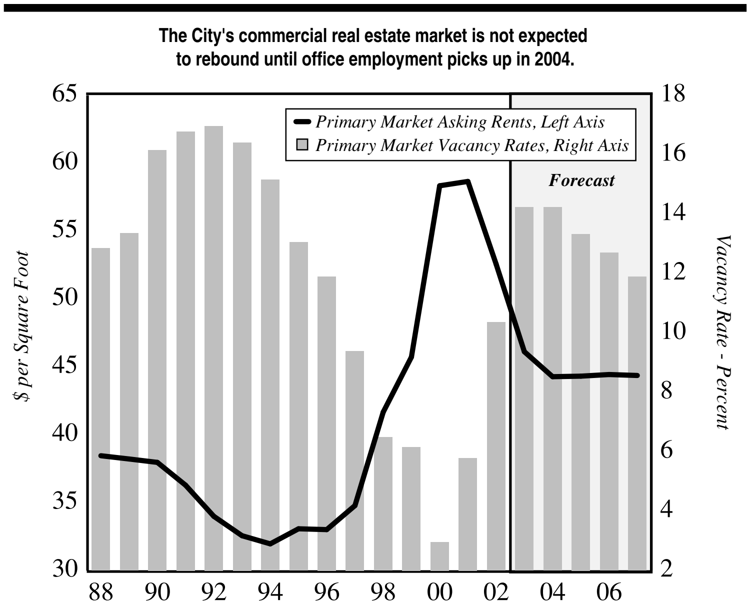
City. By 2004 FIRE sector wages rebound, rising almost 6 percent, lifting the City's average employee wage growth to 4.1 percent. In conjunction with modest employment growth, wage earnings rise by 4.7 percent. From 2005-2007 stable average employee wage growth of just over 4 percent coupled with mild employment growth increases the total wage earnings by approximately 5.5 percent each year.

NYC WAGE EARNINGS



Weak labor market conditions suppress the demand for office space throughout 2003 and well into 2004. Concurrently, increased supply, both in the form of new office construction and a large amount of sublease and "shadow space"[3], loosen the New York City commercial real estate market further. Consequently, vacancy rates are expected to reach 14 percent throughout the primary market by the end of 2003 before stabilizing in 2004 with the return of office employment growth[4]. Conditions are anticipated to deteriorate in both the Downtown and Midtown markets. Vacancy rates Downtown average 20 percent in 2003 and 2004, and asking rents fall by over 14 percent in 2003 and another 6 percent in 2004, bottoming out at around $35 per square foot in 2004. Midtown, which arguably remains the strongest market in the U.S., suffers with the cyclical downturn as vacancy rates climb to 12.5 percent by the end of 2003, remaining at that rate for much of 2004.

NYC COMMERCIAL REAL ESTATE



While the City's commercial real estate market begins to improve in 2005-2007, this office market forecast is entirely predicated on employment growth beginning in 2004. It can only be assumed that if the local labor market does not improve then demand for office space will suffer similarly. While some of this forecast draws parallels from the recession of the early 1990s during the first Gulf War, the commercial real estate of the two time periods is not comparable because the overbuilding by speculative developers in the early 1990s was not repeated in the expansion of the late 1990s.

3. *"Shadow Space" is office space not officially on the market but currently unused by firms.*
4. *Office market data are compiled using statistics published by Cushman & Wakefield.*

As mentioned earlier, this forecast incorporates a decisive end to the war in Iraq, a slow yet steady Wall Street recovery, as employment and income growth returns in 2004. However, any deviation from these assumptions could result in a significantly different economic outlook.

Executive Budget 2004
Forecasts of Selected United States and New York City Economic Indicators
Calendar Years 2002-2007

	2002	2003	2004	2005	2006	2007	1970-2000*
NATIONAL ECONOMY							
Real GDP							
Billions of 1996 Dollars	9,440	9,623	10,003	10,347	10,664	10,967	
Percent Change	2.4	1.9	4.0	3.4	3.1	2.8	3.2
Non-Agricultural Employment							
Millions of Jobs	130.8	130.8	133.2	135.6	137.4	138.7	
Change from Previous Year	-1.1	0.0	2.4	2.4	1.7	1.3	
Percent Change	-0.9	0.0	1.8	1.8	1.3	1.0	2.1
Consumer Price Index							
All Urban (1982-84=100)	179.9	184.1	187.1	191.0	195.3	200.3	
Percent Change	1.6	2.3	1.6	2.1	2.3	2.6	5.1
Wage Rate							
Dollars Per Year	38,414	39,767	41,131	42,525	44,097	45,935	
Percent Change	2.4	3.5	3.4	3.4	3.7	4.2	5.3
Personal Income							
Billions of Dollars	8,947	9,293	9,787	10,311	10,880	11,478	
Percent Change	3.0	3.9	5.3	5.4	5.5	5.5	7.9
Before-tax Corporate Profits							
Billions of Dollars	657.1	710.4	841.7	838.9	828.0	867.2	
Percent Change	-2.0	8.1	18.5	-0.3	-1.3	4.7	8.2
Unemployment Rate							
Percent	5.8	5.9	5.4	5.1	5.1	5.0	6.3 (avg)
10-Year Treasury Bond Rate							
Percent	4.6	4.1	5.8	6.5	6.7	6.6	8.2 (avg)
Federal Funds Rate							
Percent	1.7	1.5	3.1	4.2	4.9	5.2	7.4 (avg)
NEW YORK CITY ECONOMY							
Real Gross City Product**							
Billions of 1996 Dollars	404.9	391.6	403.0	415.4	430.8	444.1	
Percent Change	-5.4	-3.3	2.9	3.1	3.7	3.1	3.0
Non-Agricultural Employment							
Thousands of Jobs	3,575	3,500	3,520	3,557	3,604	3,644	
Change from Previous Year	-117	-75.0	20.0	37.4	46.8	39.7	
Percent Change	-3.2	-2.1	0.6	1.1	1.3	1.1	-0.2
Consumer Price Index							
All Urban NY-NJ Area (1982-84=100)	191.9	196.7	201.2	206.4	211.8	217.2	
Percent Change	2.5	2.5	2.3	2.6	2.6	2.6	5.1
Wage Rate							
Dollars Per Year	59,590	60,120	62,607	65,273	68,232	71,057	
Percent Change	-1.9	0.9	4.1	4.3	4.5	4.1	6.5
Personal Income							
Billions of Dollars	308.6	311.1	324.5	341.2	361.0	380.6	
Percent Change	-1.3	0.8	4.3	5.2	5.8	5.5	7.0
NEW YORK CITY REAL ESTATE MARKET							
Manhattan Primary Office Market							
Asking Rental Rate***							
Dollars Per Sq Ft	52.76	46.31	44.47	44.51	44.63	44.56	
Percent Change	-10.4	-12.2	-4.0	0.1	0.3	-0.2	N.A
Vacancy Rate***							
Percent	10.4	14.2	14.2	13.3	12.7	11.9	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.*

TAX REVENUE

Overview

Total tax revenue is forecast to increase 3.0 percent in 2003* and 16.8 percent in 2004, including the proposed personal income tax reform.

Non-property tax revenue in 2002 fell 15.7 percent (down 11.0 percent on a common rate and base), as the national recession, the protracted bear market on Wall Street and the impact of the September 11th terrorist attack all pummeled the local economy. In 2003, with the sluggish pace of the national economic recovery, continued local job losses and Wall Street weakness, the City's income and consumption tax base has again eroded. Non-property tax revenue in 2003 is projected to decline 5.9 percent (down 3.7 percent on a common rate and base) from the prior year level.

For 2003, the personal income tax is forecast to drop $799 million from the 2002 level, primarily due to increased retention by the Transitional Finance Authority (TFA). Adding back TFA retention yields a drop of $85 million in total personal income tax collections. Sluggish wage growth and employment declines have suppressed withholding growth in 2003, despite a 5 percent increase in withholding table rates that has been in effect since June 1, 2002. Estimated payments on tax year 2002 have dropped 29 percent, with an estimated 38 percent decline in capital gains realizations pulling down nonwage income for tax year 2002.

2003 and 2004 Tax Revenue Forecast
($ Millions)

Tax	2003 Forecast	2004 Executive Budget	Increase/(Decrease) From 2003 to 2004 Amount	Growth
Real Property	$9,966	$11,176	$1,210	12.1%
Commercial Rent	398	407	9	2.3
Mortgage Recording	482	393	(89)	(18.5)
Real Property Transfer	509	406	(103)	(20.2)
Personal Income†	3,220	4,328	1,108	34.4
General Corporation	1,173	1,225	52	4.4
Banking Corporation	181	259	78	43.1
Unincorporated Business	779	827	48	6.2
Sales and Use	3,509	3,554	45	1.3
Utility	291	274	(17)	(5.8)
All Other	707	717	10	1.4
Subtotal	$21,216	$23,567	$2,351	11.1%
STAR Aid	659	648	(11)	(1.7)
Tax Audit Revenue	502	525	23	4.6
Personal Income Tax Reform	—	1,400	1,400	—
Total††	**$22,376**	**$26,139**	**$3,763**	**16.8%**

† *Excludes revenue for TFA debt retention of $1,164 million in 2003 and $206 million in 2004.*
†† *Totals may not add due to rounding.*

* *The April 4, 2003 report, "Tax Revenue Forecasting Documentation" discusses the tax forecasting techniques used in this Executive Budget.*

The bear market on Wall Street, sagging national corporate profits, a weak City economy and high refund payouts, as taxpayers continue to liquidate overpayments on previous tax years, have resulted in a 13.9 percent decline in business tax collections (general corporation tax, banking corporation tax and unincorporated business tax) through March. For all of 2003, business tax collections are expected to decline 12.6 percent (down 10.4 percent on a common rate and base).

The tourism sector had rebounded mildly by the end of calendar year 2002, over the depressed levels seen last year when the September 11th terrorist attack took its toll. However, seasonally adjusted occupancy levels since January have weakened. The teetering national economy and uncertainty around even a short, successful war are cutting short the tourism rebound and the hotel tax is forecast to grow only 1.6 percent in 2003. Sales tax revenue through March is up a strong 6.1 percent over the prior year, after a decline of almost 10 percent in the same period a year ago, but this is partially due to additional revenue from the State tax amnesty program. Sales tax revenue for 2003 is projected to increase 4.4 percent (4.1 percent on a common rate and base) as consumption continues a mild recovery from the severely depressed levels of 2002.

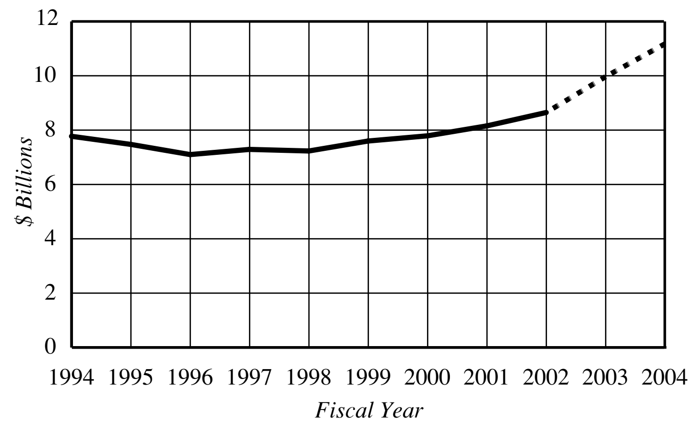
Property tax revenue, on the other hand, is up 15.2 percent (5.8 on a common rate and base) due to 5.7 percent growth in billable assessed value and an increase in the average tax rate from $10.366 to $12.283 for the second half of the year, effective January 1, 2003.

For 2004 the non-property taxes are forecast to increase just 3.5 percent on a common rate and base, held back by continuing job losses and the depressed state of Wall Street. Personal income tax revenue is projected to grow 3.4 percent before the TFA retention, reflecting the sluggish increase in wage earnings. Capital gains realizations are forecast to drop again for tax year 2003 by 10 percent. Business tax collections (general corporation tax, banking corporation tax and unincorporated business tax) grow 8.3 percent (7.4 percent on a common rate and base). With securities industry profits barely higher than in calendar year 2002, most of the growth is driven by a drop in refunds, with overpayments largely liquidated by 2003. The sales tax is forecast to grow 1.3 percent (2.5 percent on a common rate and base) reflecting the sluggish improvement in the wage and employment forecast.

Property tax collections are forecast to grow 12.1 percent (3.6 percent on a common rate and base) in 2004, an increase of $1,210 million over 2003. The levy increases 13.9 percent over 2003 primarily due to the full year impact of the 18.49 percent tax rate increase and an increase in billable assessed value growth of 5.0 percent. The real property transfer tax and mortgage recording taxes are forecast to decline 20.2 percent and 18.5 percent respectively, with the end to 2003's refinancing boom. The commercial rent tax is forecast to grow by 2.3 percent in 2004 as the vacancy rate increases and asking rents weaken.

REAL PROPERTY TAX

REAL PROPERTY TAX 1994-2004



The real property tax is projected to account for 46.2 percent of tax revenue in 2004, or $11,176 million.

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

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

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

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

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

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

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

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

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

Beginning with the fiscal year 1997 roll, telephone company central office equipment and station equipment (except public telephones) installed in public rights-of-way were exempt from real property taxation. Also starting in 1997, owners of cooperative and condominium properties began to receive a reduction in their real estate tax burden. In the case of properties where the average assessment is $15,000 or less per unit, a tax abatement of 2.0 percent, 16.0 percent and 25.0 percent was granted in 1997, 1998 and 1999, respectively. For properties where the valuation is greater than $15,000 per unit on average, the tax abatement in 1997, 1998 and 1999 was 1.375 percent, 10.75 percent and 17.5 percent, respectively. The 1999 abatement levels were extended by an additional two years through June 30, 2001 and again in 2001 by an additional three years through June 30, 2004.

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

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

Discretionary Adjustments [1] and Class Shares

	Class 1		Class 2		Class 3		Class 4	
	Discretionary Shift (%)	Class Share	Discretionary Shift (%)	Class Share	Discretionary Shift (%)	Class Share	Discretionary Shift (%)	Class Share
1983	(3.88)	0.141	(2.85)	0.263	4.80	0.180	1.25	0.416
1984	(0.58)	0.139	0.00	0.260	0.00	0.180	0.53	0.421
1985	(3.22)	0.134	(0.37)	0.259	(1.28)	0.178	1.83	0.429
1986	(9.15)	0.129	(0.68)	0.255	(2.02)	0.182	1.96	0.434
1987	(4.95)	0.125	2.69	0.254	(4.60)	0.166	1.76	0.455
1988	(2.81)	0.122	0.60	0.255	(4.51)	0.157	2.07	0.466
1989	(4.36)	0.116	0.58	0.256	(4.95)	0.150	2.49	0.478
1990	(5.00)	0.111	0.23	0.257	(4.49)	0.139	2.44	0.493
1991	(5.00)	0.109	(2.18)	0.258	(4.50)	0.103	3.19	0.530
City Council's discretion to adjust class shares no longer applicable beginning in 1992.								
1992	—	0.115	—	0.280	—	0.078	—	0.527
1993[2]	—	0.113	—	0.290	—	0.066	—	0.532
1994	—	0.116	—	0.308	—	0.058	—	0.518
1995[3]	—	0.119	—	0.316	—	0.059	—	0.505
1996[3]	—	0.122	—	0.326	—	0.062	—	0.490
1997[3]	—	0.125	—	0.336	—	0.064	—	0.475
1998[3]	—	0.127	—	0.339	—	0.069	—	0.465
1999[3]	—	0.130	—	0.332	—	0.071	—	0.467
2000[3]	—	0.133	—	0.341	—	0.074	—	0.452
2001[3]	—	0.135	—	0.345	—	0.076	—	0.444
2002[3]	—	0.137	—	0.349	—	0.074	—	0.440
2003[3]	—	0.139	—	0.349	—	0.074	—	0.438

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

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

(3) The maximum increase in the current base proportion over the prior year's share is capped at five percent by the State Constitution. The State can authorize the City to set cap rates lower than five percent and the City Council has the discretion to reapportion the excess to other classes. The State law capped the maximum increase at 2.0 percent in 1993; 2.75 percent in 1995 and 1996; 2.5 percent in 1997, 1998, 1999 and 2000; and 2.0 percent in 2001, 2002 and 2003.

As originally enacted, S.7000A required that the class shares for the 1981 roll be certified as base proportions. These base proportions were to be modified periodically by ORPS for relative changes in market values among the four classes as well as for physical change. While the adjustment for physical change took place each year, the first market value adjustment was not scheduled until 1987. At that time legislation postponed the implementation of market value changes until calendar year 1989 (for use in fiscal year 1990).

This legislation also substituted the 1984 class shares for 1981 base proportions in calculating market value changes. Legislation passed in the spring of 1989 amended S.7000A, changing the mechanics of the market value adjustment and further postponing it until 1992 in order to prevent a significant shift in tax burden towards Class 1 taxpayers in fiscal year 1990. From 1983 to 1991, the City apportioned the tax levy by using the 1981 proportions, as adjusted annually for physical change. In addition, during this period the City Council had discretion in setting class shares as long as each class's share was within five percent of the previous year's share.

Since 1992, class shares have been adjusted annually for relative changes in market value (subject to a "cap" of five percent over the prior year's share) in addition to physical change. The resulting shares are called adjusted base proportions. In 1993 and 1995-2003, State legislation lowered the five percent cap.

Real Property Tax Operating Limit

Fiscal Year	Operating Limit ($ Millions)	Unused Margin ($ Millions)	Unused Margin (Percent)
1983	$2,718.1	$15.1	0.6%
1984	3,181.6	209.7	6.6
1985	3,589.1	407.6	11.4
1986	4,010.5	361.7	9.0
1987	4,432.0	476.0	10.7
1988	4,969.5	537.2	10.8
1989	6,808.5	1,812.2	26.6
1990	7,789.1	2,387.8	30.7
1991	9,109.3	2,892.9	31.8
1992	10,631.8	4,369.0	41.1
1993	11,945.0	5,475.1	45.8
1994	13,853.8	7,932.9	57.3
1995	13,380.2	7,832.6	58.5
1996	8,633.4	3,451.2	40.0
1997	7,857.3	2,924.0	37.2
1998	7,599.7	1,665.5	21.9
1999	7,170.3	862.6	12.0
2000	7,268.7	45.5	0.6
2001	7,573.1	140.4	1.9
2002	8,128.0	42.1	0.5
2003*	8,881.0	1,158.0	13.0
2003**	8,925.2	230.6	2.6

* *Reflects levy fixed in June 2002.*
** *Reflects levy fixed in November 2002.*

Components of the Tax Levy: The real property tax is the primary source of revenue for the General Debt Service Fund. Under the State Constitution, the City's ability to levy a real property tax for the payment of principal and interest on the City's long-term debt is unlimited. There is a limit, however, on the amount of real property tax that can be raised for operating purposes. This operating limit is equal to 2.5 percent of the average full value of taxable real estate for the current and prior four years, less payments for City short-term debt and business improvement district levies. In addition, total debt outstanding including business improvement district debt may not exceed 10 percent of the five-year average full value. ORPS estimates the full value as of January 1 for each of the five years of the average. The 2001 market value survey, which reflected the third year of increase in real estate market values since 1989, was incorporated into the calculation of 2003's operating limit.

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

Tax Rates: From 1983 through 1992, with the tax levy increasing at a rate in excess of the growth in billable assessed value, the average tax rate rose from $9.120 to $10.591 per $100 of assessed value. In 1992, there was a significant shift in class shares as a result of the introduction of the market value adjustment

Class Tax Rates*

	Class 1	Class 2	Class 3	Class 4	Average
1983...............	$8.950	$8.950	$9.109	$9.294	$9.120
1984...............	9.100	9.057	9.237	9.323	9.206
1985...............	9.100	9.150	9.051	9.460	9.255
1986...............	9.100	9.150	9.051	9.460	9.256
1987...............	9.330	9.150	9.172	9.460	9.315
1988...............	9.330	9.150	9.942	9.460	9.434
1989...............	9.452	9.272	11.289	9.582	9.703
1990...............	9.452	9.229	12.903	9.539	9.797
1991**...........	9.840	9.154	15.079	9.924	10.135
1992...............	10.888	9.885	13.083	10.631	10.591
1993...............	10.888	9.910	12.794	10.698	10.591
1994...............	10.900	10.369	7.404	10.724	10.366
1995...............	10.694	10.552	7.702	10.608	10.366
1996...............	10.725	10.807	7.922	10.402	10.366
1997...............	10.785	11.056	7.840	10.252	10.366
1998...............	10.849	11.046	8.282	10.164	10.366
1999...............	10.961	10.739	8.800	10.236	10.366
2000...............	11.167	10.851	9.398	9.989	10.366
2001...............	11.255	10.847	10.540	9.768	10.366
2002...............	11.609	10.792	10.541	9.712	10.366
2003***..........	12.287	10.564	10.541	9.695	10.366
2003****........	14.160	12.517	12.565	11.580	12.283

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

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

*** *Effective July 1, 2002 through December 31, 2002.*

**** *Effective January 1, 2003.*

Real Property Tax Collections and Delinquency
($ Millions)

Fiscal Year	Tax Levy [1]	Tax Collection on Current Year Levy [2]	Tax Collection as a Percentage of Tax Levy	Prior Year (Delinquent Tax) Collections	Refunds	Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of end of Fiscal Year [3]	Delinquency as a Percentage of Receivable/ Tax Levy	Lien Sale [4]
1989	$6,233	$5,913	94.9%	$108	($79)	($167)	($153)	2.45%	—
1990	6,872	6,507	94.7	110	(74)	(135)	(230)	3.35	—
1991[5]	7,681	7,199	93.7	150	(63)	(166)	(316)	4.11	—
1992	8,319	7,748	93.1	194	(124)	(200)	(370)	4.45	—
1993	8,393	7,766	92.5	228	(107)	(215)	(411)	4.90	—
1994	8,113	7,520	92.7	223	(199)	(190)	(403)	4.97	$201
1995	7,890	7,377	93.5	211	(164)	(131)	(382)	4.84	223
1996	7,871	7,307	92.8	241	(400)	(276)	(289)	3.67	169
1997	7,835	7,371	94.1	147	(271)	(179)	(284)	3.63	44
1998	7,890	7,414	94.0	148	(345)	(199)	(277)	3.51	22
1999	8,099	7,514	92.9	133	(167)	(309)	(276)	3.40	119
2000	8,374	7,774	92.8	144	(189)	(340)	(261)	3.11	62
2001	8,730	8,069	92.4	132	(241)	(411)	(251)	2.87	196
2002	9,271	8,590	92.7	152	(134)	(375)	(306)	3.30[6]	41
2003[7]	10,689	9,887	92.5	132	(138)	(498)	(304)	2.84	85

(1) As approved by the City Council.
(2) Quarterly collections on current year levy. Amounts for fiscal year 1994, 1995 and 1996 are adjusted to eliminate the effects of the 1994 and 1995 sales of delinquent tax receivables.
(3) These figures include taxes due on certain publicly-owned property and exclude delinquency on shelter rent and exempt property restored in 1995 and 1996.
(4) Net of defective lien reserve and repurchase of prior year defective liens.
(5) Does not include supplemental levy of $61.7 million raised in mid-year for the "Safe Streets, Safe City" program.
(6) Includes a $68.1 million delinquency from the World Trade Center. The delinquency rate adjusting for this is 2.6%.
(7) Forecast.

mechanism. Class 1, 2 and 4's tax rates increased significantly while Class 3's rate declined, reflecting a sizeable drop in its share. Although there was a commitment to freeze the average tax rate at $10.591 per $100 of assessed value after 1992, class tax rates continued to change due to the market value adjustment. Class 3's rate declined considerably in 1994, mainly as a result of a change in the assessment percentage which caused the class's billable assessed value to increase dramatically while the Class 3 share decreased proportionally less. The increase in billable assessed value which did not reflect market value change did not yield additional tax levy, and as a result the "freeze" tax rate of $10.591 fell to $10.366 in 1994 and remained at the same level through the first half of 2003. Effective January 1, 2003, tax rate was increased to $12.283, affecting the second half of the year. The blended tax rate of the year was $11.325.

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

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

Real property tax exemptions and abatements, which totaled $1,704 million in 2002, can be grouped into three general categories: economic development, residential and other, which includes utility exemptions. Economic development exemptions are granted under the City's Industrial and Commercial Incentive Program (ICIP), the Commercial Revitalization Program and by City and State development corporations. The New York City Housing Authority is the single largest source of residential exemptions. The remainder of residential tax relief is provided by a variety of legislatively mandated exemption and abatement programs. The other exemptions are for certain utility properties, public authority properties and special incentives. The Commercial Revitalization Program provides substantial tax relief and is aimed at spurring economic activity by encouraging the conversion and/or renovation of obsolete commercial buildings. DOF, which administers many of the City's taxes and maintains records on these expenditures, has aided in the estimation of their value (see the table following titled: "Estimated Value of Real Property Tax Exemptions and Abatements").

The reserve for refunds covers reimbursement to taxpayers who have overpaid their tax liabilities, or whose liabilities were reduced after payment was made. The level of refunds which had risen dramatically in the mid-90s, reaching a peak of $400 million in 1996, has decreased to $134 million in 2002, as a result of reductions in *certiorari* settlements.

Property Tax Revenue
($ Millions)

	1997	1998	1999	2000	2001	*2002*	*2003f*	*2004f*
Levy	$7,835	$7,890	$8,099	$8,374	$8,730	$9271	$10,689	$12,177
Current Year Reserve*	(464)	(476)	(585)	(600)	(661)	(681)	(802)	(978)
Prior Year Collections	147	148	133	144	132	152	132	132
Refunds	(271)	(345)	(167)	(189)	(241)	(134)	(138)	(203)
Sub-Total	$7,247	$7,217	$7,480	$7,729	$7,960	$8,608	$9,881	$11,128
Lien Sale Proceeds **	44	22	119	62	196	41	85	48
Total* **	**$7,291**	**$7,239**	**$7,599**	**$7,791**	**$8,156**	**$8,649**	**$9,966**	**$11,176**

* *Includes cancellations, delinquency, net accruals, abatements, exempt property restored, shelter rent and STAR.*
** *Net of defective lien reserve and repurchase of prior year defective liens.*
*** *totals may not add due to rounding.*
f=forecast

Estimated Value of Real Property Tax Exemptions and Abatements 1994-2002
($ Millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Economic Development Exemptions									
I.C.I.B/I.C.I.P.	$119.7	$107.1	$105.7	$99.3	$111.9	$132.5	$144.6	$177.7	$193.4
Battery Park City Authority*	124.5	113.7	94.2	87.2	81.6	79.5	71.2	79.8	72.8
Industrial Development Agency*	37.3	52.6	48.5	47.2	47.8	61.5	84.5	66.0	66.6
Urban Development Corp.	77.9	78.3	77.0	76.9	80.0	84.5	101.0	107.6	113.1
Economic Development Corp.*	2.8	4.3	3.7	3.4	4.1	7.4	3.8	3.9	7.1
World Trade Center*	95.8	80.7	79.8	64.0	54.7	61.5	60.5	59.0	5.4
Teleport, Port Authority	1.2	0.9	2.2	1.1	1.3	1.5	6.7	6.7	6.9
Madison Square Garden	9.1	9.0	8.8	8.7	8.6	8.7	8.5	8.3	8.8
Commercial Revitalization and Expansion Program	—	—	—	1.3	3.6	7.0	14.1	18.1	19.3
Subtotal	$468.3	$446.6	$419.9	$389.1	$393.6	$444.1	$494.9	$527.1	$493.4
Residential Exemptions									
Public Housing, Housing Authority*	$312.2	$295.2	$281.7	$264.0	$255.3	$241.2	$239.5	$244.0	$254.1
Private Housing									
J-51 (exemption)	88.4	70.8	67.9	59.5	54.6	54.9	55.9	60.8	65.9
J-51 (abatement)	112.7	113.8	108.7	105.4	104.6	105.7	106.9	99.5	96.5
421-a New Multiple Dwelling	142.2	117.2	103.4	96.5	87.9	78.9	104.8	111.3	130.0
421-b New Private Housing	12.0	10.9	10.3	9.9	9.5	9.8	10.5	11.7	14.6
Senior Citizen Homeowner Exemption	13.8	15.1	17.2	18.2	19.8	21.1	25.6	26.7	28.4
Senior Citizen Rent Increase Exemption (abatement)	60.7	59.8	91.9	54.1	61.0	62.5	63.5	63.5	80.2
Division of Alternative Management Programs	3.1	3.9	3.7	4.0	4.3	4.6	5.4	5.8	6.7
Veteran Exemption	9.8	10.1	9.1	10.0	11.0	16.1	18.0	18.5	19.0
Co-op/Condo Abatement	—	—	—	9.0	91.8	152.7	157.8	170.1	181.3
Lower Manhattan Conversion	—	—	—	—	—	—	—	—	19.9
Other**	242.0	287.4	270.3	257.7	252.1	234.2	235.8	236.6	248.2
Subtotal	$996.9	$984.2	$964.2	$888.3	$951.9	$981.7	$1,023.7	$1,048.5	$1,144.8
Other Exemptions									
NY Power Authority	$30.8	$31.8	$34.5	$35.5	$38.5	$41.3	$44.7	$49.4	$50.3
Jamaica Water Supply	6.6	6.8	7.2	7.4	7.8	8.2	8.6	9.5	9.5
Trust for Cultural Resources	5.0	5.1	4.8	4.8	5.7	5.7	5.7	5.8	5.7
Subtotal	$42.4	$43.7	$46.5	$47.7	$52.0	$55.2	$59.0	$64.7	$65.5
TOTAL	**$1,507.6**	**$1,474.5**	**$1,430.6**	**$1,325.1**	**$1,397.5**	**$1,481.0**	**$1,577.6**	**$1,640.5**	**$1,703.7**

Source: Department of Finance

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

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

Notes:

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

Forecast: The real property tax revenue is forecast at $9,966 million in 2003, an increase of $1,318 million over the prior year or growth of 15.2 percent. The forecast is increased $40 million over the January Plan. Property tax revenue is forecast at $11,176 million in 2004, growth of 12.1 percent over 2003 and an increase of $9 million over the January Plan.

The increase in 2003 over 2002 results from the half-year impact of 18.49 percent tax rate increase effective January 1, 2003 and robust market value growth seen on the 2003 final roll. The 2003 change in the forecast results from a slowdown in refund processing which is expected to continue through the end of the year. The 2004 property tax revenue forecast is based on the tentative roll which was released by the Department of Finance on January 15, 2003. The tentative roll billable assessed value (before veterans and STAR exemptions) increased by $6.0 billion to $100.5 billion, growth of 6.3 percent over last year.

Class 1 properties (one-, two- and three-family homes) posted the largest increase in market value of all tax classes, 13.6 percent, the same as the previous year, and billable assessed value growth of 5.4 percent over 2003.* Class 2 properties (apartments, condominiums and cooperatives) showed market value growth on the tentative roll of 3.7 percent, down from last year's 9.4 percent, but billable assessed value growth was 7.4 percent, the same growth as seen in 2003, due to the sizable pipeline** built up over the last four years. Class 3 properties (utility) saw market value growth on the tentative roll of 1.2 percent down from last year's 4.7 percent, with the billable assessed value growth of 1.3 percent down from the growth of 4.7 seen in 2003. Class 4 properties (office and commercial space) saw market value growth of 6.0 percent on the tentative roll, higher than last year's 4.0 percent, and the billable assessed value increased 6.7 percent compared to the 4.4 percent growth seen in 2003.

The final roll, to be released in May, is estimated to be about $1.2 billion lower than the tentative roll level as a result of Tax Commission actions, Department of Finance changes by notice and completion of exemption processing.

In 2004, the levy is expected to increase by $1,488 million to $12,177 million, growth of 13.9 percent over 2003 due to the full year impact of the 18.49 percent tax rate increase effective January 1, 2003. Revenue from the property tax is forecast at $11,176 million, an increase of $1,210 million and growth of 12.1 percent over 2003. The reserve for uncollectible taxes is also forecast to increase significantly in 2004. This increase mainly stems from expected increases in delinquency, refunds and cancellations, which are all typical in an economic slowdown. Plan changes since January result in an increase of uncollectibles by $11 million and a decrease in lien sale proceeds by $30 million offset by a decline in the refund estimate by $50 million.

Market value growth is projected at 9.0 percent for the 2004 roll, not much different from the 8.4 percent annual average growth seen from 2000 to 2003 with the difference between actual and billable assessed values estimated at $8.3 billion. Even with a forecast slowdown in market value growth, the real property tax is expected to grow in the plan period, averaging 3.7 percent from 2005 through 2007.

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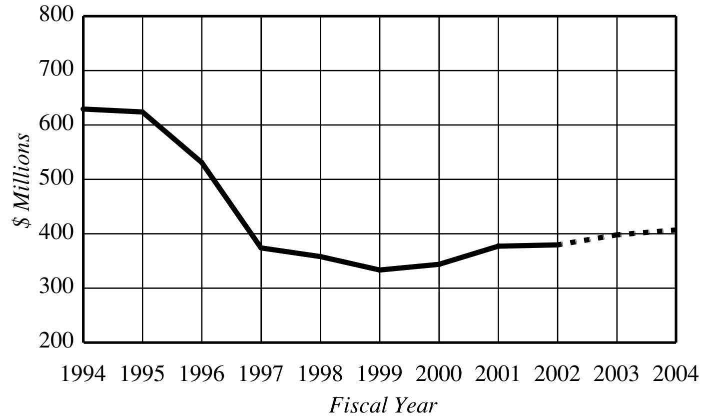
* *The operation of the real property tax law (S.7000A) limits the annual assessment increases for Class 1 properties to no more than six percent annually and 20 percent over five years.*

** *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.*

COMMERCIAL RENT TAX

The commercial rent tax is projected to account for 1.7 percent of tax revenue in 2004 or $407 million.

COMMERCIAL RENT TAX 1994-2004



Tax Base and Rate: The commercial rent or occupancy tax is imposed under Chapter 7 of Title 11 of the New York City Administrative Code, on the rental of space in New York City for commercial or professional purposes. The tax is levied only on tenants who rent space in Manhattan south of 96th Street at an effective rate of 3.9 percent. Tenants whose base rents are less than $250,000 per year do not pay tax; those whose base rents are in excess of $250,000 but less than $300,000 receive a sliding-scale credit.

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

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

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

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

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

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

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

The base rent exemption was again increased to $250,000 with a sliding scale of credit up to $300,000 effective June 1, 2001. The estimated cost of the increase is $40 million in 2002.

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

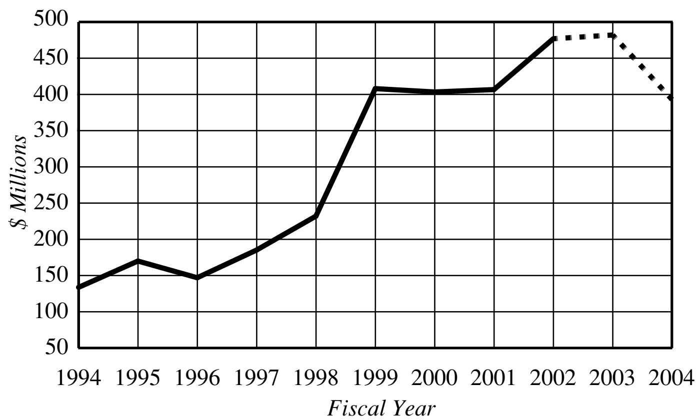
Forecast: Commercial rent tax revenue is forecast at $398 million in 2003, an increase of $18 million from the 2002 level or 4.8 percent, and no change from the January Plan level. The projected increase over 2002 stems from an anticipated increase in collections for the second half of the year due to the pass-through to commercial tenants of the recent property tax rate increase. The 2004 commercial rent tax revenue is forecast at $407 million, growth of 2.3 percent over 2003 and a decrease of $6 million from the January Plan. The slowdown of growth for 2004 revenue reflects weakening asking rents and increasing vacancy rates. Also included in the forecast for 2004 through 2007 is $2 million per year for a proposal requiring legislative action (State law required) to increase the rate of interest on underpayments. With asking rents forecast to stabilize and the vacancy rate declining in calendar years 2005 through 2007, commercial rent tax collections are projected to grow an average of 2.8 percent from 2005 through 2007.

MORTGAGE RECORDING TAX

The mortgage recording tax is projected to account for 1.6 percent of tax revenue in 2004, or $393 million.

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

MORTGAGE RECORDING TAX 1994-2004



Mortgage Recording Tax Rates

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

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

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

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

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

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

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

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

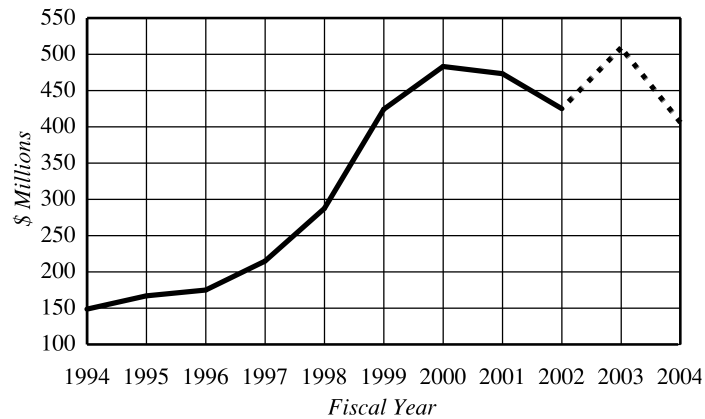
Forecast: The mortgage recording tax for 2003 is forecast at $482 million, 1.1 percent growth over the prior year and an increase of $34 million from the January Plan level. In recent years, the mortgage recording tax has reached levels never before seen, reflecting continued strength in real estate values, real estate sales activity and mortgage refinancing, which are all partly attributable to the lowest interest rate environment since the early 1960s. This upward forecast revision is based on an analysis of year-to-date collections through March. In addition, the forecast for residential collections in the fourth quarter of 2003 is increased by $10 million due to a slower than previously expected fall-off in the residential real estate market. The forecast decline in residential collections for the fourth quarter of 2003 is 36.7 percent after a robust growth of 18.2 percent year-to-date through March. Over all, residential collections in 2003 are forecast at $318 million, growth of 1.7 percent over 2002. Collections from commercial transactions in 2003 are forecast at $164 million, close to the level seen last year or flat growth. After adjusting for the recording of the World Trade Center (WTC) mortgage last year, collections growth from commercial transactions is forecast at 9.3 percent in 2003.

For 2004, the mortgage recording tax is forecast at $393 million, a decline of 18.5 percent from 2003. Transactions from both commercial and residential mortgage recording activities are forecast to slow in 2004 as real property sales, as well as mortgage refinancing, falter due to a forecast rise in interest rates and the effects of the prolonged national slowdown. Also included in the 2004 and 2005 through 2007 forecasts are $4 million and $5 million, respectively, for a proposal requiring legislative action (State law required) to close a loophole. From 2005 through 2007, the tax averages growth of 3.9 percent.

REAL PROPERTY TRANSFER TAX

The real property transfer tax is projected to account for 1.7 percent of tax revenue in 2004, or $406 million.

REAL PROPERTY TRANSFER TAX 1994-2004



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

Real Property Transfer Tax Rates

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

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

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

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

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

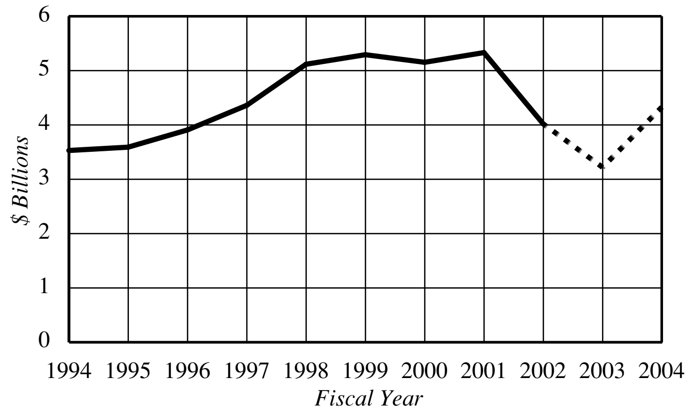
In June of 1994, a State law was passed which provided a temporary 50 percent reduction in the rate of the real property transfer tax for certain transfers to newly organized Real Estate Investment Trusts (REITs). This provision is now permanent. In addition, a 50 percent reduction is applicable to transfers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

Forecast: The real property transfer tax for 2003 is forecast at $509 million, growth of 19.7 percent and an increase of $45 million from the January Plan level. As with the mortgage recording tax, the real property transfer tax has reached record levels in recent years, reflecting the continued strength in real estate sales attributable to the record low interest rate. This strong real estate transaction activity has surprised many in the wake of the September 11th terrorist attack and the national and local recessions. Collections growth from residential transactions has continued into 2003 with continued strength seen in property values and transaction volume. The strength of commercial transactions has also been robust this year, a result of sales of several large office towers. The upward forecast revision in 2003 is based on an analysis of year-to-date collections through March. In addition, the forecast for residential collections for the fourth quarter of 2003 is increased by $15 million due to a slower than previously expected fall-off in the residential real estate market. The forecast decline in residential collections for the fourth quarter of 2003 is 10.7 percent after a stellar growth of 24.3 percent year-to-date through March. Overall, residential collections in 2003 are forecast at $319 million, growth of 14.5 percent over 2002. Collections from commercial transactions in 2003 are forecast at $190 million, growth of 29.6 percent over 2002. In 2004, collections from residential transactions are forecast to show a decline of 15 percent with a flat employment gain and interest rate increases, while collections from commercial transactions decline 31 percent. The forecast accounts for $4 million in 2004 and $5 million in 2005 through 2007 for proposals requiring legislative action (State law required) to close a loophole and to collect additional State reimbursement for administering the tax. From 2005 through 2007, the tax averages growth of 6.8 percent.

PERSONAL INCOME TAX

The personal income tax is projected to account for 17.9 percent of tax revenue in 2004, or $4,328 million.

PERSONAL INCOME TAX 1994-2004



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

Tax Base and Rates: The personal income tax is imposed on the taxable income of resident individuals, estates and trusts. The starting point for determining taxable income is Federal adjusted gross income (AGI). This amount is adjusted for statutory modifications to yield New York AGI. Taxable income is derived by subtracting the New York deduction and New York exemptions from New York AGI. Taxpayers may claim the New York standard deduction or the New York itemized deduction (Federal amount subject to New York modifications). High income taxpayers are subject to percentage reductions in their New York itemized deductions. Finally, taxpayers are allowed a flat exemption amount for each dependent. There are different tax rate schedules for single, head of household, married taxpayers filing jointly and married taxpayers filing separately. These separate schedules were introduced in 1987. The current top marginal rate is 3.65 percent. In addition to the base tax, taxpayers who make extensive use of tax preferences are liable for a tax of 2.85 percent on their New York minimum taxable income.

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

2003 Rate Schedule

	Over	But Not Over	Pay	Plus	Of the Amount Over
Rate Schedule for Single Filers	$ 0	$12,000	$ 0	2.907%	$ 0
If net income is:	12,000	25,000	349	3.534	12,000
	25,000	50,000	808	3.591	25,000
	50,000		1,706	3.648	50,000
Rate Schedule for Joint Filers	$ 0	$21,600	$ 0	2.907%	$ 0
If net income is:	21,600	45,000	628	3.534	21,600
	45,000	90,000	1,455	3.591	45,000
	90,000		3,071	3.648	90,000
Rate Schedule for	$ 0	$ 14,400	$ 0	2.907%	$ 0
Head of Household Filers	14,400	30,000	419	3.534	14,400
If net income is:	30,000	60,000	970	3.591	30,000
	60,000		2,047	3.648	60,000

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

New York Dependent or Personal Exemptions and Standard Deductions, 1966-2003

Tax Year	Exemption	Standard Deduction
2003	None for taxpayers, $1,000 for each dependent	$7,500 for individual, $10,500 for head of household, $14,600 for joint filers, and $3,000 for dependent taxpayers
2002	Same as above	$7,500 for individual, $10,500 for head of household, $14,200 for joint filers, and $3,000 for dependent taxpayers
2001	Same as above	$7,500 for individual, $10,500 for head of household, $13,400 for joint filers, and $3,000 for dependent taxpayers
1997 - 00	Same as above	$7,500 for individual, $10,500 for head of household, $13,000 for joint filers, and $3,000 for dependent taxpayers
1996	Same as above	$7,400 for individual, $10,000 for head of household, $12,350 for joint filers, and $2,900 for dependent taxpayers
1995	Same as above	$6,600 for individual, $8,150 for head of household, $10,800 for joint filers, and $2,800 for dependent taxpayers
1989 - 94	Same as above	$6,000 for individual, $7,000 for head of household, $9,500 for joint filers, and $2,800 for dependent taxpayers
1988	Same as above	$5,000 for individual, $6,000 for head of household, $8,500 for joint filers, and $2,800 for dependent taxpayers
1987	$900 *(Available for taxpayers and each dependent)*	$3,600 for individual, $4,600 for head of household, $5,300 for joint filers, and $2,800 for dependent taxpayers
1986	$850	$2,600 for individuals, $3,000 for married couples and heads of households
1985	Same as above	$2,500 for individuals, $2,750 for married couples and heads of households
1982 - 84	$800	17% of AGI subject to a minimum of $1,500 ($2,000 for married couples) and a maximum of $2,500
1981	$750	Same as above
1980	Same as above	16% of AGI subject to a minimum of $1,400 ($1,900 for married couples) and a maximum of $2,400
1979	$700	Same as above
1978	$650	Same as above
1976 - 77	Same as above	15% of AGI subject to a minimum of $1,000 ($1,500 for married couples) and a maximum of $2,000
1966 - 75	$600	For all taxpayers 10% of AGI or $1,000, whichever is less

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

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

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

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

The most significant changes to the law were large increases in the standard deduction and the introduction of a household credit to replace the low-income exclusion. For a joint filer with two dependents, these changes raised the threshold below which no tax is due from $11,000 in calendar year 1986 to $14,025 in 1987, $15,550 in 1988, and $16,046 in 1989 and 1990. Imposition of the 14 percent increase in 1991 lowered the threshold to $15,484 from 1991 to 1994. The taxable threshold increased again in 1995 to $16,691 and in 1996 to $17,499, as a result of increases in the standard deduction. An increase in the base rates in 1997 lowered the threshold to $15,001 from 1997 to 1998. The taxable threshold grew to $16,164 in 1999 as a result of the STAR program, and increased to $17,831 in 2000, with an increase in STAR credits and rate cuts. In 2001, the taxable threshold grew to $20,079, with the full phase-in of STAR, the reduction in the 14 percent additional tax and the increase in the joint filer standard deduction. In 2002 and 2003, the taxable threshold grows to $20,546 and $20,918, respectively, the result of further increases in the joint filer standard deduction.

Progressivity in the tax has been enhanced by placing limitations on the amount of itemized deductions allowable for New York purposes. Since 1989, itemized deductions for single filers with New York adjusted gross income over $100,000 and joint filers with New York adjusted gross income over $200,000 have been reduced up to 50 percent (20 percent in 1988).

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

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

Beginning in tax year 1991, the City imposed a three-year 14 percent income tax increase on City residents, increasing the top rate from 3.91 percent to 4.46 percent through tax year 1998. Low income taxpayers were not exempt from the increase. The increase has been extended four times, in 1993, 1995, 1997 and 1999. State legislation in 1999 extended the increase through tax year 2001, while also granting local authority to lower by local law the 14 percent additional tax, effective July 24, 2000. Subsequently, the 14 percent additional tax was reduced, effective January 1, 2001. The reduction in the additional tax was structured as follows: for taxable income below the top tax bracket for each filing type ($50,000 for single filers, $90,000 for joint filers and $60,000 for head of household filers) the 14 percent additional tax was reduced to 7 percent. For taxable income at or above the top tax bracket the additional tax remained 14 percent. As part of the Adopted Budget for 2002, the 14 percent additional tax was again reduced, retroactive to January 1, 2001. The reduction, intended as an across the board 3.5 percentage point cut effective for one-half year, was implemented as a retroactive 1.75 percentage point cut effective for the full-year. The reductions in the 14 percent additional tax were expected to extend beyond tax year 2001. However, after September 11, 2001, the extension of the reductions in the 14 percent additional tax was no longer sought. Consequently, the full 14 percent additional tax became effective again as of January 1, 2002. The additional tax currently expires December 31, 2003.

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

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

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

As part of New York State's budget for fiscal year 1997-98, the State enacted the School Tax Relief program (STAR) to provide school tax relief to localities. In addition to reductions in the property tax, the STAR program reduces City personal income tax liability through both a rate cut and a refundable credit for resident filers. The STAR rate cut is an across the board reduction in tax rates starting in tax year 1999 with a 1.25 percent reduction, increasing to 2.5 percent in tax year 2000, and to 5.9 percent in tax year 2001. The State reimburses the City for the foregone personal income tax revenue. As part of New York State's budget for fiscal year 1998-99, the State accelerated the STAR program credit against the City resident personal income tax for senior citizens. Beginning with tax year 1998, seniors receive a credit of $125 if they file jointly and $62.50 if they use other filing statuses. Non-seniors received a credit of $12 in tax year 1998, and the credit increased to $125 for joint filers and $62.50 for other filers by tax year 2001.

State Sponsored Personal Income Tax Reductions
($ Millions)

	2000	2001	2002	2003	2004	2005	2006	2007
STAR Program:								
Credit	($131)	($180)	($252)	($252)	($252)	($252)	($252)	($252)
Rate Cut	(69)	(235)	(268)	(288)	(269)	(292)	(329)	(352)
STAR Program Total	($200)	($415)	($520)	($540)	($521)	($544)	($581)	($604)

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

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

On May 17, 1999, the State Legislature passed, and on May 27, 1999 the Governor signed into law a selective repeal of the City's nonresident earnings tax, limiting the nonresident earnings tax to commuters who live outside of New York State, effective July 1, 1999. Recognizing that this selective application of the City nonresident earnings tax posed possible constitutional problems, the legislation provided that if the exemption of State residents from the tax was found unconstitutional, the entire tax would be repealed effective July 1, 1999. After passage, individuals from New Jersey and Connecticut, and the State of Connecticut filed complaints against New York State, arguing that selective imposition of the nonresident earnings tax violated the Privileges and Immunities Clause, the Commerce Clause, and the Equal Protection Clause of the United States Constitution. Additionally, the City filed a complaint against New York State seeking a declaration that the legislation violated the home rule provisions of the New York State Constitution. The New York Supreme Court and the Appellate Division found that the law violated the Privileges and Immunities Clause and the Commerce Clause of the United States Constitution. The courts also ruled against the City, finding that the law did not violate State constitutional home rule requirements. The decisions were appealed by the State and City to the Court of Appeals, the State's highest court. On April 4, 2000, the Court of Appeals upheld the lower court's decisions. This decision activated the provision in the State's legislation to extend the repeal to out-of-state nonresidents, retroactive to July 1, 1999.

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

As a result of the September 11, 2001 terrorist attack, the filing deadline for the quarterly estimated tax payment due through December 10, 2001 was extended to December 10, 2001. In addition, allowance was made for late filing of payroll withholding until December 10, 2001.

The Federal Job Creation and Worker Assistance Act of 2002 includes an extension of two nationwide business relief tax provisions, a 30 percent depreciation allowance and net operating loss extensions. Additionally, this act established the New York Liberty Zone (NYLZ) in New York City and provides a number of special tax incentives for businesses within the NYLZ. Since the New York City tax laws couple to Federal definitions, the Federal tax reduction flows directly through to the New York City tax base and is consequently expected to reduce personal income tax collections beginning in 2003 by approximately $12 million with the largest components of the cost relating to a 30 percent depreciation deduction.

Tax relief for the victims of the September 11, 2001 terrorist attack was provided under New York State Law as part of Chapter 85 of the Laws of 2002. For tax year 2000 and after, New York State will forgive the New York State, New York City and Yonkers income tax liabilities of decedents who died as a result of the attack. Income tax is forgiven for these decedents whether they were killed in the attack or in rescue or recovery operations. Any forgiven tax liability owed but not paid will not have to be paid. Any forgiven tax liability that has already been paid will be refunded. This tax relief is estimated to reduce revenues by $7 million in 2003.

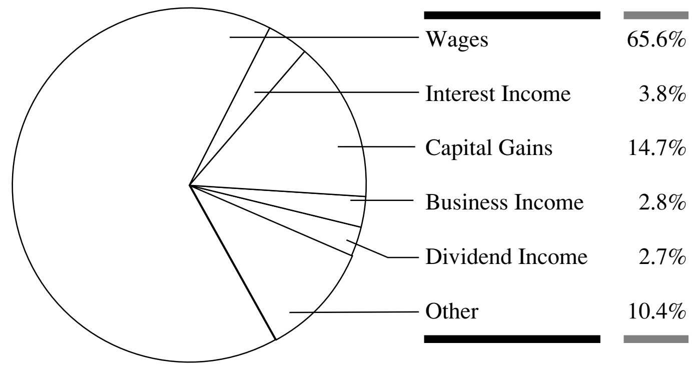
Distribution of Liability: A sample of 2000 tax returns reveals that the majority of resident returns were filed by taxpayers with adjusted gross income less than $50,000 (see charts on this page). However, the 24 percent of taxpayers with income greater than $50,000 paid 84 percent of the tax. Wage income was 66 percent of total reported income on resident returns. Capital gains realizations and interest income were the second and third largest sources of income, accounting for approximately 15 percent and four percent, respectively, of total reported income. Generally, higher income taxpayers earned most of the nonwage income in the City.

Administration: The New York City personal income tax has been administered by New York State since 1976. All collection information received is from the New York State Department of Taxation and Finance. Daily collection and refund reports are produced by the Accounting Bureau and sent to the City. At the end of the month the City receives a letter from the State Comptroller verifying the final amount of personal income tax revenue by component due to the City for that month. Each month the State charges the City for the administration of the tax. The charge is based on State expenditures for data entry, processing of tax returns and taxpayer services which can be attributed to the City. For 2002, the administrative charge paid by the City was $33 million.

Withholding Tables: Withholding tables are adjusted to reflect changes made to tax rates, standard deductions or the dependent exemption. To implement the New York City Tax Reduction Act of 1987, withholding tables were adjusted in October 1987, October 1988 and October 1989. To implement the temporary surcharge, withholding tables

COMPONENTS OF INCOME

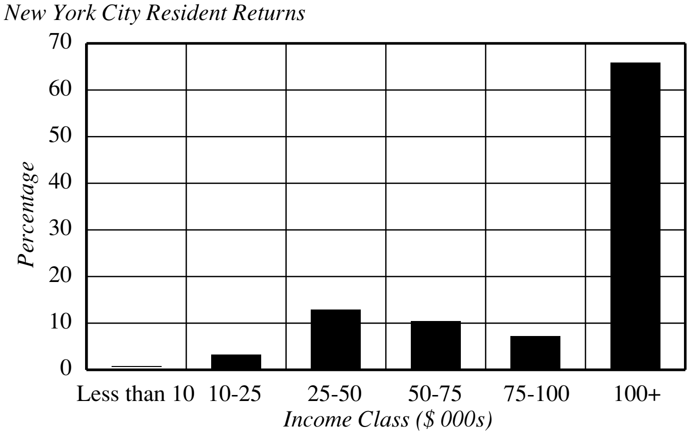
New York City Resident Returns—Tax Year 2000



Source: NYC Department of Finance, Office of Tax Policy

SHARE OF LIABILITY

Tax Year 2000
New York City Resident Returns



Source: NYC Department of Finance, Office of Tax Policy

NUMBER OF FILERS

Tax Year 2000
New York City Resident Returns

Source: NYC Department of Finance, Office of Tax Policy were changed in October 1990 and again in October 1991 to reflect the implementation of the 14 percent increase. Withholding tables were changed in January 1999 to reflect the expiration of the 12.5 percent surcharge and again in July 1999 to reflect a reduction in rates due to implementation of the STAR program. Effective January 1, 2000, the City nonresident withholding tables were changed to reflect a reduction in nonresident rates from 0.45 to 0.25 percent on wages, and from 0.65 to 0.375 percent on net earnings from self-employment. The lower rates applied to out-of-state nonresidents only, as in-state nonresidents were exempt from the nonresident earnings tax from July 1, 1999 on. The nonresident earnings tax repeal did not apply to out-of-state nonresidents until April 4, 2000. Effective January 1, 2001, the withholding tables were changed to reflect the first reduction of the 14 percent additional tax and the last installment of the STAR program rate cut. In response to the second reduction of the 14 percent additional tax effective for tax year 2001, the withholding tables were changed again, effective October 1, 2001. On June 1, 2002, the withholding tables were changed to reflect the full re-imposition of the 14 percent additional tax.

Forecast: The personal income tax is forecast at $3,220 million in 2003, a decline of 19.9 percent from the prior year and a decline of $727 million from the January Plan forecast. In 2004, the personal income tax before factoring in the increased revenue from the $1.4 billion reform of the tax, is forecast at $4,328 million, an increase of 34.4 percent over the prior year and an increase of $486 million from the January Plan forecast. The forecast reflects the effects of the STAR program tax cut, the nonresident earnings tax repeal and the full re-imposition of the 14 percent additional tax beginning in tax year 2002. Moreover, the forecast reflects reductions in personal income tax collections deposited in the general fund due to the TFA retention of $1,164 million in 2003 and $206 million in 2004. Adjusted for these reductions, the personal income tax is forecast to decline 8.5 percent in 2003 with growth rebounding 5.6 percent in 2004.

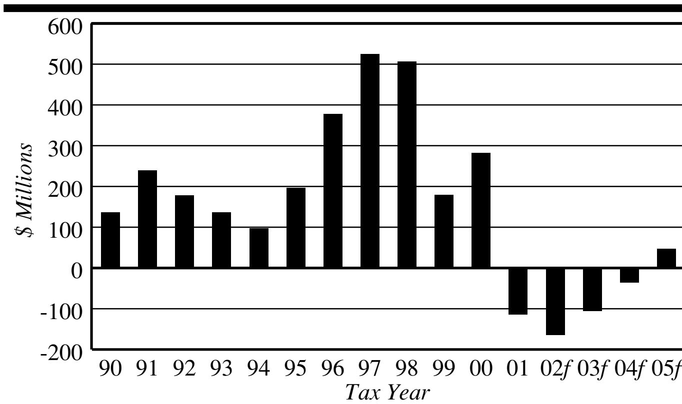
Personal income tax receipts remain depressed in 2003, the second year of decline since personal income tax collections peaked in 2001. The national recession, the bear market on Wall Street and the aftermath of September 11th have severely reduced income subject to the personal income tax. The FIRE sector bonus payout and employment have both declined in the two consecutive years since calendar year 2000. As a result, personal income tax collections on a common rate and base fell 8.5 percent in 2003, after falling 14.7 percent in 2002, following average growth of 13.5 percent from 1996 through 2001.

In 2003, withholding is forecast to decline 1.0 percent on a common rate and base, after a decline of 5.6 percent in 2002. This continued weakness stems from a 2.1 percent decline in wage earnings in 2003 following the 5.7 percent decline in the previous year. The 2003 wage earnings decline results partially from a 21 percent drop in the bonus payout in calendar year 2002 which almost equaled the 27 percent decline seen in the previous year's bonus payout. However, employment losses totaling 76,000 jobs over the course of the year also depressed earnings. From July through November, withholding collections on a common rate and base were flat at 0.7 percent growth. From December through March (the bonus period), withholding collections fell 3.6 percent, after a decline of 5.7 percent the prior year. During the remaining quarter of the year, withholding is forecast to decline 0.1 percent on a common rate and base, flat over the prior year.

Installment payments on liability year 2002 declined 28 percent on a common rate and base after the 14.4 percent decline seen in 2001. Installment payments have suffered from the sharp declines in capital gains realizations, estimated to have declined an additional 38 percent in tax year 2002 after a decline of 44 percent in tax year 2001. Anemic growth in other nonwage income sources contributes to the weak installment payments on 2002 liability.

Settlement payments (final returns, extensions, State/City offsets and refunds) on liability year 2002 are forecast to decline over $77 million from the prior year. Total liability on tax year 2002 is forecast to decline 10 percent (common rate and base), and to decline 9.5 percent after including the impact of the tax law changes. Refunds on tax year 2002 are expected to decline from last year's level (over $890 million were paid out on tax year 2001) due to the under-withholding that took place before the June 1, 2002 withholding table increase went into effect. The remaining components of the spring are also expected to fall slightly from prior year levels due to the apparent inability of prepayments to fully capture the decline in tax year 2002 liability resulting from the additional deterioration in capital gains realizations in tax year 2002.

SETTLEMENT PAYMENTS



Note: Adjusted for the City/State final return reconciliation.
f = Forecast

For 2004, personal income tax revenue, including TFA retention, is forecast at $4,328 million, or growth of 34.4 percent from the prior year. This is an increase of $486 million from the January Plan forecast. Additionally, the City estimates a revenue loss of approximately $10 million in 2004 stemming from the depreciation allowance created through the Federal Job Creation and Worker Assistance Act of 2002. On a common rate and base, the personal income tax is forecast to grow 5.6 percent in 2004.

Withholding is expected to grow a sluggish 1.9 percent in 2004, reflecting an increase in wage earnings of 1.8 percent. This wage earnings forecast reflects a slight decline in private employment growth in 2004, with trend non-FIRE wage rate growth of 3.1 percent, and a weak FIRE wage rate growth of 2.6 percent. Installment payments are forecast to fall 5.4 percent in 2004, reflecting a further 10 percent forecast decline in capital gains realizations in tax year 2003. Technical adjustments relating to the reconciliation of prior year final returns bring overall growth to 3.4 percent (before TFA retention).

Personal income tax revenue is forecast to average 6.3 percent growth from 2005 through 2007, on a common rate and base, as wage and nonwage income sources rebound with the national economy and as capital gains realizations recover with stabilized equity markets.

Personal Income Tax Collections By Component
($ Millions)

	2001	2002	2003 f	2004 f
Withholding	$4,179	$3,797	$3,883	$3,958
Estimated Payments [1]	1,390	933	740	720
Final Returns	485	248	214	264
Other [2]	444 [3]	341	414	345
Gross Collections	$6,498	$5,319	$5,251	$5,287
Refunds	(748)	(849)	(865)	(750)
Net Collections	$5,750	$4,470	$4,384	$4,534
Less TFA Retention	(419)	(451)	(540)	(830)
TFA Discretionary Transfer	—	—	(624)	624
Total	$5,331	$4,019	$3,220	$4,328

(1) Includes extension payments.

(2) Offsets, charges, assessments less City audits. In 2001, the amount includes $8 million of collections returned to the City from the TFA.

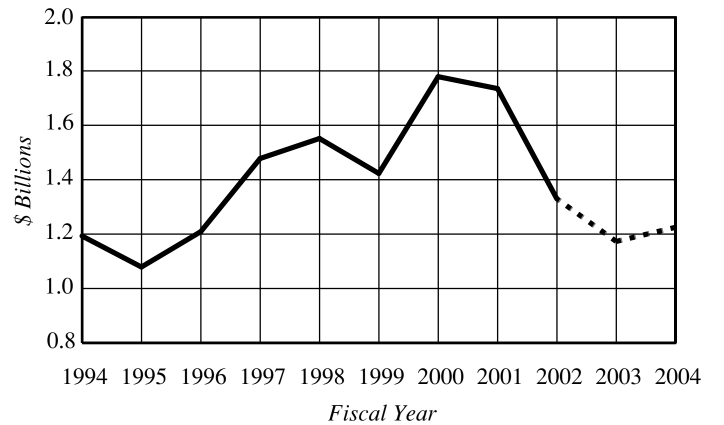
(3) In 2001, gross collections are increased by a liability accrual of $114 million that was transferred from 2001 to 2000 for the commuter taxes withheld from New York State nonresidents for the period July 1, 1999 through April 2000.

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

GENERAL CORPORATION TAX

The general corporation tax is projected to account for 5.1 percent of tax revenue in 2004, or $1,225 million.

GENERAL CORPORATION TAX 1994-2004



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

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

The starting point for determining the net income base, 80.4 percent of corporate liability in tax year 1999, is Federal taxable income, which must be modified to account for differences between New York City and Federal treatment of various items, including depreciation, tax-exempt interest and net operating loss deductions. This modified income must be divided between business income and investment income, and then allocated between income derived from New York City activities and income derived from activities outside of the City. Business income is defined as the firm's entire net income less its investment income (dividends and interest from nonsubsidiary operations). Investment income is allocated according to the amount of capital employed in New York City by the issuing corporation. The allocation formula used by most firms for business income is the average of the following ratios: (1) New York City tangible property to total property; (2) New York City receipts to total receipts; and (3) New York City payroll to total payroll. Manufacturing firms are allowed to "double weight" the receipts factor for tax years beginning on or after July 1, 1996. Slightly over half of the general corporation tax paid on the net income basis is from firms which allocate business income because they have operations both inside and outside of New York City.

The income–plus–compensation base accounted for approximately 12 percent of corporate tax liability in tax year 1999. The purpose of this alternative base is to tax firms which may lower their taxable income by disguising dividends (which are not deductible) as salaries and other forms of compensation (which are deductible). The starting point for determining this base is New York City allocated net income, to which must be added back the compensation paid to shareholders owning more than five percent of the corporation's outstanding stock. After a statutory deduction of $40,000, the firm applies the 8.85 percent rate to 30 percent of this base (hence the 2.655 percent effective tax rate).

The alternative tax on allocated capital accounted for approximately four percent of all corporate tax liability in tax year 1999. This base is designed to tax firms which have low net income, either because of temporary financial difficulties or because of extensive use of tax preferences, such as deductions and net operating loss carryforwards. To determine the tax obligation under this base, a firm must compute the value of its business and investment assets, deduct liabilities against those assets and, if eligible, allocate a portion of the business capital and investment capital to the City using the same allocation formulas described previously. The 0.15 percent rate is then applied.

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

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

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

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

In June of 1989, the City's tax law was amended again. This time it was to conform to changes which were made to the Article 9-A tax as part of the State's fiscal year 1989-90 tax program. As part of this legislation, which generally became effective in tax year 1989, the City: (1) increased the flat fee minimum tax from $125 to $300; (2) eliminated net operating loss carrybacks; (3) limited tax benefits for merger and acquisition activity; (4) repealed the transportation tax, moving these taxpayers to the general corporation tax; (5) amended the provision which allowed taxpayers to exclude from entire net income 50 percent of dividends from nonsubsidiary corporations by disallowing the deduction when the shares of stock are held for less than 45 days; (6) disallowed the option to use the business allocation percentage or the investment allocation percentage based upon whether the taxpayer was predominantly a business corporation or an investment corporation; and (7) clarified the rules for issuer's allocation percentage of a corporate issuer of stock.

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

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

In 1994, New York State enacted legislation which allowed for the formation of a new type of business entity in New York State, a limited liability partnership or company (LLC). LLCs have some of the limited liability aspects of corporations and the tax treatment of partnerships for Federal, State and local tax purposes. LLCs pay a fee to the State, and those conducting business in the City are subject to the City unincorporated business tax. Over time, the number of corporations is expected to decline as new businesses increasingly opt for the LLC business form. The shift of filers from the general corporation tax base to the unincorporated business tax base is forecast to decrease the corporation tax collections by an estimated $145 million in 2004 and $160 million by 2007.

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

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

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

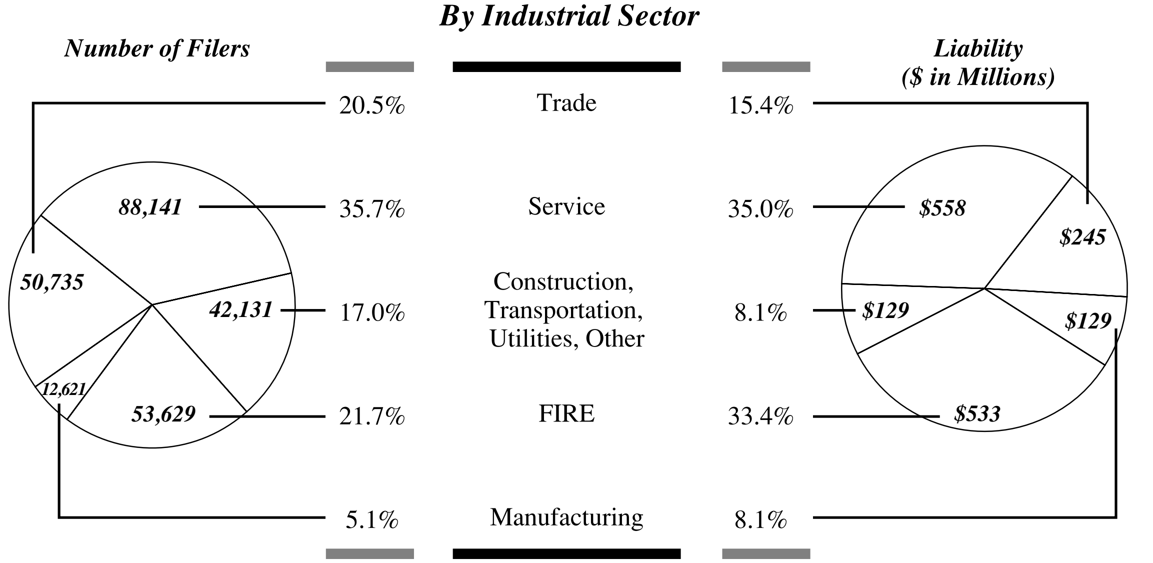
In an effort to promote greater uniformity between the State and City corporate income tax laws, amendments were made to the City's tax in 2001 which include: (1) repeal of City tax provisions enacted in 1990 that penalized certain highly leveraged mergers, consolidations and acquisitions for tax years beginning after 1999, (2) modification to the calculation of the mandatory first estimated tax installment to allow credits to be deducted in determining the amount of the prior year's tax used to calculate the first installment, (3) amendment of various tax provisions governing deficiencies and overpayments attributable to net operating loss carrybacks to include deficiencies in overpayments attributable to carrybacks of capital losses.

The Federal Job Creation and Worker Assistance Act of 2002 allows taxpayers an additional 30 percent depreciation deduction in the first year "qualified property" is placed in service. A similar depreciation deduction for "qualified property" in the New York Liberty Zone (NYLZ) and the Resurgence Zone is allowed. The NYLZ generally encompasses the area in the borough of Manhattan below Canal Street and the Resurgence Zone encompasses the area between Canal Street and Houston Street. Additionally, the Act also allows NYLZ leasehold improvements to be depreciated over a five-year period using a straight line method as well as an additional first-year expense deduction of up to $35,000 for "qualified NYLZ property". To avoid a significant loss of revenue, New York City General Corporation Tax law was amended to limit the depreciation deductions to "qualified property" within the NYLZ and the Resurgence Zone only and to limit the additional first-year expense deduction to "qualified NYLZ property".

As a result of the September 11, 2001 terrorist attack, the filing deadline for the quarterly estimated tax payment due September 17, 2001, was extended to December 17, 2001.

GENERAL CORPORATION TAX *(Tax Year 1999)*

By Industrial Sector



Source: NYC Department of Finance, Office of Tax Policy

Industrial Mix of General Corporation Tax Revenue: The importance of the finance, insurance and real estate sector (FIRE) and the service sectors (information, professional/technical/managerial and other sectors) to the New York City economy is clear. Together these sectors account for approximately 68.4 percent of corporate tax liability and 57.4 percent of all filers. The trade sector represents 15.4 percent of corporate liability and 21 percent of filers while manufacturing accounts for eight percent of liability and five percent of filers. The remaining eight percent of corporate liability is generated by construction, transportation, utilities and other firms.

Historically, growth and decline in corporate tax revenue have paralleled the declining and expanding fortunes of the FIRE sector. Within the FIRE sector, it is the securities and commodities subsector that drives liability and consequently swings total corporate tax liability (the other FIRE subsectors include insurance companies, credit agencies, funds and trusts and real estate firms). The securities and commodities subsector contains a relatively small number of filers that generate a very high share of corporate tax liability. In tax years 1996, the securities and commodities subsector accounted for only one percent of corporate tax filers, but generated 16 percent of corporate tax liability. This subsector's liability increased to 18 percent of total corporate liability in 1997 and to 20 percent of the total in 1998. In 1999, securities and commodities firms accounted for 21 percent of total corporate tax liability but made up just over two percent of filers.

An understanding of FIRE sector payment swings, as driven by earnings in the securities and commodities subsector, sheds light on the movement in overall corporate tax liability. Following the stock market crash in October of 1987, FIRE sector liability declined precipitously in 1988, then remained flat through 1990. However, in 1988, the rest of the corporate tax base grew just enough to offset the decline in FIRE sector liability, yielding a total liability growth of just over one percent. With the local economy stagnating in 1989 and 1990, non-FIRE liability began to fall as well, leading to year-over-year declines in total liability. In 1991 and 1992, however, a strong rebound in FIRE sector liability mitigated the somewhat deepening recession's corrosive impact on non-FIRE corporate liability. By 1993, a then record increase in profitability sent FIRE sector payments to a new level, helping push overall liability up by double-digit rates. An abrupt end to this string of increases happened in 1994, when financial firms that made investment decisions assuming a continuation of the four-year decline in long and short-term interest rates saw heavy losses when the Federal Reserve began raising rates in February, 1994. The price of longer term bonds fell precipitously, leading to large drops in bond trading income. At the same time short-term rates jumped, pushing up expenses. These two trends combined to shrink profitability and consequently tax liability. In 1995, FIRE sector liability rebounded with pre-tax profits from New York Stock Exchange member firms reaching $7.4 billion over the $1.1 billion earned in calendar year 1994. The rebound in FIRE sector profits stemmed from a reversal of events which depressed earnings in calendar year 1994. The Federal Reserve stopped raising interest rates and actually eased the Federal Funds rate twice in 1995, having achieved a much touted soft landing. The financial markets responded with a strong recovery, leading to impressive gains across all securities industry market segments. Record profits in the securities industry in 1996 increased FIRE sector liability by 34 percent while total corporate liability grew by over 19 percent. The securities industry continued its successful trend in 1997 and equity markets in the U.S. had a banner year with equity prices as measured by the Dow Jones Industrial Average (DJIA) posting a 23 percent gain. This followed a 26 percent rise in 1996 and a 34 percent advance in 1995. Corporate tax liability increased by 6.4 percent in tax year 1997 boosted by 11.9 percent growth in FIRE liability, but in 1998 the securities industry posted lower profits as a result of global volatility in financial markets in the third quarter sparked by Russia's economic crisis. This led to a decline in FIRE liability in tax year 1998, and total corporate liability increased by less than one percent. In 1999, total corporate liability increased by six percent as securities industry profits rebounded from the prior year although FIRE sector liability increased by less than eight percent.

Forecast: The 2003 general corporation tax is forecast at $1,173 million, a decline of 11.8 percent from the prior year and no change from the January Plan forecast. For 2004, the general corporation tax is forecast at $1,225 million, growth of 4.4 percent from the prior year, and a $49 million drop from the January Plan forecast. On a common rate and base, general corporation tax revenue is forecast to decline 7.7 percent in 2003 and increase 4.0 percent in 2004.

Through March, general corporation tax collections have declined 10.0 percent from the prior year period. The decline in collections reflects weakness in the economy in calendar year 2002 at the national and local levels as well as the bear market. Revenue at securities firms declined in almost all business areas and firms managed to eke out profits only by slashing costs. With the dollar volume of stock underwriting falling to the lowest level in a decade, lower-margin bond underwriting reached a record to partially offset this decline. Only earnings from commissions improved from the prior year and NYSE member-firm profits fell to $6.9 billion, the lowest level since 1994. FIRE liability for corporate taxpayers is estimated to have declined 14.8 percent in calendar year 2002, having fallen almost 17 percent in 2001.

The non-FIRE sector of the City's economy also displayed weakness in calendar year 2002 with real Gross City Product falling an estimated 5.4 percent. With this weakness locally and a drop in US pretax corporate profits of 2.0 percent, following a decline of over 14 percent in 2001, non-FIRE corporate tax liability is forecast to have fallen 8.6 percent for tax year 2002. With payments from FIRE and non-FIRE firms falling and refunds increasing as taxpayers unwind the overpayments made in tax year 2000 and 2001, 2003 tax collections fall 7.7 percent on a common rate and base.

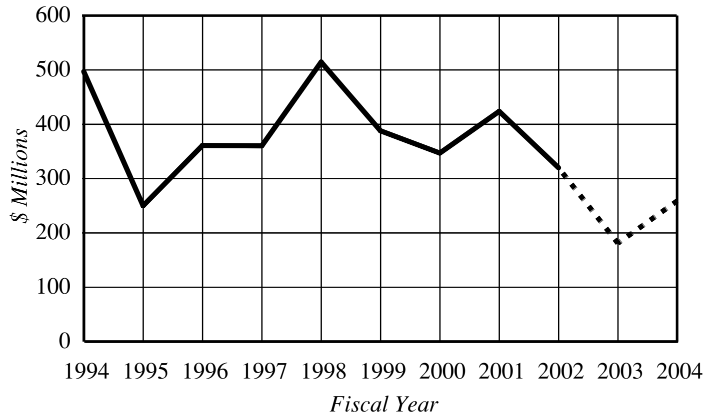
Despite weakness in many local business sectors, the general corporate tax is forecast to increase by 4.4 percent in 2004. National corporate pretax profits are forecast to increase 8.1 percent and securities industry profits are projected to improve slightly from 2002. The biggest boost, however, comes from a $68 million decline in refunds expected to be paid out as taxpayers' cash payments converge with liability. Modest growth is projected for the securities industry and national pretax corporate profits from calendar year 2005 through 2007, and corporate tax refunds are forecast to fall to trend levels, yielding collections growth of 7.1 percent on average (common rate and base) in the outyears of the plan. Also included in the forecast for 2004 through 2007 is $4 million for a proposal requiring legislative action (local law required) to increase the rate of interest on underpayments.

BANKING CORPORATION TAX

The banking corporation tax is projected to account for 1.1 percent of tax revenue in 2004, or $259 million.

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

BANKING CORPORATION TAX 1994-2004



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

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

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

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

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

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

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

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

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

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

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

The Federal Job Creation and Worker Assistance Act of 2002 allows taxpayers an additional 30 percent depreciation deduction in the first year "qualified property" is placed in service. A similar depreciation deduction for "qualified property" in the New York Liberty Zone (NYLZ) and the Resurgence Zone is allowed. The NYLZ generally encompasses the area in the borough of Manhattan below Canal Street and the Resurgence Zone encompasses the area between Canal Street and Houston Street. Additionally, the Act also allows NYLZ leasehold improvements to be depreciated over a five-year period using a straight line method as well as an additional first-year expense deduction of up to $35,000 for "qualified NYLZ property". To avoid a significant loss of revenue, New York City Banking Corporation Tax law was amended to limit the depreciation deductions to "qualified property" within the NYLZ and the Resurgence Zone only and to limit the additional first-year expense deduction to "qualified NYLZ property".

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

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

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

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

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

In the second half of the 1990s, banks for the most part have been highly profitable. A soaring stock market and a strong national economy, with high levels of consumer borrowing, have led to record revenues. This streak of profitability continued into the first half of calendar year 2000, with banks participating in the record levels of underwriting and merger-and-acquisition activity in the U.S. and overseas. In the second half of calendar year 2000, volatility slowed underwriting and pushed some trading desks and venture capital investments quickly from profit to loss. However, operating earnings at most banks for calendar year 2000 were close to or exceeded the prior year's levels, despite the fact that mergers-and-acquisitions charges resulted in year-over-year declines in profits at several banks.

Like the securities industry, money center banks struggled in calendar year 2001. Pre-tax net income fell significantly at most large banks with all business areas experiencing a decline. While banks benefited from lower interest rates as lending activity increased, higher provisions for loan losses resulted in lower net interest revenue. In the fourth quarter, interest revenue was further weakened as banks were forced to make huge provisions for loan losses related to Enron debt, Argentine bonds and other commercial loans that had deteriorated. Revenue from capital markets activity also slowed throughout the year and although some banks profited from the rise in corporate bond underwriting, weakness in trading and other revenues offset these gains. Non-interest earnings at large banks were also overwhelmed by the write-downs in the value of venture capital investments from the previous two years and the stock market bubble of that period.

In calendar year 2002, pretax profits continued to decline at most money center banks. Economic conditions weakened throughout the year leading to a decline in commercial lending and an increase in non-performing commercial loans. This was offset to some degree by record levels of consumer lending, but net interest income fell at most banks. Non-interest revenue fell as a result of lower volumes of underwriting, merger and acquisition advisory activity and trading. Venture capital investing did not result in increased profits for banks involved in this business and the adjustment in the value of these investments also reduced earnings. Money center banks did manage to lower operating costs, however, in line with lower revenues and reported positive pretax net income in most cases.

In calendar year 2003, geopolitical considerations are overshadowing the modest pace of economic growth. As a result, corporate lending and capital market activities are slow and revenue growth is expected to be weak at best. On the positive side, the level of non-performing loans is believed to have stabilized in the fourth quarter of calendar 2002, but offsetting this is a rise in credit card delinquencies which is expected to continue because of weak employment growth.

Forecast: The 2003 banking corporation tax is forecast at $181 million, a decline of 43.4 percent from the prior year and a drop of $43 million from the January Plan forecast. The banking corporation tax is forecast at $259 million in 2004, an increase of 43.1 percent from 2003.

Through March, banking corporation tax collections are down 57.6 percent from the prior year period. The decline in collections is to a great extent due to an increase in refunds, which are more than double the level of the prior year period. The high level of refunds is a result of overpayments generated by certain banks over recent years which are now being reconciled against final determinations of liability. Also contributing to the decline in revenues are lower payments from most banking sectors due to lower profits in calendar year 2002.

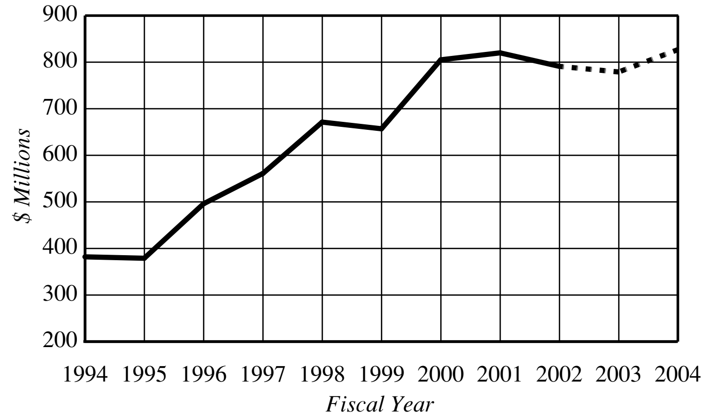
In 2004, gross collections for the banking corporation tax are forecast to increase 13.1 percent and refunds are forecast to decline 17.4 from the high level seen in 2003, leading to growth of 43.1 percent in net collections. In the outyears of the plan, 2005 through 2007, banking corporation tax collections are forecast to gradually return to trend levels after the sharp declines seen in 2002 and 2003. Also included in the forecast for 2004 through 2007 is $8 million for a proposal requiring legislative action (State law required) to close a loophole concerning REIT taxation.

UNINCORPORATED BUSINESS TAX

The unincorporated business tax is projected to account for 3.4 percent of tax revenue in 2004, or $827 million.

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

UNINCORPORATED BUSINESS TAX 1994-2004



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

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

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

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

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

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

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

Also in July 1994, New York State passed legislation allowing the formation of limited liability companies (LLCs). These business entities have the limited liability of corporations, but the organizational flexibility and tax treatment of partnerships. At the Federal level, LLCs are not taxed as separate entities, but partners are taxed on their share of the income. For New York State tax purposes, LLCs pay a $50 per partner fee, with a minimum fee of $350 and a maximum of $10,000. In New York City, LLCs pay the unincorporated business tax. It is expected that businesses will increasingly opt to form LLCs rather than corporations. As a result, a shift of taxpayers is expected from the general corporation tax base to the unincorporated business tax base. Unincorporated business tax revenues are expected to increase by $63 million in 2002 as a result of this shift, rising to $77 million in 2004.

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

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

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

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

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

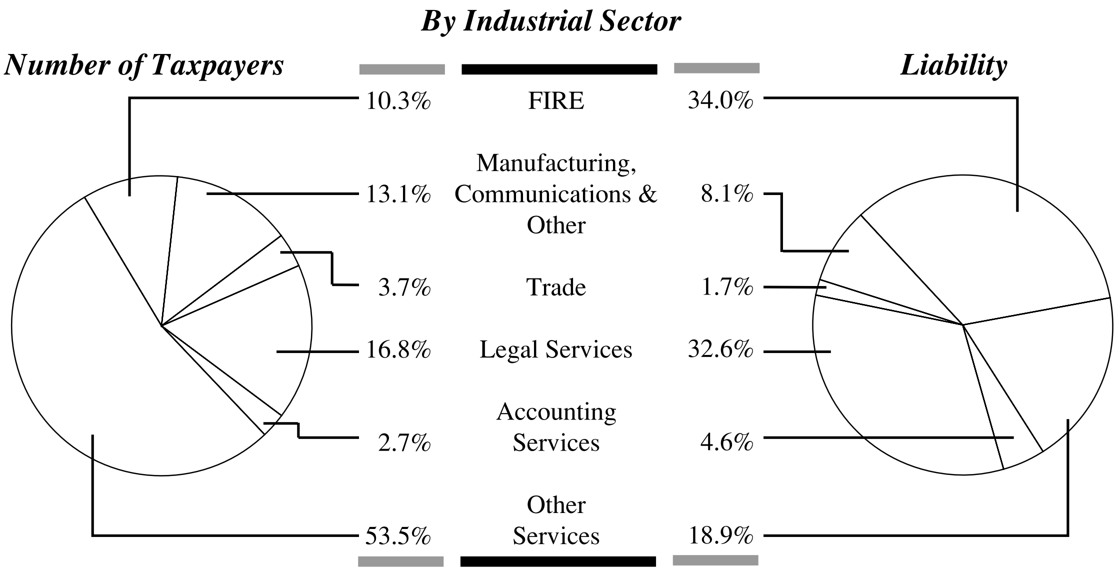
Effective for tax years on or after January 1, 2000, the receipts factor of the income allocation formula of the City's unincorporated business tax was amended to permit receipts from management, administration or distribution services for regulated investment companies (mutual funds) to be allocated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

As a result of the September 11, 2001 terrorist attack, the filing deadline for the quarterly estimated tax payment due September 17, 2001, was extended to December 17, 2001.

The Federal Job Creation and Worker Assistance Act of 2002 allows taxpayers an additional 30 percent depreciation deduction in the first year "qualified property" is placed in service. A similar depreciation deduction for "qualified property" in the New York Liberty Zone (NYLZ) and the Resurgence Zone is allowed. The NYLZ generally encompasses the area in the borough of Manhattan below Canal Street and the Resurgence Zone encompasses the area between Canal Street and Houston Street. Additionally, the Act also allows NYLZ leasehold improvements to be depreciated over a five-year period using a straight line method as well as an additional first-year expense deduction of up to $35,000 for "qualified NYLZ property". To avoid a significant loss of revenue, New York City Unincorporated Business Tax law was amended to limit the depreciation deductions to "qualified property" within the NYLZ and the Resurgence Zone only and to limit the additional first-year expense deduction to "qualified NYLZ property".

Distribution and Industrial Mix of Filers: In 1999, there were 185,337 partnership and sole proprietorship filers of which 26,085 paid tax. Sole proprietorships comprised 74.9 percent of all taxpayers but paid only 13.6 percent of total liability. Partnerships accounted for 25.1 percent of all taxpayers and paid 86.4 percent of total liability. Because of the tax credit and exemptions, 85.9 percent of filers in 1999 were exempt from the tax. Proprietorships with net income less than $25,000 (64.3 percent of all filers) paid no unincorporated business tax. The additional exemption for each partner creates higher thresholds for partnerships (21.6 percent of all filers in 1999 were partnerships with no liability). The service sector, made up of the legal, accounting and other subsectors, accounted for 57.8 percent of total unincorporated business tax liability. Legal services and FIRE comprised only 27.1 percent of taxpayers but incurred 66.6 percent of total liability.

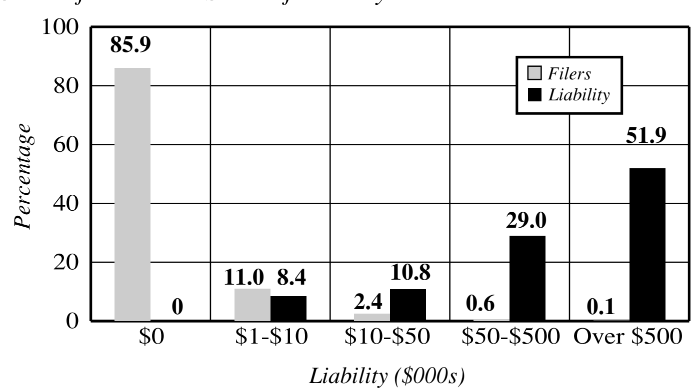
UNINCORPORATED BUSINESS TAX *(Tax Year 1999)*



Source: NYC Department of Finance, Office of Tax Policy

UNINCORPORATED BUSINESS TAX *(TAX YEAR 1999)*

Share of Filers and Share of Liability



Source: NYC Department of Finance, Office of Tax Policy

Forecast: The unincorporated business tax is forecast at $779 million in 2003, a decline of 1.5 percent from the prior year and a decrease of $20 million from the January Plan forecast. The unincorporated business tax revenue is forecast at $827 million in 2004, growth of 6.2 percent over the prior year and a decrease of $22 million from the January Plan forecast.

Unincorporated business tax revenues in recent years have been particularly robust, with average annual growth from 1996 through 2001 reaching 13.7 percent. This unusually high rate of growth accrued despite substantial business tax cuts, which returned $49 million to unincorporated business taxpayers in 1998 alone. This can partially be accounted for by the unprecedented strength seen in New York Stock Exchange member-firm profits in recent years. Non-FIRE sector collections were also robust over the same period, however, due to the unprecedented growth in service sector employment since 1993. In 1999, unincorporated business tax revenues declined 2.2 percent reflecting international financial turmoil in the third quarter of calendar year 1998 which reduced FIRE sector collections. In 2000, unincorporated business tax revenues rebounded 22.6 percent reflecting the robust growth in New York Stock Exchange member-firm profits in tax year 1999 and substantial private sector growth in 2000. In 2001, however, unincorporated business tax revenues grew at just 1.8 percent over the prior year, reflecting a liquidation of overpayments that had been built up through 2000. By 2002 the impact of the September 11th terrorist attack, the 50 percent decline in New York Stock Exchange member-firm profits in tax year 2001, and the US recession resulted in a 3.6 percent decline in revenue. FIRE sectior liability is estimated to have fallen 26 percent.

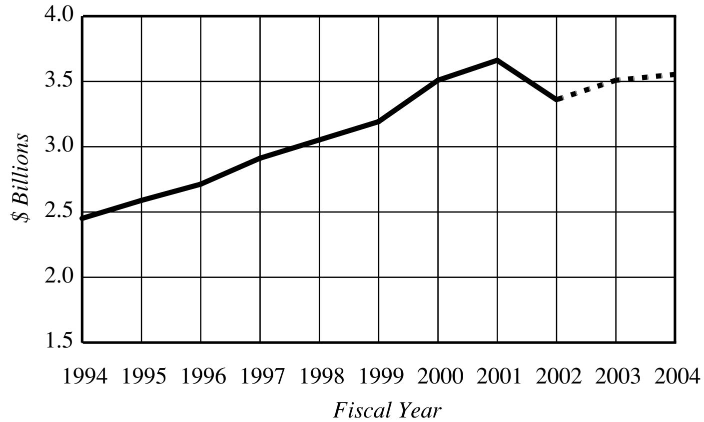
For 2003, a further decline in New York Stock Exchange member-firm profits, falling from $10.4 billion in tax year 2001 to $6.9 billion in tax year 2002, has led to a further 21.5 percent decline in FIRE liability in tax year 2002. In addition, the national and local recessions pulled non-FIRE liability down 2.7 percent in tax year 2002. The combined liability is now expected to decline over 8.9 percent on tax year 2002. However, since collections through March on 2002 tax liability are down by only 2.0 percent from the same prior year period, lower collections on final returns (due in April) are likely as taxpayers bring payments in line with liability. April and June installment payments on tax year 2003 are also expected to reflect a weak local and national economy.

For 2004, the unincorporated business tax is forecast to rebound at 6.2 percent growth. The forecast increase, albeit modest, in New York Stock Exchange member-firm profits in calendar year 2003 leads to an improvement in growth in FIRE sector liability, while the national economic recovery supports non-FIRE tax liability in calendar year 2003. In 2005 through 2007 unincorporated business tax revenue is forecast to average 6.8 percent growth, as both New York Stock Exchange member-firm profits and the national economy achieve sustainable growth. Also included in the forecast for 2004 through 2007 is $2 million per year, for a proposal requiring legislative action (State law required) to increase the rate of interest on underpayments.

SALES AND USE TAX

The sales and use tax is projected to account for 14.7 percent of total tax revenue in 2004, or $3,554 million.

SALES TAX 1994-2004

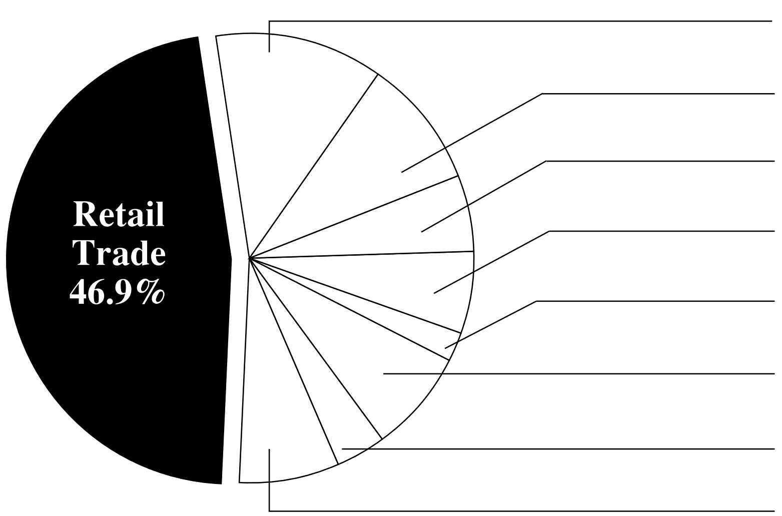


Tax Base and Rate: The sales tax rate is four percent and applies to: (1) sales and use of tangible personal property and services; (2) sales of gas, electricity, steam, refrigeration, and intrastate telephone and telegraph services; (3) food and beverages sold by restaurants and caterers; (4) hotel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

Retail trade, comprising 46.9 percent of the sales tax base, is the largest expenditure category. Business services and other services combined account for 21.4 percent of the sales tax base. Since 1981 the proportion of business services in the taxable base has increased from 3.5 percent to 9.3 percent, making it the fastest growing component of the base. Various business and utility expenditures make up the remainder of the tax base.

COMPONENTS OF THE SALES TAX BASE

March 1999 – February 2000



Services	12.1%
Business Services	9.3%
Manufacturing	5.5%
Communication	5.9%
Construction	2.1%
Electric & Gas	7.4%
All Other	3.6%
Wholesale Trade	7.2%

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

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

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

1965 New York State introduces its own two percent sales tax and begins to collect, administer and enforce the sales tax for all localities. New York City lowers its own tax rate to three percent.

1969 The State raises its tax rate to three percent.

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

1971 The State raises its tax rate to four percent.

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

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

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

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

1977 Sales and use taxes paid on machinery used in the production of tangible personal property, gas, electricity or refrigeration, and steam for sale can be claimed as a credit against the City's general corporation, unincorporated business or utility taxes (effective date: July 1, 1977).

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

Total Manhattan Parking Tax

NYS	4.00%
NYC	6.00%
Manhattan Surcharge	8.00%
MTCD	0.25%
Total Parking	**18.25%**

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

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

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

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

1989 Interior decorating, contract cleaning and maintenance services are added to the City's non-MAC tax base (effective date: December 1, 1989). Service charges on floor covering installations are added to the State and MAC tax bases (effective date: June 1, 1989). Excise taxes on cigarettes (effective date: June 1, 1989) and tobacco products (effective date: July 1, 1989) are included in the calculation of the sales tax, and are added to the State and MAC tax bases. The City's credit for sales tax paid on machinery and equipment used in the production of tangible personal property is changed to an exemption, reducing the MAC base (effective date: December 1, 1989).

1990 Protective and detective services, interior decorating, contract cleaning and maintenance services, previously taxed exclusively by the City, are added to the State's tax base (effective date: June 1, 1990). The implementation of the CBECP is delayed indefinitely.

1991 Services and sales of prewritten software are added to the State and MAC tax bases (effective date: September 1, 1991).

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

1996 The State and City repealed their taxes on clothing and footwear purchases under $500 during the week of January 18-24, 1997, reducing the State and the City's MAC tax bases. Printed promotional materials delivered through the mail and associated shipping services are exempt from State and City taxes, reducing the State and MAC tax bases (effective date: March 1, 1997). Vehicles leased by Manhattan residents are exempt from the eight percent parking and garaging surcharge, reducing the City's non-MAC tax base (effective date: December 1, 1996). Parking charges paid to municipally-owned and operated parking facilities are exempt from State and City sales taxes, other than the eight percent Manhattan parking surcharge (effective date: December 1, 1996).

1997 The State and City exempt clothing items under $100, excluding footwear, during the week of September 1-7, 1997, and repeal their taxes on clothing and footwear purchases under $500 during the weeks of September 1-7 and January 17-23, 1998, reducing the State and the City's MAC tax bases. The State permanently repealed its four percent sales tax on clothing items and footwear purchases under $110, and gave local governments the option to match the repeal. If a locality within the MCTD opts to repeal, clothing is also exempted from the 0.25 percent MCTD sales tax. The locality reimburses the MCTD for one half of the tax foregone and the State reimburses the MCTD for the other half (effective date: December 1, 1999).

1998 The State and City exempt clothing items under $500, including footwear, during the week of January 17-24, 1999, reducing the State and the City's MAC tax bases. Textbooks purchased by full- or part-time college students for their courses at accredited institutions are exempt from the State and the City's MAC tax base (effective date: June 1, 1998). Parking charges paid to homeowners' associations (including co-ops and condominiums) by their members for parking in a facility owned or operated by the association are exempt from the six percent City sales tax and the eight percent Manhattan parking tax (effective date: September 14, 1998). Since 1997 the exemption includes facilities owned by such an association, but operated by a third party.

1999 The State and City exempt clothing and footwear purchases under $500 from September 1-7, 1999 and from January 15-21, 2000. The permanent exemption of clothing and footwear purchases under $110, scheduled to become effective December 1, 1999, is postponed until March 1, 2000. New exemptions include: computer system hardware used in designing and developing internet websites (effective date: March 1, 2001); machinery or equipment used or consumed directly and predominantly to upgrade cable television systems to allow for the receiving, amplifying, processing, transmitting, re-transmitting, switching or monitoring of telecommunication services for sale and communications equipment used in the transmission of internet access services (effective date: March 1, 2001). The sales tax special record keeping and on-site inspection requirements for Manhattan parking garages is extended until November 30, 2004. These special requirements were originally enacted in 1992 to improve sales tax compliance.

2000 Purchases of gas and electricity from out-of-state suppliers are subject to State and local compensating use taxes (effective date: June 1, 2000). An exemption for purchases of the service of transporting, transmitting or distributing gas or electricity, when such services are bought from a company other than the vendor of the gas or electricity, is phased in over four years, beginning September 1, 2000, with such services fully exempt beginning September 1, 2003. Purchases of gas or electricity used in operating a gas pipeline or gas distribution line or an electric transmission or distribution line, are exempt (effective date: June 1, 2000).

2001 As a result of the September 11, 2001 terrorist attack, the filing deadlines for the monthly and quarterly sales tax returns due after September 11, 2001, through December 10, 2001 were extended to December 10, 2001.

2002 A temporary exemption was allowed for tangible personal property, excluding motor vehicles, motor fuel, diesel motor fuel, cigarettes, tobacco products, alcoholic beverages and building materials, under $500 in the Liberty and Resurgence zones of lower Manhattan for three weekends: June 9-11, July 9-11, and August 20-22, 2002. The Liberty Zone is defined as on or south of Canal Street, East Broadway (east of its intersection with Canal Street), or Grand Street (east of its intersection with East Broadway) in the borough of Manhattan. The Resurgence Zone is defined as the area between Canal Street and Houston Street.

Administration: New York State and local sales tax laws provide that the State Department of Taxation and Finance will administer the sales taxes imposed by both the State and the localities. A general sales tax is collected from approximately 594,971 vendors in New York State. The State charges an administrative fee for this service, which is allocated to each locality based on the locality's share of statewide collections. For 2002, the administrative charge paid by the City was $20 million.

Vendors are responsible for collecting the sales tax from the purchaser at the time of sale. These vendors must file tax returns periodically. The frequency and timing of filing is determined mainly by their level of receipts. Large vendors submit estimated payments to the State without filing a return using the State's electronic funds transfer (EFT) program (PROMP Tax Program) for the first two months of each reporting quarter. In the third month they submit a quarterly return for part-quarterly filers and remit any tax due for complete quarterly collections as part of their next PROMP tax payment. Small vendors submit returns quarterly or annually. The State distributes estimated monthly payments to the City based on prior year payment patterns. At the end of a reporting quarter remittances are conveyed to the City based on vendor returns received by the end of the third month. In subsequent months, the State reviews returns for accuracy and processes late returns. This may lead to substantial reconciliations of the distributions made in prior periods giving rise to what are known as prior period adjustments (PPAs).

Forecast: The sales tax revenue is forecast at $3,509 million in 2003, 4.4 percent growth over the prior year. The 2004 sales tax revenue is forecast at $3,554 million, 1.3 percent growth over 2003 and a $47 million decline from the January Plan forecast.

Sales tax revenue growth was strong through 2001, averaging 8.2 percent from 1997 through 2001 (common rate and base). Historic employment gains and strong growth in the tourism industry spurred the growth in sales tax revenue over this period. Increased discretionary income in the City, as robust Wall Street profits were translated into strong bonus payouts and a wealth effect, resulting from the steep appreciation of equities held by households, also buoyed consumption. This era of robust City-wide consumption came to an end in 2002 due to the September 11th terrorist attack and the national recession. Visitor spending fell as hotel occupancy and room rates plummeted. Sales activity in lower Manhattan was severely hampered in the months following the attack, as the area was nearly inaccessible. Sales tax revenue declined 7.4 percent (common rate and base) in 2002, a decline that exceeded those seen in the severe local recession of the early 1990s, and all other declines back to the 13.5 percent decline seen in 1966 when the City enacted a rate cut of 25 percent.

In 2003, sales tax revenue is forecast to increase $149 million from the prior year level of $3,360 million, growth of 4.4 percent and no change from the January Plan forecast. Consumption in the City continues to recover from the severely suppressed levels of 2002 and results in a moderate rebound in sales tax revenues. Sales tax revenues resulting from consumption in the hotel and tourism industries have increased in the first half of 2003, as occupancy rates rebounded to just below pre-September 11th levels. However, the weakness of the national economy since January and uncertainty around even a short, successful war in Iraq have reduced occupancy rates in the third quarter to nearly 70 percent where they are forecast to remain through the fourth quarter. The fall-off in visitors, evidenced by the slumping occupancy rates, translates into suppressed spending on hotels and other spending, resulting in a $29 million decline in sales tax revenues in 2003. This decline is offset by higher than expected sales tax audits, the result of the State tax amnesty program which was in effect from November 18, 2002 through January 31, 2003.

In 2004, sales tax revenue is forecast to increase by 1.3 percent (growth of 2.5 percent on a common rate and base). This sluggish growth reflects the weak employment forecast (down 0.9 percent in 2004) and the anemic wage forecast (growth of only 2.7 percent in 2004). In addition, the weak national economy continues to dampen tourism and tourist spending through the first half of the year.

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

The impact of deregulation on the City sales tax revenue depends also upon the participation of businesses and individual consumers in competitive gas and electric retail access. Prior to November 1, 2000, the portion of the Con Ed electric load available for competitive retail access was set by PSC agreement. On November 1, 2000, 100 percent of the Con Ed electric load was made available to competition. Since the January Plan, estimates of participation in competitive electric and gas retail access have been revised downward. Fewer businesses and consumers are participating in competitive retail access than previously estimated, reducing the estimated revenue loss in the near-term from energy deregulation. The impact of energy deregulation and State utility reform legislation is estimated to reduce sales tax revenue by approximately $10 million in 2003 and, with increasing public participation in the deregulated market, will reduce revenues by almost $55 million in 2007.

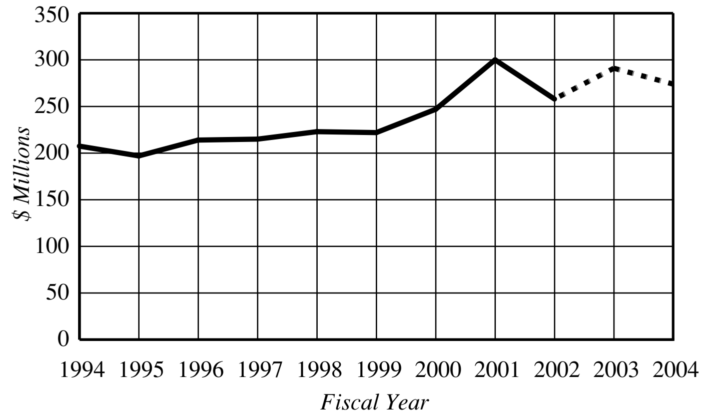
Sales tax revenue is forecast to grow an average of 5.4 percent on the continuing base in 2005 through 2007, as the City wage and employment forecasts return to growth.

UTILITY TAX

The utility tax is projected to account for 1.1 percent of tax revenue in 2004, or $274 million.

Tax Base and Rate: The City imposes a tax on all utilities and vendors of utility services, including operators of omnibuses. The tax is levied at a rate of 2.35 percent on the gross income of taxpayers. Currently this tax applies to electric and natural gas utilities as well as telecommunications firms whose services include wireless, fiber optic and other types of transmission.

UTILITY TAX 1994-2004



Legislative History: In 1933 enabling legislation allowed New York City to levy a gross income tax on utilities and vendors of utility services. The current rate of 2.35 percent was imposed on January 1, 1966. Since 1985, utility tax collections have been reduced by the Energy Cost Savings Program (ECSP) which granted a 30 percent rebate on electricity charges and a 20 percent rebate on natural gas charges to eligible nonresidential users operating in Brooklyn, the Bronx, Queens, Staten Island and Manhattan north of 96th Street. Non-retailers outside the City which relocate to the designated areas (after May 3, 1985) are also eligible. Effective November 1, 2000, legislation changed the ECSP rebate on electricity and gas from a discount on all utility charges to a discount solely on utility delivery charges. The legislation raised the rebate percentage to 45 percent of eligible electricity charges and 35 percent of eligible natural gas charges in an effort to maintain roughly the same benefit levels, in dollar terms, as previously. Subsequent complaints arose from program participants that following the enactment of the new rebate percentages commodity prices had increased, while utility delivery charges remained relatively low. Thus, the benefits program participants received with the revised rebate percentages were less than if original percentages were applied. Effective June 1, 2001, the Department of Business Services promulgated rules that divided the ECSP participants into three categories with various schedules of rebate percentages in order to allow participants to receive the same program benefits as those received under the original rebate percentages off the bundled bill. Currently, there are 900 companies participating in the rebate program. A similar program, the Lower Manhattan Energy Program, was incorporated into the Commercial Revitalization Program (effective 1995) and focused on stimulating economic development in lower Manhattan. The program offers a 12-year (13 years for buildings designated as landmarks) rebate on the electric bills of building owners who have improved their buildings by at least 20 percent of assessed value. The program reduced utility tax revenue by $16.2 million in 2002 and is expected to reduce revenue by $16 million in 2003 and $16 million in 2004.

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

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

On March 13, 1997, Con Ed and the PSC entered into a settlement agreement with respect to the PSC's Competitive Opportunities proceeding, with PSC approval occurring on August 29, 1997. The settlement agreement features a five-year rate plan to facilitate the transition to competition, effective January 1, 1998. The five-year rate plan called for an immediate 25 percent electric rate reduction for Con Ed's largest industrial customers, a 10 percent rate reduction for other large industrial and commercial customers (which include office buildings, hospitals, colleges and universities) and a 3.3 percent rate reduction for residential and small commercial customers. The five-year rate plan superceded the prior 1995 rate agreement as of March 31, 1997, and the revenue requirement increase for the third rate year of the 1995 agreement was reversed. In calendar year 2000, Con Ed agreed to further reduce retail electric rates and extend the electric restructuring agreement by three years, to 2005. Effective October 1, 2000, the total reduction in retail distribution rates was 16.8 percent. Also an additional 200 megawatts of capacity became eligible for business rate incentives. The settlement agreement reduced utility tax revenue by $10 million in 2002, and is expected to reduce revenue by $10 million in 2003 and in 2004.

As a result of the 1996 PSC Competitive Opportunities proceeding, the PSC ordered a complete restructuring of the State's energy utilities to encourage competitive markets. This agreement originally set the pace of deregulation in the State with the expectation of full retail access by 2006. The original PSC agreements provided a transition to a competitive retail market through the development of retail access plans, a reasonable recovery of strandable costs and the divestiture to unaffiliated third parties of approximately 50 percent of electric generating capacity in the City. The PSC agreements were revised in 2000, allowing for full retail access for all customers as of November 1, 2000. Additionally, Con Ed has completed the process of divesting itself of all its generating capacity. The impact of energy deregulation and State utility reform legislation is estimated to reduce utility tax revenue by approximately $2 million in 2003, $3 million in 2004 and with increasing public participation in the deregulated market, is expected to reduce revenue by approximately $9 million by 2007.

Forecast: The 2003 utility tax revenue is forecast at $291 million, a 12.8 percent increase over the prior year and an increase of $9 million over the January Plan forecast. In 2004, the utility tax revenue is projected to decline 5.8 percent from 2003 to $274 million, but it is increased $3 million over the January Plan forecast. The 2003 forecast reflects year-to-date collections, which are up 11.9 percent over the same period last year. The collections strength is due to both increased energy demand and higher energy prices. The demand for utility services has been spurred by both a hot summer and a cold winter this year. Last summer, as measured by cooling degree days in Central Park, was the hottest summer since 1991. This past winter can safely be characterized as particularly cold, even though the heating season is not technically over. Energy prices have also seen significant increases this year, with electricity prices up nearly 10 percent and natural gas prices up over 20 percent. The forecast in utility tax revenue for 2004 reflects a projected decline in energy prices and a return to average seasonal temperatures. The Energy Cost Savings Program (ECSP) is expected to reduce collections by $40 million in 2003 and $34 million in 2004, as declining energy prices lower the projected cost of this program. In 2005 through 2007, the utility tax is forecast to grow 1.2 percent. After adjusting for competitive retail access, utility tax revenue is expected grow an average of 1.8 percent from 2005 through 2007.

OTHER TAXES

All other taxes are projected to account for 3.0 percent of total City tax revenue in 2004, or $717.3 million.

2003-2004 Other Taxes Forecast
Excluding Tax Audit Revenue
($ Thousands)

Tax	2003 Forecast	2004 Executive Budget	Increase/(Decrease) From 2003 to 2004 Amount	Percent Growth
Hotel Room Occupancy	$187,000	$206,000	$19,000	10.2%
Auto Related Taxes				
Auto Use	33,200	35,950	2,750	8.3
Commercial Motor Vehicle	49,500	49,500	—	—
Taxi Medallions Transfer	4,500	3,600	(900)	(20.0)
Excise Taxes				
Beer and Liquor	21,500	21,500	—	—
Cigarette	153,000	134,000	(19,000)	(12.4)
Liquor License Surcharge	3,000	3,000	—	—
Horse Race Admissions	100	100	—	—
Off-Track Betting	2,100	4,700	2,600	123.8
Off-Track Betting Surtax	20,100	20,400	300	1.5
Miscellaneous				
Other Refunds	(15,200)	(15,200)	—	—
Payments in Lieu of Taxes (PILOTs)	147,200	148,700	1,500	1.0
Waiver	74,800	71,800	(3,000)	(4.0)
Penalty & Interest Real Estate (Current Year)	11,000	10,000	(1,000)	(9.1)
Penalty & Interest Real Estate (Prior Year)	38,000	37,000	(1,000)	(2.6)
Penalty & Interest - Other Refunds	(22,500)	(13,800)	8,700	38.7
Total	$707,300	$717,250	$9,950	1.4%

HOTEL TAX

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

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

Forecast: Hotel tax revenue fell 24 percent in 2002 in the aftermath of the September 11th terrorist attacks. In 2003, the hotel tax is forecast at $187 million in 2003, an increase of 1.6 percent from the prior year. Hotel occupancy rates and average daily room rates in New York City began to rebound from prior year levels in the fall of calendar year 2002 with occupancy rates averaging 78 percent September through December. However, occupancy began to reverse course in the beginning of calendar year 2003 as economic conditions worsened. While increased leisure travel had been compensating for the decline in business travel, it is believed that demand in this sector has decreased because of heightened security concerns as well as a weak global economy, and this is expected to continue through the fall. For fiscal year 2003, hotel occupancy rates are forecast to decline to an annual rate of 73.4 percent and the average daily room rate is forecast to decline 2.5 percent to $188.5, which is below the average daily room rate for 1998. The number of hotel rooms in New York City continues to increase although at a much slower pace recently, and this is a factor which also constrains growth in the average daily room rate.

In the fall of calendar year 2003, average occupancy rates and average daily room rates are forecast to increase somewhat on a year-over-year basis as a result of higher business travel demand in the peak convention months as well as some pick-up in leisure travel. This trend is forecast to continue into calendar year 2004 and strengthen as the year progresses coinciding with a broad, national economic recovery. Average daily occupancy rates are forecast to increase to 75 percent in 2004 while the average daily room rate is forecast to increase 1.8 percent. The hotel tax is forecast at $206 million in 2004, growth of 10.2 percent from the prior year. In the outyears of the plan, 2005 through 2007, hotel tax collections are forecast to increase an average of 8.2 percent coinciding with a continuing rebound in average daily occupancy rates and average daily room rates.

CIGARETTE TAX

The City has been imposing a tax on the sale of cigarettes in the City since 1952. Effective July 2, 2002, the City raised the cigarette tax from $0.08 to $1.50 per 20 cigarettes. This tax is imposed in addition to a State cigarette tax which is currently $1.50 per pack after the increase of $0.39 effective April 1, 2002. As part of the tax rate increase, the City has agreed to hold the New York State budget harmless for the projected decline in State cigarette and sales tax revenue by distributing 46.5 percent of cigarette tax revenues through March, 2003 and 46 percent thereafter. Other tobacco products are not subject to the tax.

Forecast: Cigarette tax revenue for 2003 is forecast at $153 million, an increase of $126 million over 2002. The forecast reflects the tax rate increase, as well as the floor tax collected on all cigarettes held in inventory at the time of the tax increase. Year-to-date cigarette packs sold data indicate an annual decline in cigarette sales of 50.3 percent from the previous year, compared to the 55 percent decline estimated at the January Plan. The forecast also reflects a distribution to New York State to hold the State budget harmless for the projected decline in State cigarette and sales tax revenue resulting from declines in cigarette consumption due to the City tax increase. In 2004, cigarette tax revenue is forecast at $134 million, a decline of 12.4 percent from 2003. The decline in 2004 reflects the full payment of the floor tax in the previous year, as well as an annual trend decline in smoking. In 2005 through 2007, cigarette tax revenues are projected to fall an average of 2.3 percent per year.

AUTO RELATED TAXES

Auto Use Tax: This tax is imposed by the City on privately-owned vehicles at the annual rate of $15 per vehicle. The tax was first imposed on October 1, 1974, and the amount has since remained unchanged. The tax is administered by the State Department of Motor Vehicles, with an administrative charge levied on the City for this service. In 1990, taxpayers were required to change from annual to biennial payments to conform to a change in the State registration procedures. This new procedure resulted in roughly half of all registrants in 1990 paying for two years, while the other half continued to pay only the annual fee. Revenue from the tax is projected to be $33.2 million in 2003 and $36.0 million in 2004. The Department of Finance will conduct increased computer matches to identify tax evasion through out-of-State vehicle registration, which is estimated to raise revenue by $2.75 million in 2004 and in 2006 and $1 million in 2005 and in 2007.

Commercial Motor Vehicle Tax: This tax was first levied in 1960 on vehicles used for the transportation of passengers (medallion taxicabs, omnibuses and other for-hire passenger vehicles) and on all other commercial trucks and vehicles. The tax is charged at different rates, based on the purpose for which vehicles are used. Significant legislative changes in 1990 resulted in a revision of the rate schedules for many commercial motor vehicles. The rate for medallion taxicabs was raised to $1,000 per year, from $100 the previous year. Other for-hire passenger vehicles (livery cabs and omnibuses) pay $400 per year, a $300 increase over the 1989 rate. The rate schedule for other commercial vehicles weighing less than 10,000 pounds was left unchanged at $40 per year, while the rate for heavier vehicles was increased, with trucks weighing over 15,000 pounds paying the highest rate of $300 per year. Medallion taxicabs pay twice a year, in December and June, while owners of other types of commercial vehicles pay annually in June. In 2001, following a Department of Finance initiative, the City transferred the collection and administration of the commercial motor vehicle tax for livery taxicabs and light trucks to the State, thereby improving the rate of compliance. Until 2001, all registrants for taxi and livery vehicles ran from March 1 through the end of February. Beginning in 2002, the State Department of Motor Vehicles staggered the registration period for these vehicles so that the renewals were spread throughout the year resulting in a one-time cash flow loss of $3.5 million in fiscal year 2002. Revenue from the tax is projected to be $49.5 million in 2003 and in 2004.

Taxi Medallion Transfer Tax: This tax is imposed at a rate of five percent of the consideration paid for transfers of taxicab licenses (medallions). The tax is expected to generate $4.5 million in 2003 and 3.6 million in 2004.

EXCISE TAXES

Beer and Liquor Excise Tax: Since 1980, the City has imposed a tax on licensed distributors and non-commercial importers on the sale of beer and liquor within New York City. The current tax rate is 12 cents per gallon of beer and 26.4 cents per liter of liquor with an alcohol content greater than 24 percent. The City does not impose a tax on wine. The tax is administered by New York State. The tax is expected to generate $21.5 million in 2003 and in 2004.

Liquor License Surcharge: This tax is imposed on distributors and non-commercial importers of beer and liquor at a rate of 25 percent of the license fees payable under the New York State Alcoholic Beverage Control Law. This tax is projected to generate $3.0 million in 2003 and 2004.

Horse Race Admissions Tax: A three percent tax was imposed in 1952 on the price of all paid admissions to horse races held either partly or wholly within the City of New York. Revenue from this tax is forecasted to be $0.1 million in 2003 and 2004.

Off-Track Betting (Dividend), and Off-Track Betting Surtax: A surcharge is exacted on most bets placed at New York City Off-Track Betting offices, and on most bets placed statewide on races held within New York City. The dividend payment, reflecting OTB's current year profit, is estimated to be $2.1 million in 2003 and $4.7 million in 2004. Revenue is forecast at $20.1 million from the Off-Track Betting surtax in 2003, and $20.4 million in 2004.

MISCELLANEOUS

Other Refunds: These refunds are primarily paid out on the commercial rent tax and waiver and are projected to be $15.2 million in 2003 and 2004.

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

There are four primary sponsor agencies which serve as intermediaries between the City and the PILOT facility owner: New York City Housing Authority, Port Authority of New York and New Jersey, Industrial Development Agency and Battery Park City Authority. These agencies administer projects that comprise approximately 95 percent of PILOT payments received. Two smaller sponsors are the Economic Development Corporation and the Triborough Bridge and Tunnel Authority. PILOT revenue is expected to be $147.2 million in 2003 and $148.7 million in 2004. These amounts reflect reductions in the WTC PILOT in 2002 and 2003 to the contract base payment of $1.7 million from the 2001 payment level of $26.8 million.

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

Waiver (Personal Income Tax Nonresident City Employees): Under section 1127 of the New York City Charter, the City may collect payments from nonresident employees of the City or any of its agencies in an amount which equalizes their personal income tax liability to what it would be if they were residents. Revenue is projected to be $74.8 million in 2003 and $71.8 million in 2004.

Prior Year and Current Year Penalty and Interest - Real Estate: Taxpayers who do not pay their real property tax on time are liable for interest charges on outstanding balances. Interest is charged at a rate of nine percent for taxpayers whose annual liability is under $2,750 and 18 percent for all other taxpayers. Penalties and interest received against current year delinquencies are expected to be $11 million in 2003 and $10 million in 2004, while penalty and interest collections from prior year delinquencies are expected to be $38 million in 2003 and $37 million in 2004.

Penalty and Interest - Other Refunds: The City currently pays out interest on refunds claimed on overpayments against the business income taxes, on audits of the general corporation and unincorporated business taxes already collected by the Department of Finance but overturned by Federal or State rulings, and on payments made under protest by taxpayers who subsequently substantiate their claims. As a result of legislation, interest on overpayments claimed on amended returns is currently no longer paid for tax years beginning with 1989 as long as the refund is paid within a 90-day period. The cost of all these payments is projected at $22.5 million in 2003 and $13.8 million in 2004.

TAX ENFORCEMENT REVENUE

The Department of Finance targets delinquent taxpayers through agency audit activities, selected use of collection agencies and computer matches. Audits are forecast at $501.6 million in 2003 and $524.6 million in 2004. Included in the 2004 forecast is $20 million in an amnesty program for delinquencies over three years old primarily from the general corporation, unincorporated business, utility, commerical rent and hotel taxes, and a $3 million increase in the audit target since the January Plan.

MISCELLANEOUS RECEIPTS

Forecast of Miscellaneous Receipts

The non-tax revenue portion of City Funds is referred to as miscellaneous revenues. The 2004 Executive Budget includes eleven classes of miscellaneous revenues which are discussed below.

Miscellaneous Revenues
($ in Millions)

	2003 Forecast	2004 Executive Budget	Forecast to Executive Budget Increase (Decrease)
Licenses	$49	$44	(5)
Permits	96	89	(7)
Franchises and Privileges	212	219	7
Interest Income	36	56	20
Tuition and Charges for Services	479	488	9
Water and Sewer Revenues	860	910	50
Rental Income	109	288	179
Fines and Forfeitures	534	667	133
Miscellaneous	485	631	146
Total Miscellaneous Revenues	$2,860	$3,392	$532

Miscellaneous revenues are estimated at $3,392 million in 2004, an increase of $532 million from 2003, exclusive of private grants and intra-city revenues. The revenue classes listed above are regrouped and described in the following three areas: Cost-based Charges (Licenses, Permits and Charges for Services); Water and Sewer revenues; and Other Income (Interest Income, Franchises, Rental Income, Fines, and Miscellaneous).

Cost-based Charges

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

Licenses

The City issues approximately 422,000 licenses. About 67,000 are non-recurring, 107,000 are renewed annually, 223,000 biennially, and 25,000 triennially. The major sources of license revenue are taxi and limousine licenses, pistol licenses, marriage licenses, and various business licenses under the jurisdiction of the Department of Consumer Affairs.

The 2004 forecast for license revenue is $44 million, $5 million less than 2003. The decrease is due to the biennial renewal period for certain business licenses.

Permits

Permits are issued to 825,000 individuals or entities for the use of facilities, premises or equipment. Approximately 325,000 permits are renewable on an annual, biennial, or triennial basis. Seasonal or single occurrence permits, such as tennis and building permits account for 500,000 additional permits, all of which are issued and regulated by twelve City agencies.

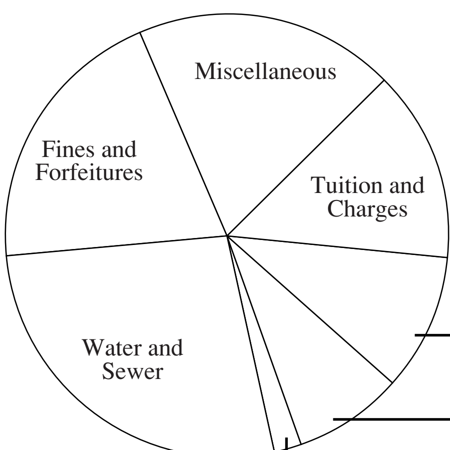
The major sources of revenue are permits for building construction and alterations, street openings, restaurants, hazardous materials, and air pollution control. The 2004 forecast for permit revenue is $89 million, $7 million less than 2003. The decrease is due to a decline in receipts for various construction-related permits issued by the Department of Buildings. The Landmarks Preservation Commission and The Mayor's Office of Film, Theatre and Broadcasting will implement programs to recover their costs in 2004.

Tuition and Charges for Services

The City collects tuition from students enrolled at community colleges. In addition, the City collects money from charges to the public and other governmental agencies for services rendered. There are over 100 different service fees in this category, including fees for parking, towing, Sheriff poundage, provision of school lunches, copies of reports, processing applications, searches, and performing fire and building inspections. The 2004 forecast for tuition and charges for services is $488 million, $9 million more than 2003. The increase will result from the proposed change to the tax on foreign and alien fire insurers, from two percent to four percent, and the geographic expansion and increased rates of the Department of Transportation's Commercial Parking program in the central business core of Manhattan. One-time revenue from unclaimed funds at the Department of Finance and the processing of 421-a tax exemption applications offset this increase.

COMPONENTS OF MISCELLANEOUS REVENUES

As a Percentage of 2004



27%	Water and Sewer
20%	Fines and Forfeitures
19%	Miscellaneous
14%	Tuition and Charges for Services
10%	Licenses, Permits and Franchises
8%	Rental Income
2%	Interest Income

Water and Sewer Revenues

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

The Water Board has proposed a 6.5 percent rate increase for 2004. The forecast for Water Board revenue is $1.69 billion, including a City payment of $37 million for municipal water and sewer charges and $66 million for interest on funds held by the New York City Municipal Water Finance Authority. The Water Board will pay $672 million for Water Board and Authority expenses and debt service. The City will receive $786 million for services rendered in the delivery of water and the collection, treatment, and disposal of waste water, and $124 million for the rental of the water supply and sewer system plant, in accordance with the lease agreement between the Water Board and the City.

Other Income

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

Interest Income

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

The 2004 forecast for interest earnings is $56 million, an increase of $20 million from 2003. An increase in the portion of cash invested combined with a projected increase in the interest rates account for the change.

Franchises and Privileges

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

The 2004 forecast for franchise revenue is $219 million, compared to $212 million in 2003. The 2004 collections reflect additional revenue from both the Department of Consumer Affairs' restructuring of sidewalk café fees and additional Department of Parks and Recreation concessions scheduled for 2004.

Rental Income

Rental income is derived from both long and short-term agreements for the occupancy of City-owned property, including condemnation sites and *in rem* buildings. Approximately 4,370 properties are rented from the City. Over 3,240 are *in rem* or condemnation sites, 130 are covered by long term agreements, and approximately 1,000 are schools that are rented on a per event basis after school hours.

The 2004 forecast for rental income is $288 million, $179 million more than in 2003. The increase is due to the City's expected ability to recover additional rental payments from the Port Authority of New York and New Jersey as a result of amounts owed, and the renegotiation of existing leases for Kennedy and LaGuardia airports. The declining inventory of residential units managed by the Department of Housing Preservation and Development and lower revenue from percentage-based agreements collected by the Department of Citywide Administrative Services in 2003 offset this increase.

Fines and Forfeitures

The City collects fine revenue through courts and administrative tribunals for violations issued under the Administrative Code, Vehicle and Traffic Law, and other laws. Forfeiture revenue is obtained from the surrender and conversion of bail and cash bonds, and contractors' performance bonds. The 2004 forecast for forfeitures is $5.2 million, $1.1 million less than 2003. One-time bail bond forfeitures account for this change. The revenue expected from fines in 2003 and 2004 is listed below:

Fine Revenue

SOURCE ($ in 000's)	2003 FORECAST	2004 EXECUTIVE BUDGET
Parking Violations	$425,658	$550,081
Environmental Control Board	45,000	48,031
Traffic Violations	14,500	18,067
Department of Health	10,000	15,907
Taxi and Limousine Commission	8,301	8,379
State Court Fines	6,300	7,085
Department of Buildings	8,270	6,250
Department of Consumer Affairs	4,200	4,902
Other sources	7,017	4,005
Total	$529,246	$662,707

The Parking Violation division of the Department of Finance is forecast to collect $550 million in parking fines in 2004, $124 million more than 2003. Parking revenue in 2003 was lower than expected due to a decrease in issuance by police officers at the beginning of the fiscal year and a decline in the number of Traffic Enforcement Agents due to attrition. The increase in parking summons revenue in 2004 is partially due to the increase in parking fines which will generate additional revenue of $83 million. The fine increase, which was put into effect in October of calendar year 2002, is anticipated to contribute only $62 million in revenue in 2003. In 2004, 300 new Traffic Enforcement Agents are to be hired, generating 1.7 million additional parking summonses and further increasing parking fine revenue by $85 million.

The Red Light Camera program is designed to promote safe, responsible driving by photographing and fining vehicles "running" red lights. As drivers become aware of the operation of a red light camera at an intersection, the number of drivers "running" a red light at that intersection declines. The Department of Transportation rotates red light cameras among various locations to maximize the benefits of the program.

The Environmental Control Board (ECB) adjudicates approximately 650,000 notices of violations issued by over a dozen City agencies for infractions of the City's Administrative Code related to street cleanliness, waste disposal, street peddling, fire prevention, air, water and noise pollution, building safety and construction, and other quality of life issues. ECB will collect $48 million in 2004, $3 million more than in 2003. In 2004, The Department of Sanitation will increase the minimum fine amount from $50 to $100 for a majority of sanitation code violations. Approval by the ECB is required prior to the implementation of this fine increase.

The Department of Health issues summonses for violations of City and State health code regulations, as well as certain portions of the City Administrative Code. The majority of fines imposed are for food establishment, window guard and pest control violations. The Department increased the minimum fine amount for food service violations in December 2002.

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

Miscellaneous

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

The 2004 forecast for miscellaneous revenue is $631 million, $146 million more than in 2003. This increase is predominantly the result of a delay in the receipt of the proceeds from the tobacco settlement, offset by the loss of non-recurring revenue from the reimbursement of landfill closure costs, the disposition of surplus commercial and residential real property, and the refund of prior year expenditures.

Private Grants

The Executive Budget includes $816 million in private grants in 2004, $279 million less than 2003. Additional private grant funding will be modified into the budget during the course of the year, as additional funding sources are identified and grants are defined.

Interfund Revenues

Interfund Revenues (IFA's) reflect reimbursement by the Capital Fund for expenditures of the General Fund for first-line architectural, engineering, and design costs incurred by the City's own engineering and support staff. These costs are assigned to particular capital projects and are valid capital charges under generally accepted accounting principles. In 2004, IFA reimbursements will be $317 million.

CAPITAL BUDGET

The Executive Capital Budget and Four-Year Plan, 2004-2007

The 2004 Executive Capital Budget includes new appropriations of $3.9 billion, of which $3.4 billion are to be funded from City sources. These appropriations, together with available balances from prior years, authorize total commitments for 2004 of $6.2 billion, of which $5.7 billion will be City-funded. City funds include proceeds of bonds issued by the City Municipal Water Finance Authority and the State Dormitory Authority, and the New York City Transitional Finance Authority as well as City general obligation and Tobacco Settlement bonds. As indicated in the table below, the targeted level for City-funded commitments is $5.5 billion in 2004. The aggregate agency-by-agency authorized commitments of $5.7 billion exceed the 2004 financial plan by $205.0 million. Excess authorizations in this proportion have proven necessary to achieve commitment spending targets by accommodating such factors as project scope changes and delays.

FY 2003-2007 Commitment Plan
($ in millions)

	2003		2004		2005		2006		2007	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Environmental Protection										
• Equipment	$164	$164	$82	$82	$104	$176	$30	$30	$57	$57
• Sewers	288	289	193	193	130	130	92	92	124	124
• Water Mains	665	669	392	392	608	608	655	655	986	986
• Water Pollution Control	823	881	1,162	1,187	1,058	1,083	653	678	80	105
• Water Supply	108	108	71	71	178	178	327	327	115	115
Subtotal	**$2,048**	**$2,111**	**$1,900**	**$1,925**	**$2,078**	**$2,175**	**$1,757**	**$1,782**	**$1,361**	**$1,386**
Transportation										
• Mass Transit	$564	$564	$75	$75	$75	$75	$75	$75	$75	$75
• Highways	250	287	248	316	223	265	298	328	253	290
• Highway Bridges	257	306	287	325	371	425	212	395	309	309
• Waterway Bridges	193	264	171	199	224	263	50	50	212	322
Subtotal	**$1,265**	**$1,421**	**$781**	**$915**	**$892**	**$1,029**	**$635**	**$848**	**$849**	**$996**
Education & Hospitals										
• Education	$825	$862	$664	$664	$613	$613	$792	$792	$1,004	$1,004
• Higher Education	59	78	11	11	47	48	21	25	12	16
• Hospitals	539	539	88	88	12	12	20	20	14	14
Subtotal	**$1,422**	**$1,479**	**$763**	**$763**	**$673**	**$674**	**$834**	**$838**	**$1,030**	**$1,034**
Housing and Economic Development										
• Housing	$267	$383	$228	$362	$223	$376	$284	$384	$326	$399
• Economic Development	431	562	171	171	58	58	148	148	46	46
Subtotal	**$698**	**$946**	**$399**	**$533**	**$281**	**$434**	**$432**	**$532**	**$372**	**$445**
City Operations & Facilities										
• Correction	$140	$140	$92	$92	$99	$99	$121	$121	$130	$130
• Fire	171	171	48	48	40	40	66	66	36	36
• Police	133	133	94	94	47	47	56	56	52	52
• Public Buildings	138	143	101	101	54	54	102	102	87	87
• Sanitation	169	169	137	150	644	644	203	203	205	205
• Parks	349	406	136	154	40	40	118	121	62	62
• Other	1,273	1,469	1,207	1,426	312	355	559	618	228	282
Subtotal	**$2,372**	**$2,631**	**$1,816**	**$2,065**	**$1,236**	**$1,279**	**$1,226**	**$1,287**	**$800**	**$854**
Total Commitments	**$7,804**	**$8,587**	**$5,659**	**$6,202**	**$5,160**	**$5,591**	**$4,884**	**$5,287**	**$4,412**	**$4,716**
Reserve For Unattained Commitments	**(2,731)**	**(2,731)**	**(205)**	**(205)**	**103**	**103**	**133**	**133**	**212**	**212**
Commitment Plan	**$5,073**	**$5,856**	**$5,454**	**$5,997**	**$5,263**	**$5,694**	**$5,017**	**$5,420**	**$4,624**	**$4,928**
Total Expenditures	**$5,238**	**$5,810**	**$4,769**	**$5,314**	**$4,723**	**$5,214**	**$4,799**	**$5,262**	**$4,738**	**$5,210**

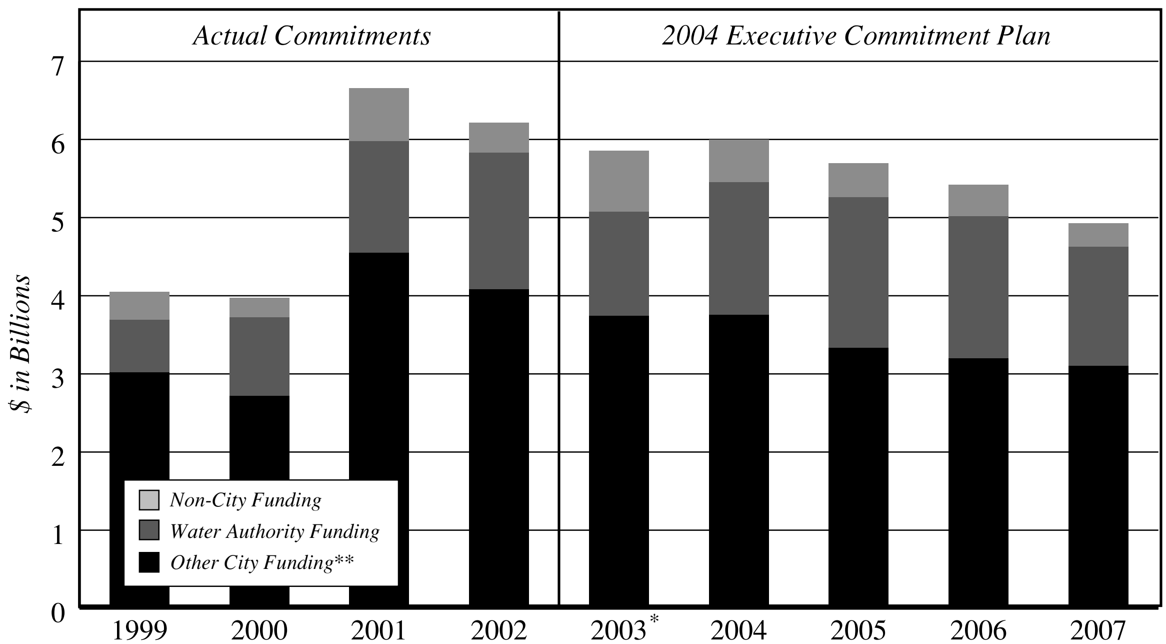
**Note: Individual items may not add to totals due to rounding*

Non-City Funding Sources

Non-City capital funding sources include $543.0 million in the 2004 plan and $1.7 billion over the 2004-2007 four-year plan period. The majority of non-City funding supports Transportation, Housing, and Environmental Protection programs.

Transportation programs are projected to receive non-City funding of $967.1 million over the 2004-2007 period, with $829.6 million from the Federal government and $135.0 million from the State, and private funds of $2.5 million. Housing programs anticipate non-City funding of $460.2 million in the 2004-2007 period, consisting of $410.2 million in Federal funding and $50.0 million in private funds. Environmental Protection programs anticipate receiving $172.6 million in state funding over the 2004-2007 period.

FY 1999-2007 CAPITAL COMMITMENTS BY FUNDING SOURCE



* *Projected*

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

The Capital Program since 1999

The table below illustrates the changes in the size of the City's capital program over the 1999-2002 period.

FY 1999 - 2002 Commitments
($ in millions)

	1999		2000		2001		2002	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Environmental Protection								
• Equipment	$81	$81	$74	$85	$60	$68	$115	$239
• Sewers	185	185	224	224	90	90	199	199
• Water Mains	200	203	212	212	178	178	492	492
• Water Pollution Control	198	198	408	412	970	970	806	806
• Water Supply	4	4	85	85	130	130	135	135
Subtotal	**$668**	**$671**	**$1,003**	**$1,018**	**$1,428**	**$1,436**	**$1,747**	**$1,871**
Transportation								
• Mass Transit	$116	$116	$109	$109	$91	$91	$6	$6
• Highways	171	184	111	115	214	223	211	217
• Highway Bridges	92	94	193	228	147	198	63	101
• Waterway Bridges	177	355	82	86	127	269	46	35
Subtotal	**$556**	**$749**	**$496**	**$538**	**$579**	**$781**	**$327**	**$359**
Education & Hospitals								
• Education	$1,400	$1,400	$1,123	$1,160	$2,178	$2,429	$1,337	$1,340
• Higher Education	12	14	10	11	7	8	9	10
• Hospitals	56	56	19	19	65	65	77	77
Subtotal	**$1,468**	**$1,470**	**$1,152**	**$1,191**	**$2,250**	**$2,502**	**$1,422**	**$1,427**
Housing and Economic Development								
• Housing	$161	$259	$182	$294	$261	$390	$321	$438
• Economic Development	54	59	21	21	202	213	190	193
Subtotal	**$215**	**$318**	**$203**	**$315**	**$463**	**$603**	**$510**	**$632**
City Operations & Facilities								
• Correction	$63	$74	$59	$59	$107	$108	$31	$32
• Fire	66	66	49	49	120	120	149	149
• Police	46	46	37	11	43	43	119	119
• Public Buildings	65	67	80	84	79	81	167	167
• Sanitation	63	63	198	198	150	150	216	216
• Parks	158	174	141	147	205	207	166	169
• Other	323	352	304	364	671	743	976	1,073
Subtotal	**$784**	**$842**	**$868**	**$912**	**$1,374**	**$1,452**	**$1,825**	**$1,926**
Total Commitments	**$3,691**	**$4,050**	**$3,721**	**$3,974**	**$6,094**	**$6,775**	**$5,832**	**$6,214**
Total Expenditures	**$4,385**	**$4,786**	**$3,919**	**$4,256**	**$4,389**	**$5,310**	**$5,436**	**$6,320**

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

Comprehensive Planning Process

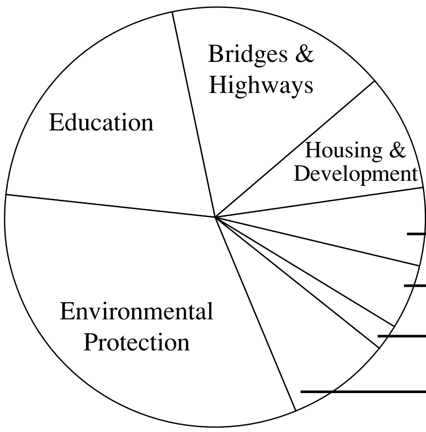
Developing a long-term capital investment strategy to improve, expand and sustain the City's physical plant requires comprehensive planning. The Ten-Year Capital Strategy, updated by OMB and the Department of City Planning every two years through consultation with City agencies, establishes overall programmatic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

Ten-Year Capital Strategy 2004-2013
($ in thousands)

	City Funds	Non-City Funds	Total Funds
Environmental Protection			
• Sewers	$1,310,845	$12	$1,310,857
• Water Mains	4,195,752	0	4,195,752
• Water Pollution Control	6,325,708	200,000	6,525,708
• Water Supply	3,938,471	0	3,938,471
• DEP Equipment	495,337	72,563	567,900
Subtotal Environmental Protection	$16,226,113	$272,575	$16,538,688
Education			
• Education	$9,754,582	$0	$9,754,582
• CUNY	119,445	37,413	156,858
Subtotal Education	$9,874,027	$37,413	$9,911,440
Transportation			
• Mass Transit	$748,140	$0	$748,140
• Highways and Transit Operations	3,127,172	617,548	3,744,720
• Bridges	3,435,734	1,061,754	4,497,488
Subtotal Transportation	$7,311,046	$1,679,302	$8,990,348
Housing and Economic Development			
• Housing	$3,209,805	$460,242	$3,670,047
• Housing Authority	111,086	0	111,086
• Economic and Port Development	641,621	0	641,621
Subtotal Housing and Economic Development	$3,962,512	$460,242	$4,422,754
Administrative Services			
• Correction	$1,422,335	$3,750	$1,426,085
• Police	483,093	0	483,093
• Courts	1,209,104	640	1,209,744
• Juvenile Justice	23,328	0	23,328
Subtotal Administration of Justice	$3,137,860	$4,390	$3,142,250
Health and Social Services			
• Health	$97,004	$0	$97,004
• Hospitals	217,907	0	217,907
• Homeless Services	227,164	0	227,164
• Human Resources	111,915	53,608	165,523
• Children's Services	127,256	16,722	143,978
• Aging	29,085	0	29,085
Subtotal Health and Social Services	$810,331	$70,330	$880,661
Other City Services			
• Sanitation	$2,261,492	$13,250	$2,274,742
• Public Buildings	965,404	100	965,504
• Fire	444,838	0	444,838
• Parks and Recreation	602,289	21,028	623,317
• Others	1,069,161	3,340	1,072,501
Subtotal Other City Services	$5,343,184	$37,718	$5,380,902
Total	$46,705,073	$2,561,970	$49,267,043

TEN-YEAR CAPITAL STRATEGY FOR 2004-2013

($ in Millions - All Funds)



% of Plan	Program	FY 2004 to 2013
33%	Environmental Protection	$16,539
20%	Education	9,911
17%	Bridges & Highways	8,242
9%	Housing & Development	4,423
6%	Administration of Justice	3,142
5%	Sanitation	2,275
2%	Mass Transit	748
8%	Other City Services	3,987
	Total	**$49,267**

2004 Ten-Year Capital Strategy Highlights

Environmental Protection and Sanitation

- Sewers: reconstruction and extension of the City's sewer system ($1.3 billion).

- Water Mains: construction of the Croton Filtration Plant ($1.4 billion); reconstruction of upstate dams ($504.6 million); design and construction of the Catskill/Delaware U/V facility ($588.0 million); in-city water main construction ($1.2 billion).

- Wastewater Treatment: continued reconstruction of the Newtown Creek Wastewater Treatment Plant (WWTP) ($1.5 billion); reconstruction and stabilization of the four WWTP's located in the Upper East River and the 26th Ward WWTP to reduce nitrogen discharges ($1.9 billion); reconstruction and stabilization of all other WWTP's ($1.1 billion); combined sewer overflow projects ($603.6 million).

- Water Supply: continued construction of the Third Water Tunnel, Stage Two ($833.0 million); study and construction of alternative sources of water supply for the City ($1.2 billion); begin construction of the Kensico-NYC Tunnel ($1.7 billion).

- Equipment: water conservation programs including the installation of water meters ($48.0 million) and the total rebate program ($18.0 million); remediation of the Brookfield Landfill located in Staten Island ($93.3 million); reconstruction of DEP facilities ($157.8 million).

- Sanitation: construction of solid waste management facilities ($546.3 million); purchase of vehicles and other equipment ($837.8 million); construction and reconstruction of sanitation garages and other facilities, city-wide ($861.2 million); waste disposal ($29.5 million).

Transportation

- Bridges: the continued reconstruction/rehabilitation of the four East River Bridges ($833.3 million), including Manhattan Bridge lower roadways – Contract #11 ($193.2 million) and Brooklyn Bridge approaches and main span – Contract #6 ($155.3 million); the reconstruction of six bridge structures rated "poor" ($335.8 million) and 184 bridge structures rated "fair" ($3.1 billion). The total Bridge Program for 2004– 2013 is $4.5 billion.

- Highways: the reconstruction and/or resurfacing of 2,307.9 linear miles (7,677.7 lane miles) of streets ($2.3 billion); the reconstruction of sidewalks and the installation of pedestrian ramps ($482.8 billion). The total Highway Program for 2004-2013 is $2.8 billion.

- Ferries and Buses: the reconstruction and improvement of various ferry vessels ($57.4 million) and facilities ($24.6 million); the purchase of CNG and diesel-fueled buses ($227.8 million), equipment ($3.8 million) and the rehabilitation of bus facilities ($9.4 million) for the City's subsidized transit program.

- Other Transit: contribution to the MTA's capital program, including subway and bus fleet enhancements, infrastructure improvements, in-house track rehabilitation and reconstruction of bus and subway lines and facilities ($748.1 million).

Education, Health and Social Services

- Education: a total program of $9.8 billion; new school construction ($4.0 billion); expand facilities through leases, building additions, transportables, modular classrooms and new athletic fields and playgrounds ($1.1 billion); rehabilitate, replace and upgrade building components ($985.0 million); modernize school buildings ($897.2 million); make capital improvements that enhance educational programs ($633.9 million); address the need for security systems, emergency lighting and code compliance ($9.8 million); and cover the Mayor/Council Program, administrative costs, emergency projects, research and development, and prior plan completion costs ($2.1 billion).

- Health: purchases of ambulances for EMS ($139.0 million); construction of the OCME DNA Laboratory ($48.3 million); reconstruction of Kings County Hospital Center Phase II ($25.6 million); renovation of various clinics ($25.4 million); renovation of the Public Health Laboratory facility located at 455 First Avenue ($22.5 million); Office of the Chief Medical Examiner (OCME) laboratory equipment purchase ($20.4 million); initial general outfitting of the Office of the Chief Medical Examiner mortuaries in Kings and Queens County ($4.4 million); construction of the Jamaica Health Center Annex building ($3.6 million); renovation of the Central Harlem STD Clinic ($2.8 million); replacement and purchase of PC software ($1.7 million); construction of a free-standing mortuary at Kings County Hospital in Brooklyn ($1.5 million); construction of a free-standing mortuary at Queens Hospital ($1.5 million).

- Aging: rehabilitate senior centers, with a primary focus on improvements to fire suppression systems, heat and hot water systems, and handicapped accessibility ($22.6 million); provide computers to senior centers to give seniors access to the Web-based Uniform Capital Benefits Assessment System (Uni-form) which will allow seniors to apply for various entitlement programs by completing one application ($6.2 million).

- Children's Services: completion of construction at Washington Heights Day Care Center ($2.0 million); completion of renovation and expansion at the Jefferson Group Home ($2.2 million); construction of local field offices in Washington Heights in Manhattan, Sutphin Boulevard in Queens and the Grand Concourse in the Bronx ($29.3 million); continued development of the Integrated Case Management System ($2.0 million) and the Automated Child Care Information System ($4.9 million); continued development of Local Area Network and the Wide Area Network ($29.1 million).

- Homeless Services: computer network upgrade, including an integrated client tracking system with enhanced client and shelter information reporting, and computerization of the Rehousing Unit, which tracks and locates permanent housing for homeless families ($7.5 million); renovation, development, and repair of adult shelters ($150.4 million), which includes renovation of SRO permanent housing facilities ($2.4 million) and new site development ($6.3 million); repair and renovation of family shelters ($62.0 million), which includes renovation of Tier II facilities constructed by NYCHA and HPD in the 1990's ($9.1 million) and facade repairs at various family sites ($10.0 million).

- Human Resources: continue system upgrade of Job Centers to provide integrated case management services ($18.1 million); development of Wide Area Network systems in order to provide greater connectivity among Department personnel, contract service providers and clients ($33.1 million); upgrade facades and interiors of social services facilities ($44.8 million).

Housing and Development

- Housing: disposition and rehabilitation of approximately 9,374 *in rem* dwelling units through various privatization initiatives ($867.0 million); development starts of over 24,600 new homeownership and rental dwelling units through the Nehemiah, Neighborhood Based Initiative, New Venture Incentive, and Mixed Use programs ($1.2 billion); provision of low-interest loans to finance the rehabilitation and preservation of approximately 45,000 low and moderate income units in privately owned buildings under the Article 7A, Article 8A, Participation Loan, Small Homes, and Housing Preservation programs ($1.2 billion); and production of 2,482 units for low income and homeless individuals, including those with mental illness, through the Supportive Housing Loan Program ($279.0 million).

- Housing Authority: general upgrade and system replacements in 7,980 existing public housing units in the six City-aided developments ($108.0 million).

- Economic Development: relocation of the Fulton Fish Market to Hunts Point ($56.4 million); revitalization of the BAM Cultural District ($28.1 million); rehabilitation of the Battery Maritime Building ($27.7 million); reconstruction of the Whitehall Ferry Terminal ($26.8 million); reconstruction of the St. George Ferry Terminal ($19.4 million); infrastructure improvements to the Brooklyn Navy Yard ($19.4 million); Queens West Development ($15.0 million); redevelopment of Governor's Island ($15.0 million); development of a new railroad terminal at the Farley Post Office ($13.0 million); Staten Island Railroad improvements ($11.0 million); new post-production movie studio at the Brooklyn Navy Yard ($7.0 million); and rehabilitation of the Passenger Ship Terminal ($6.7 million).

Administration of Justice and Public Safety

- Correction: replacement of deteriorating housing facilities with new facilities ($820.8 million); improvements to building systems, infrastructure and support space ($511.8 million); life cycle replacement of vehicles, telecommunications, and other equipment ($93.4 million).

- Courts: construction of two new courthouses in Brooklyn and Staten Island and a new addition to the Criminal Courts courthouse in Queens ($744.7 million); renovation of six courthouses in the Bronx, Brooklyn, and Manhattan ($216.6 million); rehabilitation of elevators in five courthouses in the Bronx, Brooklyn, and Manhattan ($19.8 million); and exterior reconstruction in three courthouses in Manhattan ($10.5 million).

- Police: lifecycle replacement of communication equipment, computer equipment, vehicles and miscellaneous equipment ($345.5 million); replacement, rehabilitation or maintenance of facilities citywide ($137.6 million).

- Fire: replacement of front-line fire-fighting apparatus according to mandated replacement cycles and support vehicles and equipment ($292.4 million); renovation of firehouse components such as boilers, electrical upgrades, kitchens, roofs, bathrooms, waterproofing, apparatus doors, floors and windows ($77.1 million); complete restoration of five firehouses ($24.0 million); design, acquisition and construction of a new fleet maintenance facility in Maspeth, Queens ($34.5 million); construction of two EMS ambulance stations ($9.2 million); purchase and upgrade of computer equipment to support agency operations ($1.2 million); purchase of new mobile radios that are compatible with the Channel 16 radio infrastructure for front-line vehicles and purchase of communications equipment for the call box network ($6.3 million).

Recreation and Culturals

- Parks: reconstruction and replacement of safety surfaces, play equipment and paths to improve the overall condition of parks ($133.7 million); planting of street trees ($63.5 million); reconstruction of bridges within parks ($37.6 million); rehabilitation of stadia ($20.4 million); reconstruction of neighborhood parks and playgrounds ($166.1 million) and construction of Hudson River Park ($37.5 million); Brooklyn Bridge Park ($33.8 million); East River Park Reconstruction ($45.9 million).

- Public Libraries: renovations at the Schomburg Center ($6.7 million); construction of the Bronx Borough Center ($35.9 million); renovations at the Kingsbridge branch library ($4.5 million); expansion and renovation of the front plaza, a new auditorium and systems upgrade at the Brooklyn Public Library's Central Library ($19.5 million); full renovation of the King's Highway branch ($2.9 million); upgrade and replacement of system-wide heating and air-conditioning systems for the Queens Borough Public Library ($3.8 million); system-wide purchase of computer equipment and infrastructure improvements for the Queens Borough Public Library ($1.5 million); system-wide ADA projects at the Queens Borough Public Library branches ($2.4 million).

- Department of Cultural Affairs: improvements to The New York Botanical Garden ($9.1 million); reconstruction and expansion at the Metropolitan Museum of Art ($10.4 million); improvements to the American Museum of Natural History ($40.1 million); renovation of the Reptile Wing and other exhibits at the Staten Island Zoo ($8.7 million); renovation of the Public Theater for the New York Shakespeare Festival ($7.8 million); conversion of the Lion House at the Bronx Zoo into a new Madagascar Exhibit and administrative space ($22.8 million); Queens Museum of Art expansion ($17.4 million); improvements to the Staten Island Historical Society ($2.9 million); a Master Plan for renovation of the Lincoln Center for the Performing Arts ($141.5 million); additions and improvements at the New York Aquarium ($20.1 million); improvements to the Brooklyn Botanic Garden ($16.1 million); a new wing for the Museum of Jewish Heritage ($2.5 million); an addition to the Bronx Museum of the Arts ($5.3 million); building improvements and exterior reconstruction at the P.S. 1 Contemporary Art Center ($4.3 million); renovation of the Pierpont Morgan Library ($3.5 million); addition to the Queens Theater in the Park ($7.4 million).

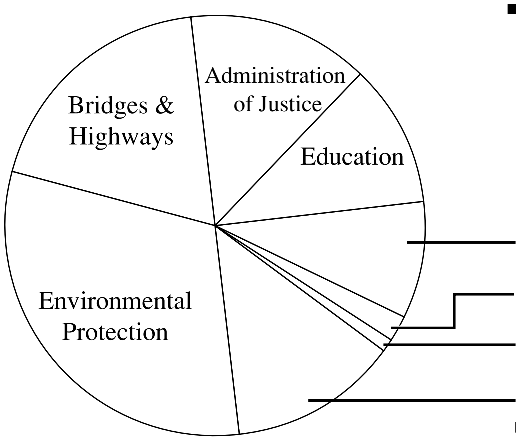
Department of Citywide Administrative Services

- Public Buildings: the reconstruction of public buildings and City-owned facilities ($807.7 million), including interior rehabilitation and renovation of the Manhattan Municipal Building ($20.3 million) and the Brooklyn Municipal Building ($21.6 million); the renovation of leased space ($67.5 million), including the Department of Finance offices at 59 Maiden Lane, Manhattan ($10.2 million) and the Department of Finance Bronx Business Center ($7.0 million); compliance with legal mandates ($62.1 million), including repair and replacement of petroleum underground storage tanks ($9.8 million); and the reconstruction of waterfront properties ($45.6 million).

2004 Agency Highlights

2004 AUTHORIZED CAPITAL COMMITMENTS, BY PROGRAM

($ in Millions - All Funds)



% of Plan	*Program*	*2004 Plan*
31%	Environmental Protection	$1,925
19%	Bridges & Highways	1,151
14%	Administration of Justice	893
11%	Education	675
9%	Housing & Development	533
2%	Sanitation	150
1%	Mass Transit	75
13%	Other City Services	800
	Total	**$6,202**

Environmental Protection and Sanitation

- Sewers: reconstruction and extension of the City's sewer system ($192.9 million).

- Water Mains: upstate dam reconstruction projects ($60.1 million); continued design of the Catskill/Delaware U/V facility ($40.0 million); in-city water main construction ($135.1 million).

- Wastewater Treatment: continued reconstruction of the Newtown Creek Wastewater Treatment Plant (WWTP) ($651.0 million); the 26th Ward WWTP ($75.0 million); and the reconstruction and stabilization of the four WWTP's located in the Upper East River to reduce nitrogen discharges ($85.0 million).

- Water Supply: continued construction of the Third Water Tunnel, Stage Two ($13.0 million); study of alternative sources of water supply for the City ($40.0 million); start of design of the Kensico-NYC Tunnel ($15.0 million).

- Equipment: water conservation programs, including the installation of water meters ($10.0 million) and the toilet rebate program ($18.0 million).

- Sanitation: construction of solid waste management facilities ($58.6 million); purchase of vehicles and other equipment ($66.6 million); construction and reconstruction of sanitation garages and other facilities, city-wide ($29.4 million).

Transportation

- Bridges: the continued reconstruction/rehabilitation of the four East River Bridges ($194.3 million), including the Queensboro Bridge miscellaneous components - Contract #6 ($45.8 million), and the protective coating of the Queensboro Bridge ($121.5 million); the reconstruction/rehabilitation of 29 bridge structures rated “fair” ($286.6 million). The total Bridge Program for 2004 is $524.6 million.

- Highways: the reconstruction and/or resurfacing of 239.5 linear miles (799.1 lane miles) of streets ($251.8 million); the reconstruction of sidewalks ($44.7 million) and the installation of pedestrian ramps ($7.7 million). The total Highway Program for 2004 is $315.5 million.

- Ferries and Buses: the reconstruction and improvement of various ferry vessels ($12.4 million) and facilities ($5.3 million); the purchase of CNG and diesel-fueled buses ($150.7 million), equipment ($1.2 million) and the rehabilitation of bus facilities ($9.4 million) for the City’s subsidized franchise transit program.

- Other Transit: contribution to the MTA’s capital program including subway and bus fleet enhancement, infrastructure improvements, in-house track rehabilitation, reconstruction of bus and subway lines and facilities ($75.0 million).

Education, Health and Social Services

- Education: a total program of $664.4 million; new school construction ($274.3 million); expand facilities through leases, building additions, transportables, modular classrooms and new athletic fields and playgrounds ($77.6 million); rehabilitate, replace and upgrade building components ($66.9 million); modernize school buildings ($61.0 million); make capital improvements that enhance educational programs ($43.0 million); address the need for security systems, emergency lighting and code compliance ($0.7 million); and cover the Mayor/Council Program, administrative costs, emergency projects, research and development, and prior plan completion costs ($140.9 million).

- Health: construction of the Office of the Chief Medical Examiner (OCME) DNA Laboratory ($47.7 million); reconstruction of Kings County Hospital Center Phase II ($25.6 million); purchase of ambulances for EMS ($10.7 million); renovation of the Public Health Laboratory facility located at 455 First Avenue ($5.0 million); Office of the Chief Medical Examiner laboratory equipment ($4.0 million); construction of a free-standing mortuary at Kings County Hospital ($1.5 million); construction of a free-standing mortuary at Queens County Hospital ($1.5 million).

- Aging: rehabilitate senior centers including the following projects: Sunnyside Community Center, Gun Hill Senior Center and Hammel Senior Center ($3.2 million).

- Administration for Children’s Services: completion of renovation and expansion at the Jefferson Group Home ($2.2 million); continued development of the Integrated Case Management System ($2.5 million) and the Local Area Network ($2.3 million).

- Homeless Services: development of a new DHS supply warehouse, maintenance and repair workshop ($5.3 million); fire safety and renovations at the Park Slope Armory ($3.2 million); building upgrade at the Charles Gay Annex ($1.5 million); exterior stabilization at the 8 East 3rd Street Shelter ($2.5 million); renovation and roof repair at the Bronx Emergency Assistance Unit ($0.8 million); envelope stabilization and restoration at the Jamaica Assessment ($3.3 million); building upgrade at Seneca House ($1.2 million).

- Human Resources: continue system upgrade of Job Centers to provide integrated case management services ($3.2 million); development of Wide Area Network systems in order to provide greater connectivity among department personnel, contract service providers and clients ($5.4 million); upgrade facades and interiors of social services facilities ($11.4 million).

Housing and Development

- Housing: disposition and rehabilitation of approximately 1,753 *in rem* dwelling units through various privatization initiatives ($147.6 million); development starts of over 1,870 new homeownership and rental dwelling units through the Nehemiah, Neighborhood Based Initiative, New Venture Incentive and Mixed Use programs ($57.2 million); provision of low-interest loans to finance the rehabilitation and preservation of approximately 3,716 low and moderate income units in privately owned buildings under the Article 7A, Article 8A, Participation Loan, Small Homes, and Housing Preservation programs ($84.8 million); and production of 440 units for low income and homeless individuals, including those with mental illness, through the Supportive Housing Loan Program ($42.0 million).

- Housing Authority: brickwork at Boulevard Houses, Brooklyn, consisting of 1,436 dwelling units ($5.7 million); installation of elevator doors at St. Mary's Park, the Bronx, consisting of 1007 dwelling units ($2.4 million); and replacement of underground steam lines at Marble Hill, Manhattan, consisting of 1,682 dwelling units ($1.3 million).

- Economic Development: relocation of the Fulton Fish Market to Hunts Point ($56.4 million); reconstruction of the Whitehall Ferry Terminal ($26.8 million); reconstruction of the St. George Ferry Terminal ($19.4 million); revitalization of the BAM Cultural District ($8.0 million); rehabilitation of the Battery Maritime Building ($8.0 million); new post-production movie studio at the Brooklyn Navy Yard ($7.0 million); development of a new railroad terminal at the Farley Post Office ($5.0 million); rehabilitation of the Passenger Ship Terminal ($4.9 million); redevelopment of the 125th Street Corridor ($3.3 million); and rehabilitation of the Apollo Theater ($2.7 million).

Administration of Justice and Public Safety

- Correction: completion of the 448-cell addition to the George R. Vierno Center ($28.2 million); construction of a visit house for the Eric M. Taylor Center ($9.6 million); shower reconstruction at the Queens Detention Center ($5.8 million); replacement of vehicles to transport inmates ($5.5 million).

- Courts: construction of a new courthouse for the Supreme Court-Criminal Term and Family Court at 330 Jay Street in Brooklyn ($628.0 million); ADA compliance and systems upgrade work at Surrogate's Court courthouse in Manhattan ($16.5 million); exterior rehabilitation work at courthouses in the Bronx, Brooklyn, Queens and Manhattan ($11.8 million); elevator rehabilitation work at the Criminal Courts, Civil Court and Surrogate's Court courthouses in Manhattan ($6.9 million); design and commitment for the renovation and conversion of the existing Family Court courthouse in Brooklyn to Housing Court ($3.8 million); renovation of the Midtown Community

Court building in Manhattan ($2.0 million); roof reconstruction work at the Criminal/Family Court courthouse in the Bronx ($1.2 million); elevator rehabilitation work at the Criminal Courts courthouse in Brooklyn ($1.0 million).

- Police: continue rehabilitation of the 9th Precinct ($8.4 million); maintenance and rehabilitation of facilities citywide ($6.1 million); lifecycle replacement of vehicles ($21.0 million).

- Fire: replacement of front-line fire-fighting apparatus, support vehicles and equipment ($26.1 million); renovation of firehouse components such as boilers, electrical upgrades, kitchens, roofs, bathrooms, waterproofing, apparatus doors, floors and windows ($11.6 million); design and acquisition of a new fleet maintenance facility in Maspeth, Queens ($7.0 million); purchase of new mobile radios that are compatible with the Channel 16 radio infrastructure for front-line vehicles ($2.0 million).

Recreation and Culturals

- Parks: reconstruction and replacement of safety surfaces, play equipment, and paths to improve the overall condition of parks ($3.6 million); planting of street trees ($3.9 million); reconstruction of East River Park, including bulkheads along the waterfront ($45.9 million); construction of Charleston Park ($6.3 million); reconstruction of Yankee and Shea stadia ($9.1 million); and reconstruction of the Hudson River Park ($27.5 million).

- Public Libraries: mechanical work for the Performing Arts Library ($1.8 million); construction of the Bronx Borough Center ($19.9 million); full renovation of the Harlem Branch ($3.3 million); renovation of the 115th Street Branch in Manhattan ($2.9 million); full renovation of the Park Slope Library ($1.1 million); initiate renovation of the Kings Highway branch ($1.4 million); construction of a new Long Island City branch ($5.1 million); construction of a new Cambria Heights branch ($1.1 million, with an additional $3.8 million in FY 2003); replacement branch for Glen Oaks library ($3.6 million).

- Department of Cultural Affairs: facility modernization at the American Museum of Natural History ($11.4 million); construction of a new building for the Alvin Ailey Dance Foundation ($5.2 million); Brooklyn Academy of Music building renovations ($2.9 million); new administrative building for the Queens Botanical Garden Society ($10.3 million); reconstruction of the Reptile Wing at the Staten Island Zoo ($6.3 million); purchase of a new Building for the Bronx County Historical Society ($2.0 million); restoration of the Vivian Beaumont Theater at Lincoln Center ($2.6 million); restoration of the historic Hunterfly Houses at Weeksville ($5.4 million); theater renovation for Women's Project Production ($2.2 million); a new facility for Aaron Davis Hall ($3.3 million); El Museo del Barrio courtyard and building renovation ($1.5 million).

Department of Citywide Administrative Services

- Public Buildings: the reconstruction of public buildings and City-owned facilities ($58.7 million), including heating and air-conditioning systems at 100 Gold Street, Manhattan ($8.0 million); the renovation of leased space ($15.5 million), including the Department of Finance Offices at 59 Maiden Lane, Manhattan ($10.2 million); compliance with legal mandates ($10.0 million); Board of Elections modernization ($8.9 million), including warehouse and office space in Manhattan ($6.5 million) and Brooklyn ($2.4 million); and the reconstruction of waterfront properties ($1.9 million).

Borough Presidents' Allocations

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

FY 2004-2007 Borough Presidents' Allocations*
(City Funded Appropriations $ in thousands)

	2004	2005	2006	2007
Bronx Program				
Aging	$496	—	$197	—
Children's Services	1,700	—	109	—
Housing	2,769	1,475	—	—
Higher Education	1,005	730	23	—
Highways	—	—	1,125	—
Hospitals	500	—	—	—
Human Resources	16	—	—	—
New York Public Library	—	1,405	424	—
Parks	380	934	612	—
Cultural Affairs	547	138	814	1,050
Public Buildings	2	—	—	—
Real Property	—	330	—	—
Traffic	190	—	215	—
GRAND TOTAL: BRONX	$7,605	$5,012	$3,519	$1,050
Brooklyn Program				
Aging	$149	—	—	—
Economic Development	2,104	1,000	5,318	8,500
Housing	970	—	—	—
Higher Education	259	982	44	—
Human Resources	68	—	—	—
Brooklyn Public Library	934	2,000	376	—
Parks	2,366	1,203	4,665	3,290
Cultural Affairs	2,638	3,887	7,256	—
Public Buildings	2,203	367	—	—
Traffic	—	525	141	—
GRAND TOTAL: BROOKLYN	$11,691	$9,964	$17,800	$11,790

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

FY 2004-2007 Borough Presidents' Allocations*
(City Funded Appropriations $ in thousands)

	2004	2005	2006	2007
Manhattan Program				
Aging	———	———	$314	$121
Economic Development	500	———	36	———
Health	52	———	———	———
Housing	700	———	———	———
Higher Education	224	———	137	12
Highways	———	———	100	———
New York Public Library	———	———	1,870	———
Parks	1,742	———	537	72
Cultural Affairs	758	———	417	———
Public Buildings	———	85	500	———
Transit	250	———	———	———
Traffic	———	———	474	———
GRAND TOTAL: MANHATTAN	$4,226	$85	$4,385	$205
Queens Program				
Education	$5,160	$500	———	———
Economic Development	750	1,500	———	———
Higher Education	1,401	———	336	52
Highways	250	———	250	———
Hospitals	———	500	———	———
Human Resources	228	———	———	———
Queens Borough Public Library	1,972	1,450	1,365	1,300
Parks	7,562	2,800	1,809	———
Cultural Affairs	2,236	8,980	14,395	6,159
Public Buildings	———	1,000	———	———
Sewers	250	———	———	———
Traffic	———	———	315	———
GRAND TOTAL: QUEENS	$19,809	$16,730	$18,470	$7,511
Staten Island Program				
Children's Services	$100	———	———	———
Economic Development	1,910	———	———	———
Education	710	———	———	———
Higher Education	———	———	8	———
Fire	500	———	———	———
Highways	———	400	3,409	———
New York Public Libraries	24	———	———	———
Parks	816	———	———	———
Cultural Affairs	362	21	444	———
Police	300	———	———	
Public Buildings	275	———	———	———
Sewers	500	———	———	———
Traffic	———	———	350	———
GRAND TOTAL: STATEN ISLAND	$5,497	$421	$4,211	$0

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

Management Initiatives

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

- continued improvements to capital program management.
- updating the charter-mandated capital asset condition assessment.
- application of value engineering to reduce capital and operating costs.

Capital Program Management

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

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

Capital Asset Inventory and Maintenance Program

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

Value Engineering

Value Engineering (VE) is a systematic analytical methodology directed toward analyzing the functions of projects for the purpose of achieving the best value and most effective operation at the lowest life-cycle project cost. From its inception in 1982 OMB's VE program has utilized innovations in value management methodologies to evaluate a diverse group of projects, widening the scope and depth of project reviews to include Value Analysis (VA) review of the City's operational processes and functions to assist agencies in streamlining their procedures, and Independent Cost Estimating (CE) to verify the reliability of agency design estimates and the adequacy of the projected capital funding.

Value Engineering is a collaborative effort between all concerned city agencies with budgetary and operational jurisdiction over a project, and outside consultants with expertise on critical project components.

The City has utilized VE effectively in the last twenty years on mainly large-scale capital projects with a view to controlling costs. However, the VE process does not only result in cost reductions, but also frequently generates project improvements, and anticipates and solves functional problems by raising relevant issues early in the design process, which could adversely compromise the project's development, cost and schedule. Projects scheduled for upcoming VE reviews include several waste water and water treatment plants, reconstruction of major hospitals, several bridges, and Value Analysis reviews.

The VE Review has also been applied with equal success to small unique projects where the focus might not be on controlling costs but on other aspects of project development.

FINANCING PROGRAM

The City's financing program projects $28.4 billion of long-term borrowing for the period of 2003 through 2007 to support the City's current capital program. More than 88 percent of the financing will be implemented through three bond issuers: the City, through its general obligation (GO) bonds, the New York City Transitional Finance Authority (TFA) and the New York City Municipal Water Finance Authority (NYW or the Authority). 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. JSDC will continue to finance the construction of a new court facility at 330 Jay Street in Brooklyn. In addition to the two borrowings implemented to date totaling $526 million, JSDC is expected to complete its third and final bond financing in early FY2004. DASNY will issue bonds for the City's other court facilities and the expansion and reconstruction of HHC facilities. TSASC, Inc., whose bonds are secured by tobacco settlement revenues, will be utilized to the extent that such financings become cost-effective. The annual financing amounts during the plan period for each of the bond issuing entities are listed in the table below.

Financing Program
(In Millions)

	2003	2004	2005	2006	2007	Total
City General Obligation Bonds	$1,950	$2,220	$2,550	$2,950	$3,100	$12,770
Transitional Finance Authority (1)	1,650	145	0	0	0	1,795
TSASC (2)	400	715	717	0	0	1,832
NYW (3)	3,271	1,734	1,779	1,926	1,770	10,480
DASNY and Other Conduit Debt (4)	110	651	230	316	230	1,537
Total	$7,381	$5,465	$5,276	$5,192	$5,100	$28,414

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

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

(3) NYW includes commercial paper, FY2003 refunding bonds issued to date 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 following three tables show statistical information on debt issued by the financing entities described above.

Debt Outstanding
(In Millions)

(As of June 30)	2003	2004	2005	2006	2007
City General Obligation Bonds	$29,602	$29,759	$30,761	$32,158	$33,630
Transitional Finance Authority	12,020	12,982	12,766	12,391	12,000
TSASC	1,258	2,019	2,715	2,678	2,651
MAC	2,525	2,151	1,758	1,354	924
DASNY and Other Conduit Debt	2,731	3,171	3,316	3,510	3,636
Total Debt Outstanding	$48,136	$50,083	$51,317	$52,090	$52,841
Water Finance Authority	12,320	13,780	15,340	17,080	18,670

Annual Debt Service Costs
(In Millions)

	2003	2004	2005	2006	2007
City General Obligation Bonds*	2,275	2,969	3,220	3,295	3,474
Transitional Finance Authority	540	830	996	993	996
TSASC	102	110	163	200	199
MAC**	214	531	490	492	493
DASNY and Other Conduit Debt**	154	203	218	272	293
Total Debt Service Costs	3,286	4,643	5,087	5,252	5,454
Water Finance Authority	659	758	927	1,052	1,154

* Includes short-term (RANs) interest costs. Excludes prepayments of debt service and water rental revenues for GO/Water bonds.
**Excludes prepayments of debt service

Debt Burden

(As of June 30)	2003	2004	2005	2006	2007
Total Debt Service (NYC GO, Lease, MAC & TFA) as %:					
a. Total Revenue*	7.0%	9.8%	10.2%	10.1%	11.5%
b. Total Taxes*	13.9%	16.8%	17.8%	17.4%	18.6%
c. Total NYC Personal Income	1.1%	1.5%	1.5%	1.5%	1.4%
Total Debt Outstanding (NYC GO, Lease, MAC & TFA) as %:					
a. Total NYC Personal Income	14.3%	14.2%	13.6%	13.1%	12.3%

* Total revenues include amounts required to support TFA and TSASC debt service.
** Total tax includes amount required to support TFA debt service.

TFA is only $145 million below its statutory bonding capacity of $11.5 billion (excluding bonds for recovery purposes) in FY2004. TFA has been a cost-effective source of financing for the City's financing program over the past six years. TFA debt now costs, on average 50 basis points less than City GO bonds. In addition, it has been an important source of diversification as a financing vehicle. The City has generally alternated TFA and GO financings through each fiscal year, relieving significantly cost and supply pressures on City GO bonds and thereby holding down the cost of GO financings. Therefore, the City is proposing legislation that would eliminate the statutory cap on TFA financing. If the TFA cap is not lifted, the City would have to issue approximately $12.5 billion of its GO bonds during the plan period, which represents the largest share, 45%, of the total program. This amount could be higher if TSASC does not once again become a more cost-effective financing vehicle. If the

TFA cap is lifted, it is expected that half of what would otherwise be issued in the form of GO bonds, $6.4 billion of bonds, would be issued by the TFA instead. This would significantly improve the financing cost for the remaining $6.4 billion of GO bonds still required. NYW's annual bonding amount, excluding refundings, will average about $1.8 billion. The aggregate amount of NYW financing during the plan period will account for approximately 37% of the City's total program.

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 issue debt, secured with the City's personal income tax (PIT), 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's variable rate bonding capacity to $2.3 billion or 20% of its authorized bonding amount (excluding the Recovery Bonds).

TFA New Money Issuances:

TFA issued approximately $600 million of Series 2003C bonds and $555 million of Bond Anticipation Notes (BANs) on November 7, 2002. The proceeds of the 2003C bonds were applied to defease the BANs issued in November 2001 to fund the City's ongoing capital program. $450 million of the Series 2003 C bonds were fixed rate and $150 million bonds were floating rate. The TIC for the fixed rate portion of the 2003C bonds was 4.63%. The new BANs with a one-year maturity were competitively bid out with a true interest cost (TIC) of 1.63%. The proceeds of the BANs funded the City's capital program.

On February 20, 2003, TFA issued $604 million of Series 2003D bonds and $555 million of Bond Anticipation Notes (BANs). The proceeds of the 2003D bonds were applied to defease the BANs issued in February 2002, and to fund the City's ongoing capital program. The Series 2003D bonds were comprised of $501 million of tax-exempt fixed rate bonds and $103 million of taxable fixed rate bonds. The tax-exempt portion of the 2003D bonds had a TIC of 4.86% while the taxable portion had a TIC of 4.34%. The new BANs with a one-year maturity were competitively bid out with a TIC of 1.06%. The proceeds of the BANs funded the City's capital program.

On April 10, 2003, TFA issued $550 million of tax-exempt fixed rate Series 2003E bonds to fund the City's capital program. The bonds had a TIC of 4.64%. With the issuance of the Series 2003E bonds, the TFA's remaining statutory bonding capacity is $145 million. In FY2004, the TFA will issue the remaining $145 million of bonds for capital purposes and $1.1 billion of bonds to retire the two BANs issued in FY2003.

The City's personal income tax revenues are projected to grow at an average of 5.9 percent between 2003 and 2007 despite the elimination of various surcharges and implementation of tax cuts. TFA is projected to continue to have very strong coverage of debt service.

TFA Refundings:

In the first quarter of FY2003, TFA also completed two refinancings of its existing debt, Series 2003A and Series 2003B. The TFA took advantage of the low interest rate environment in the summer, adopted an innovative financing idea (the "stepped-coupon bonds," discussed in the next paragraph) and achieved total budget savings of $121 million and $47 million in FY2003 and FY2004, respectively. The TICs were 4.15% for Series 2003A and 3.96 % for Series 2003B. The present value savings were 8.5% for Series 2003A and 6.2% for Series 2003B.

The stepped-coupon bonds have a fixed coupon that increases (or "steps up") at the end of the refunding escrow period when all the refunded bonds have been paid. At that time, TFA expects to call or purchase the stepped-coupon bonds and convert them into floating rate bonds. The structure allows the TFA to reduce the interest costs of those bonds with long maturities from 16 to 29 years to that of a bond with 11-year maturity for the first 9 years. After the escrow period, the interest rates on these bonds will be reduced to those of floating rate bonds, assuming that TFA refinances these bonds with floating rate bonds. In addition, the stepped-coupon bonds give TFA more flexibility in managing its overall interest rate exposure. The credit facilities for the future floating rate issuance do not have to be locked in today, thus saving enhancement costs and freeing up capacity for other financing options during the period.

TFA Recovery Bonds and Notes:

On September 13, 2001, the TFA was given a statutory authority to borrow $2.5 billion to finance costs related to the September 11th terrorist attack on New York City. Pursuant to that authority, the TFA issued approximately $2 billion of long-term debt in the first half of fiscal year 2003. In October 2001, the TFA issued the first $1 billion of New York City Recovery Notes to pay such costs, including $500 million to replace lost revenues resulting from the attack. During the first quarter of FY2003, TFA issued three series of Recovery Bonds (Series 2003-1, Series 2003-2 and Series 2003-3) totaling $2.03 billion. One billion dollars of bond proceeds were used to pay recovery costs consisting of revenue losses associated with the events of September 11 and the remaining $1.03 billion were used to retire the Recovery Notes issued in October 2001. The TFA Recovery Bonds are subordinated to TFA senior debt and have a 20-year level debt service payment structure. Recovery Bonds were sold as variable rate bonds (VRDBs) except for four maturities in years 2003 to 2006 from Series 2003-3 totaling about $143 million, which were sold at a fixed rate. The fixed rate Recovery Bonds were sold at yields ranging between 1.66% and 2.56%. The yields are comparable to those of senior lien TFA bonds. The Recovery Bonds have the same credit ratings as the TFA's senior debt (Aa2 from Moody's and AA+ from S&P and Fitch).

The floating rate Recovery Bonds are supported by liquidity facilities provided by banks and by the New York State Common Retirement Fund ("CRF"). The $191.2 million liquidity support from the CRF was a ground-breaking transaction: it allows the CRF to diversify and enhance returns on its investment portfolio with relatively low risk while facilitating competitive pricing for TFA by expanding the pool of liquidity providers beyond the traditional banking institutions.

TFA floating rate bonds:

The issuance of VRDBs saves interest costs for TFA. The BMA index, which is a tax exempt floating rate index, has ranged between 0.95% and 1.85% in the last 12 months, averaging about 1.35%. The TFA's VRDBs are generally traded at 0.04% below the BMA average of about 1.31% last year. The TFA's 30-year fixed rate bonds were sold at a yield of 4.92% in the most recent transaction in April 2003. The difference in interest rates between the VRDBs and the 30-year fixed rate bonds is about 361 basis points. If the spread between the short-term and the long-term interest rates remains as wide as the current market at 3.6%, the annual debt service savings on the $1.9 billion of TFA floating-rate Recovery Bonds could be as high as $68 million annually.

New York City General Obligation Bonds and Cash Flow Financing

With interest rates at historically low levels, the City has implemented since June 2002 a series of refinancings of General Obligation (GO) bonds to realize budget savings totaling $446 million in FY2003 and $50 million in FY2004. A total of $3.6 billion of bonds were refunded during the period between May 2002 and January 2003, of which $1.6 billion utilized the Federal legislation that allows the City to advance refund up to $4.5 billion of bonds before January 2005 that would not have been eligible for advance refunding a second time under federal tax law.

The first two refundings, Series 2002 E, F and G and Series 2003 A and B, were both about $1 billion. They achieved a minimum of 3% present value savings and a total of $364 million of budget savings in FY2003 and FY2004. Series 2002E, F and G and Series 2003 A and B, which consisted of all fixed-rate tax exempt bonds, achieved all-in TICs of 4.65% and 4.44%, respectively.

In November 2002, the City executed another refunding transaction, Series 2003 C, D and E, which consisted of $148 million of fixed rate taxable bonds, $400 million of tax-exempt variable rate bonds and $600 million of tax-exempt fixed rate bonds. The refunding achieved a present value savings of more than 6.5% and a total of $80 million of budget savings between 2003 and 2004. The City also entered into interest rate exchange agreements with four swap counterparties on the $400 million of floating rate bonds. Pursuant to the agreements, the City pays the counterparties a fixed payment semi-annually at 3.269% per annum on the $400 million notional amount in exchange for floating rate payments calculated based on 62.8% of 1-month LIBOR payable monthly. Based on trading patterns of outstanding City debt, it is anticipated that the City's floating rate bonds will trade on average over the life of the bonds at 62.8% of LIBOR. Therefore, the swap payments that the City expects to receive over time will offset the interest costs on the bonds, leaving the net costs on the bonds equal to the fixed payments the City makes to the counterparties. The agreements allow the City to pay 3.929% (including 66 basis points for liquidity and remarketing costs) for bonds due 2014-2020, which is from 88 to 100 basis points lower than rates that would have been paid on fixed rate bonds. The tax- exempt fixed rate portion of the Series 2003 C, D and E bonds was sold at yields ranging between 1.68% in 2003 to 4.8% in 2015. The taxable portion of Series 2003C, D and E was competitively bid out at TIC of 3.57%.

On January 22, 2003, the City issued another $1.2 billion of general obligation bonds (Series 2003 F, G and H), which included $650 million of new money bonds and $555 million in refunding bonds. The $650 million new money financing consisted of $500 million of traditional tax-exempt fixed rate bonds and $150 million of taxable indexed floating rate bonds sold by private placement to a European investor. The yields on the tax-exempt fixed rate bonds ranged between 2.05% and 5.35% for maturities in years 2005 and 2033, respectively. The TIC for the tax-exempt new money series was 5.23%. The spread to LIBOR on the taxable bonds ranged between 38 basis point to 73 basis points for maturities in 2005 and 2017, respectively. With the 3-month LIBOR rate at a record low of 1.37% as of January 17, 2003, the taxable interest rates were set for the initial three-month period at a range between 1.75% and 2.10% for maturities in year 2005 and 2017, respectively. These rates on the taxable indexed floater compare favorably against those in both the domestic fixed rate and floating rate markets.

The January 2003 GO borrowing also included $555 million of refunding bonds, consisting of $307 million of tax-exempt fixed rate bonds, $215 million of tax-exempt floating rate bonds with a fixed-payer swap similar to the one executed in connection with the GO Series 2003 C, D and E transaction described above, and $39 million of taxable fixed rate bonds. The refunding generated $4 million and $34 million of budget savings in FY2003 and FY2004, respectively. The yields on the tax-exempt fixed rate bonds range between 1.23% to 4.25% for maturities in year 2003 to 2011, respectively. The taxable bonds, with maturities only in 2003 and 2004 were sold competitively with an average yield of 1.93%. In addition, the City negotiated two interest rate exchange agreements with an aggregate notional amount of $215 million, where the City will make fixed payments in exchange for receiving adjustable payments based on a percentage of LIBOR. These agreements essentially lock in low fixed interest costs on the floating rate bonds, similar to the swap agreements on Series 2003 C, D and E bonds described above. The fixed rates payable by the City are 2.818% and 3.259% on $80 million and $135 million notional amounts, respectively. The floating rate payments to be received by the City are based on 60.8% and 61.8% of 1-month LIBOR.

On March 6, 2003, the City issued $650 million of tax-exempt fixed rate Series 2003I bonds for capital purposes. The yields on the tax-exempt fixed rate bonds ranged between 1.81% and 5.26% for maturities in years 2005 and 2033, respectively. The TIC for the bonds was 5.10%.

In addition to the financings described above, the City plans to issue a total of $600 million of GO bonds for capital purposes in Spring 2003 and $2.2 billion in FY2004. Beginning in FY2005, when TFA will exhaust its currently authorized bonding capacity, the City, unless the TFA's bonding authority is increased, will increase its GO financing program to $2.6 billion, $3.0 billion and $3.1 billion in FY2005, 2006 and 2007, respectively.

Currently the debt service for the City and its related financing entities (TFA, TSASC, MAC and lease debt, excluding the effect of pre-payments) is 7.0% of the City's total budgeted revenues in FY 2003. The ratio will rise to 11.5% in FY 2007. As a percentage of tax revenues, the debt service ratio is 13.9% in FY 2003 and is projected to increase to 18.6% in FY 2007.

During fiscal year 2003, short-term interest costs as reflected in the $3.8 billion of variable rate demand bonds (VRDBs) have been 1.25% on average for tax-exempt debt and 1.67 percent for taxable GO floating rate debt. These VRDBs, which have traded on average at rates that are at least 363 basis points lower than those for the fixed-rate debt, are expected to generate an annual debt service savings of over $127 million.

In October 2002, the City issued $1.5 billion of RANs for its seasonal cash flow needs. The TIC for the 6-month RANs was 1.385%. The City expects to issue $2.4 billion of RANs or TANs in each of the next four fiscal years.

Lease Appropriation Debt

To diversify its financing sources, from time to time 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 Urban Development Corporation (UDC) and, on an ongoing basis, through DASNY. Most recently, projects the City has financed in this manner include Health and Hospitals Corporation projects under the DASNY's Municipal Health Facilities program and the City's courts capital program, financed through DASNY and through the JSDC.

In fiscal year 2004, the City expects to issue $143 million of bonds through DASNY for HHC, $228 million of bonds through DASNY for the City's courts capital program and approximately $194 million of bonds through JSDC to complete the funding of the Jay Street court house project.

Variable Rate Exposure and Swaps

As discussed above, variable rate demand bonds have been a reliable source of cost savings in the financing of the City's capital program. In considering the proportion of the City's financing program which is in variable rather than fixed rate debt, it is useful to consider all sources of financing with the exception of NYW which is typically considered separately for such purposes. Included would be not only City GO, TFA and TSASC bonds but also City lease appropriation and MAC debt. On June 30, 2003, taking into account financings planned for the remainder of the fiscal year, it is expected that $7.3 billion of the total of $47 billion of outstanding debt from these sources, amounting to 15.6 percent, will be in variable rate. This is a conservative level compared to other municipal issuers.

Certain swap and other derivative transactions also have contingent variable rate exposure. In particular, in fixed rate swaps, whereby variable rate debt is issued in combination with a swap transaction in which the City or its financing vehicle receives a floating rate and pays a fixed rate, there is a risk that the floating rate payments which are received are less than the floating rate payments on the variable rate debt which has been issued. As mentioned earlier, the City utilized two fixed rate swaps in conjunction with two recent GO refunding transactions. The notional amount of these two fixed rate swaps totaled $615 million. In each of these swaps, the floating rate payments to be received by the City in the future were calculated at approximately 62% of LIBOR, rather than matching exactly the variable rates on the VRDBs issued by the City or being based on a tax-exempt bond floating rate index such as the BMA Municipal Swap Index, which is closely correlated to the floating rate cost of the City's debt. A short-hand calculation of the maximum contingent floating rate exposure which is inherent in this transaction, however unlikely it is to occur, is to consider what might happen to the cost of the City's floating rate debt if federal, state or local personal income tax rates were significantly reduced or eliminated which would eliminate the tax advantage of holding tax-exempt municipal securities. A simplified assumption is that BMA and the cost of the City's variable rate debt might rise to 100% of taxable rates as measured by LIBOR while the offsetting floating rate payments received by the City remained at 62% of LIBOR. Viewed in this way, this contingent floating rate exposure of the City is an additional 100% less 62%, or 38% of the swap amount of $615 million, or a total of an additional $234 million. Adding this very unlikely contingent exposure to the current actual variable rate exposure of the City increases the variable rate exposure on a percentage basis from 15.6% to 16%, not a material increase.

Similarly, in March of 2003, the City also entered into a $671 million basis swap on its taxable floating rate bonds. The term basis swap refers to a swap in which one form of variable rate flow is exchanged for another type of variable rate flow. In this case, the City decided to convert its variable rate exposure from flows based on taxable market rates to flows based on tax-exempt rates. This was done by accepting variable rate payments based upon 100 percent of LIBOR (a taxable index) in exchange for making payments at 136 percent of the tax-exempt BMA index. The City also received a $20 million up front payment as a result of this transaction. In this transaction, there is additional variable rate exposure resulting from the risk that BMA increases as a percentage of LIBOR. If, for example, federal, state or local personal income tax rates were significantly reduced or eliminated, which would eliminate the tax advantage of holding tax-exempt municipal securities, the BMA index could rise from its historical average of 68 percent of LIBOR to 100 percent of LIBOR. (Note that there is a slight advantage to the City between the historical average of BMA as a percent of LIBOR, at 68 percent, and the historical average discussed above of the variable rates on NYC GO VRDBs of 62 percent). This contingent variable rate exposure, which is in addition to the existing variable rate risk on the taxable VRDBs, can be estimated at 36% of the par amount of $671 million, or an additional $241 million. This risk is extremely remote. Adding this amount to the total in the previous paragraph from the two synthetic fixed rate swaps would increase the total City actual plus contingent floating rate exposure from 16% to 16.5%.

The City sold a cancellation option on the Series 2003 FG&H floating-to-fixed rate swap and TFA sold three interest rate caps in one transaction to the New York City Housing Development Corporation. These transactions are not included in the ratios of variable rate exposure discussed herein.

The 15.6% of actual floating rate exposure or 16.5% floating rate exposure including the contingent risk from the two synthetic fixed rate swaps and the basis swap, is even more manageable after taking into account the average $2 billion of cash balances in the City's General Fund which are an offset to these floating rate liabilities. Net of these floating rate assets, the floating rate exposure of the City, excluding NYW, is only 12.3 percent of its outstanding debt. NYW has entered into one swap transaction to date. It is discussed below.

The City, TFA and NYW have each adopted written policies on the use of swaps and other similar financial contracts. The City, TFA and NYW have each engaged or are in the process of engaging swap financial advisors to assist in the consideration of the use of such contracts and in the monitoring of the portfolio of such financial instruments.

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 $20.88 billion in General and Second Resolution bonds and subordinated crossover refunding bonds. Refunding bond issuance amounted to $8.07 billion. Of this aggregate bond par amount, $11.49 billion is outstanding, $8.03 billion was refinanced with lower cost debt, and $1.37 billion was retired with Authority revenues as it matured.

In addition to this long-term debt, NYW uses a $925 million tax-exempt commercial paper program as a source of flexible short-term financing. This program was recently expanded with unenhanced extendable municipal commercial paper (EMCP) notes. These notes were rated in the highest short term rating category by each of the three major rating agencies, including an F1+ by Fitch, an A-1+ by Standard and Poor's and a P-1 by Moody's.

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, senior lien bonds issued by the New York State Environmental Facilities Corporation (EFC) for City capital projects eligible for State Revolving Fund (SRF) money 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 2003, the Authority has closed eight financing transactions. The First Resolution Series A, B, C and D issuances consisted of bond sales directly to the public. The Second Resolution Series 1, 2, 3 and 4 bonds were issued to the EFC to secure bonds issued by EFC. Series A, C, D and Series 2, 3 and 4 bonds included refunding bonds, providing NYW with between 6% and 11% present value savings in each case.

Additionally, the Authority has sold first resolution Series E bonds, expected to close on April 23, 2003. The projected financing activity for the remainder of Fiscal Year 2003 will consist of Series F variable rate bonds, to be sold by NYW directly to the public for an estimated $200 million and approximately $300 million in Series 5 bonds to be sold directly to EFC. Additionally, NYW may be able to take advantage of other potential refunding opportunities during the remainder of this and next fiscal year should the interest rate environment be favorable.

On July 9, 2002, the Fiscal 2003 Series A, B & C bonds were delivered, in par amounts of $741,090,000 for the Series A bonds, $150,000,000 for the Series B bonds and $300,300,000 for the Series C bonds. Although the spread to the MMD Triple-A scale widened compared to other recent NYW bond issues, interest rates on the Series A issue remained favorable, with a true interest cost of 5.355%. The structure included serial bonds maturing in 2003 through 2029 and term bonds maturing in 2034. The 2034 term bonds sold at 5.32% yield, while serial maturities ranged from a yield of 1.55% in 2003 to a yield of 5.29% in 2029.

NYW also sold $20 million of muni-CPI bonds in the 2013 maturity of Series A. The muni-CPI bonds are a derivative product which swapped a floating rate tied to the consumer price index to a fixed interest rate, resulting in a lower yield than traditional fixed rate debt. The Authority is also looking at other opportunities in the financial derivative market and has appointed a swap financial advisor to assist it in the evaluation and execution of derivative transactions.

The Series B bonds were sold as refundable principal installment bonds, maturing in 2004, 2005 and 2006 allowing NYW to take advantage of the relatively low rates at the short end of the interest rate curve. The spread over the MMD Triple-A scale was between 10 and 11 basis points. Yields ranged from 2.1% to 2.92% in the various maturities and the true interest cost of the issuance was 2.77%. Principal in each maturity will be advance refunded prior to the principal payment date.

The Series C bonds were sold as variable rate demand bonds, with $100,100,000 offered in the weekly reset mode and $200,200,000 sold in the daily reset mode. Three different remarketing agents were chosen to remarket these bonds. The structure included term bonds maturing in 2018.

Proceeds from the combined sale of the Series A, B and C bonds were used to defease all of NYW's Series One, Series Five and a portion of its Series 6 commercial paper, funded the debt service reserve, paid certain costs of issuance and refunded a portion of its Fiscal 1993 Series A bonds.

On October 10, 2002, $250,000,000 of FY 2003 Series D bonds were delivered in a common plan of finance with $148,040,809 of 2003 Series 1 bonds, issued to EFC. Proceeds from the Series D bonds were used to refund all of NYW's outstanding Fiscal 1987 Series A and 1987 Series B bonds and a portion of its 1994 Series B, 1996 Series A and 1994 Series F bonds. These bonds were second advance refundings allowed under the Liberty Zone provisions and provided in excess of 6% present value savings. The bond structure included serial maturities through 2017 with spreads to the MMD Triple-A scale ranging from 1 basis point below to 13 basis points above the scale. Yields ranged from a very favorable 1.464% in 2003 to 4.04% in 2017, with a true interest cost for the transaction of 3.89%. Premium bonds were sold in almost every maturity.

On April 9, 2003, the Authority sold $367,265,000 of FY 2003 Series E bonds, which it expects to close April 23, 2003. The tax-exempt fixed rate bonds included two term bonds in 2034 and 2038, with yields of 4.95% and 5%, respectively, the lowest yields on an Authority long-maturity bond. The spreads to the MMD Triple-A scale were between 18 and 23 basis points above the scale. This was the first time the Authority issued 35 year bonds.

The proceeds of the 2003 Series 1 bonds were used to defease all of NYW's Series 3 and a portion of its Series 4 commercial paper and funded the costs of issuance. The 2003 Series 1 bonds were offered through a competitive sale using an internet-based bidding platform with seven bidders responding. The successful bid included serial maturities from 2003 through 2024 and term bonds in 2027 and 2032. Yields ranged from 1.35% in 2003 to 4.68% on the term bonds due in 2032. The yield on the 2032 term bonds was a very favorable 5 bp higher than the MMD Triple-A Scale, with earlier serial maturities trading as much as 10 basis points below the scale. The true interest cost was 4.28 % with an effective all in yield of 2.77%, after subsidy.

On November 14, 2002, $608,654,720 of 2003 Series 2 bonds, issued to EFC were delivered, one of the largest offerings made by NYW through EFC. The transaction partially refunded NYW's Fiscal 1994 Series 1 bonds and fully refunded its Fiscal 1996 Series 1, Fiscal 1998 Series 2, Fiscal 1998 Series 5 and Fiscal 1999 Series 1 bonds, extended the maturity date to 30 years from the original issuance date of the refunded bonds and paid certain costs of issuance. The sale included serial bonds from 2003 to 2023 and term bonds in 2028. The yields on the term bonds are 5.00%, a 4 basis point spread above the MMD Triple-A Scale. The true interest cost on the bonds issued to EFC was a favorable 4.6%.

On March 20, 2003 the Authority closed two small refunding transactions through EFC. The transactions included $22,365,000 of Fiscal 2003 Series 3 and $35,605,000 of Fiscal 2003 Series 4 bonds, which refunded Fiscal 1996 Series 2 and 1996 Series 3 bonds, respectively. Both the refunding and refunded bonds made up a part of larger transactions which EFC undertook on behalf of a pool of issuers using the SRF program. The bonds extended the maturity date to 30 years from the original issuance date of the refunded bonds and paid certain costs of issuance.

During the period of 2004 and 2008, 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. 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 two to three 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.

In August 2002, TSASC implemented a second public offering for $500 million. Unlike the 1999-1 Series, the 2002-1 series offer investors bonds with a fixed-payment structure and a super-sinker payment structure, which have become more popular in the municipal tobacco bonds market since TSASC's 1999-1 transaction. The yields on the bonds range between 3% and 6% for maturities in year 2006 and 2032, respectively. The spreads to MMD-AAA (a municipal bonds index) vary between 45 basis points in year 2006 and 99 basis points in year 2032. The yields on the TSASC bonds are higher than those on the City General Obligation Bonds despite TSASC's higher credit rating.

If TSASC's bonds prove to be costs effective, the third and the fourth TSASC financings, each with approximately $700 million of par amount will be implemented in FY2004 and 2005.

TSASC has acquired the City's 3.4% share of the national total TSRs payable under the Master Settlement Agreement (MSA) entered into between 46 States and the manufacturers of over 95 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, from 2000 to 2003, which are now completed, and an Annual Payment payable on every April 15, beginning in 2000. As listed below, TSASC has received a total of $807 million payments from tobacco manufacturers 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	0	0	84
2000	0	73	118	191
2001	0	66	140	206
2002	0	68	187	255
2003	0	73	175*	248*
Total	84	280	620	984

* estimated

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.

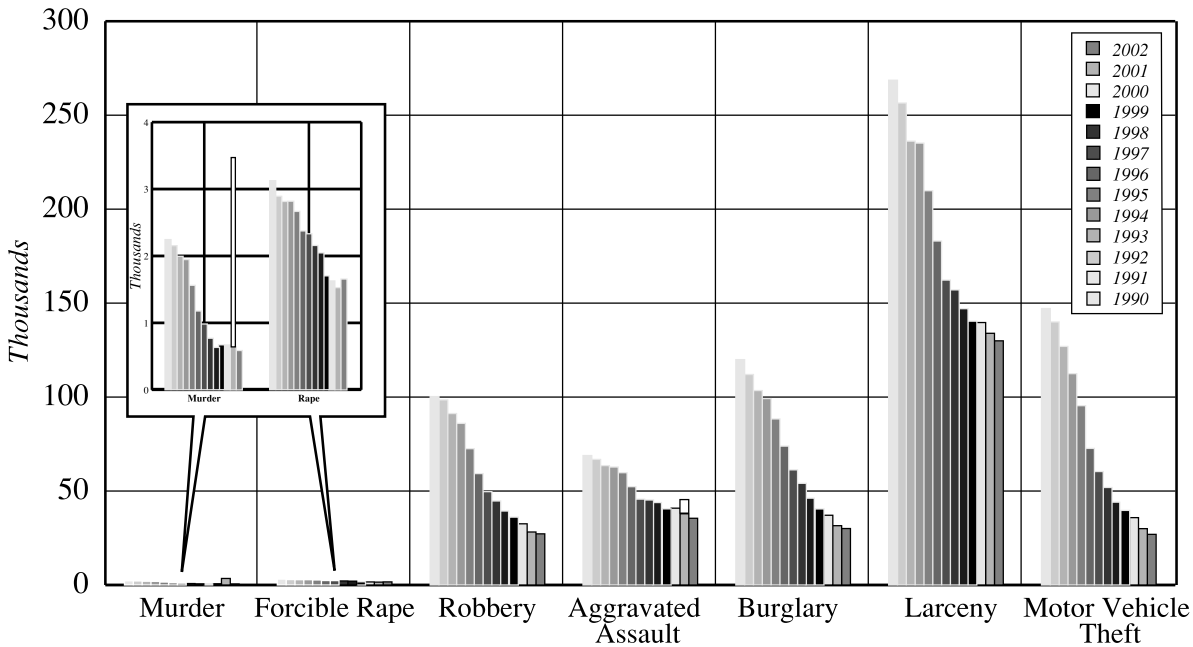
Analysis of Agency Budgets: Mayoral Agencies

Overview

Despite the severe fiscal pressure the City is experiencing, crime in New York City continues to fall. Both common crime measures indicate similar declines. In calendar year 2002, CompStat crime complaints fell 5.3 percent compared to the previous year. Through the first quarter of 2003, these complaints dropped another 9.4 percent (compared to the first quarter of 2002). FBI index crimes in New York City fell in six of the seven major categories and 4.5 percent overall in 2002. Motor vehicle theft experienced the largest decrease (10 percent), followed by murder (9 percent), aggravated assault (6 percent), burglary (5 percent), robbery (3 percent), and larceny (3 percent). Forcible rape increased by 8 percent with 1,658 rapes reported in 2002 compared to 1,530 reported in 2001.

NEW YORK CITY FBI INDEX CRIMES

*Calendar Years 1990-2002***

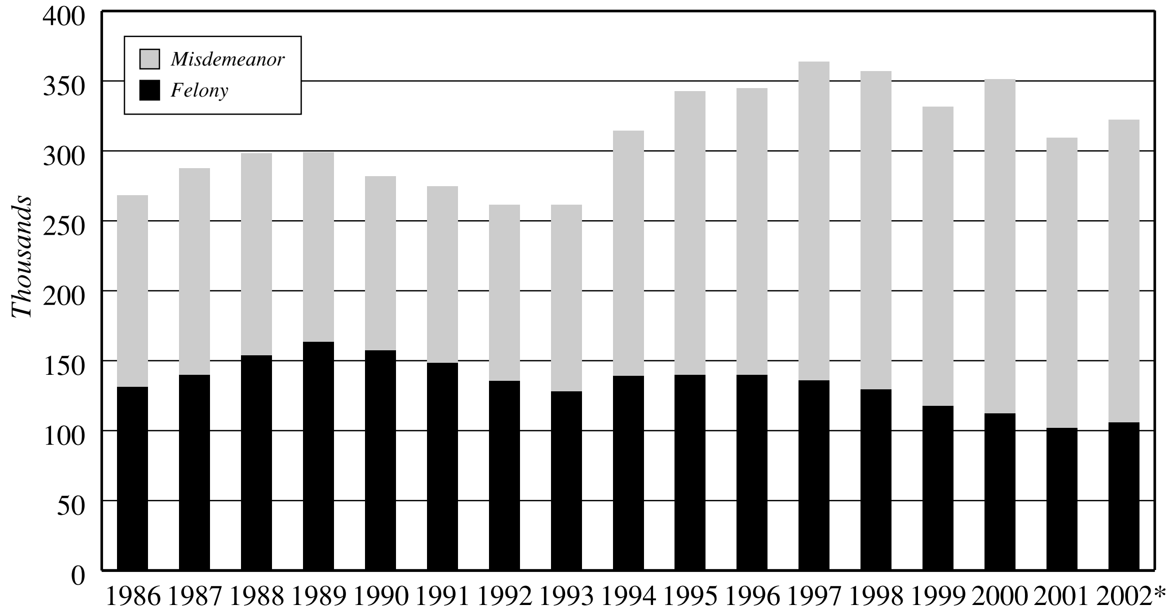


** In 2001, for Murder and Aggravated Assault, the unshaded portion represents World Trade Center victims.*
*** Preliminary Data for 2002.*

Arrests totaled 340,540 in calendar 2002, an increase of 5 percent from 2001. However, the change from 2001 does not accurately reflect the overall arrest trend as arrests slowed dramatically during the three months following the September 11 terrorist attack. Compared to 2000, arrests have decreased by 6 percent. Felony arrests are up 4 percent compared to 2001 but are down 6 percent compared to 2000. Misdemeanor arrests have increased by 4 percent from 2001 but have decreased by 10 percent from 2000.

NEW YORK CITY FELONY & MISDEMEANOR ARRESTS

Calendar Year 1986-2002



** Preliminary*
1986 – 2001 as per Official Crime Comparison Reports

In 2002, 31 percent of all arrests were for felony charges. Felony arrests have remained at 31 percent for the last three years, a leveling off, after the prior decade when the percentage of felony arrests fell from 55 percent of all arrests to 31 percent. This long term decline had important repercussions throughout the criminal justice system. While court arraignments increased by almost 50 percent during this time period, filings in supreme court (where time-consuming felony cases are heard) were almost cut in half. Thus, while the caseloads of district attorneys, indigent defense providers, and the court system grew in number during the nineties, most cases were disposed of much more quickly and easily. Today, about half of all cases are disposed of at arraignment – within 24 hours of arrest. Since 2000, with arrests down and the proportion of felony arrests stable, total caseloads have declined. Criminal court filings are down 16 percent and supreme court filings are down 5 percent.

The long term decline in the proportion of felony arrests also affected the jail population. In fiscal 1992, the average daily inmate population was 21,448 and the average length of stay was 70 days. As felony arrests declined and lower level cases were adjudicated more quickly, inmates were detained for shorter periods of time. By 2001, length of stay had decreased to 44 days and the average daily population had fallen to 14,491, even though jail admissions have increased by 12 percent during the same period.

Since 2001, the average daily inmate population has increased slightly to 14,614 as of February 2003. This 1 percent increase can be explained by a 4-day increase in the average length of stay (to 48 days) offset by a 6 percent decline in admissions. The admissions decrease is a result of the two-year decline in arrests. The increase in length of stay can be explained by longer sentences for City-sentenced inmates and increased adjudication times for parole violators and detainees in criminal court. (Note: meaningful comparisons to the 2002 population of 13,934 are difficult due to the atypically low admissions and longer lengths of stay after the September 11 terrorist attack.)

POLICE DEPARTMENT

In July 2003, the Police Department will hire an estimated 1,360 new recruits, replacing only 42 percent of the officers leaving the force during fiscal 2003. With this recruit class, the peak uniformed force will reach 37,210, a reduction of 3,500 officers since July 2001.

Despite this and other personnel reductions, the Police Department will continue to maintain public safety and control crime by strategically deploying existing resources to maximize public safety. The Police Department has already created the Bureau of Counter Terrorism, which provides enhanced training, intelligence and security assessments to safeguard the City from future terrorist attacks. It also launched Operation Impact in January 2003. Operation Impact aims to reduce serious violent crimes by deploying approximately 1,400 officers to high crime areas.

DEPARTMENT OF CORRECTION

With the average daily population remaining below 15,000 for the last three years, the Department of Correction has continued to consolidate beds, close entire housing areas and reduce staff. In 2003, the Queens Detention Complex closed, resulting in a uniform headcount reduction of 182. In 2004, the Brooklyn Detention Complex will close, resulting in the elimination of 153 correction officer positions.

With these facility closures, the Department will have reduced bed capacity as much as possible given the current inmate population. Therefore, additional savings will have to be achieved through more efficient service delivery in areas like transportation and food service and through the reduction or elimination of programs such as substance abuse counseling and adult education.

Other Criminal Justice Programs

In 2003, the Department of Probation restructured the supervision of adult probationers to focus on high-risk offenders. Despite headcount cuts totaling 23 percent since January 2002, caseloads for high-risk probationers were decreased from 95 offenders per probation officer to 65 offenders per officer. Overall, caseloads were increased from 151 offenders per officer to 174 offenders per officer. In 2004, Probation's pre-sentence investigation reports will be automated, eliminating the need to re-enter data that has already been compiled by the court or other City agencies.

The District Attorneys and the Office of the Special Narcotics Prosecutor will reduce spending in 2004 by an average of 14 percent compared to the 2004 budget as of January 2002. As a result, the citywide average caseload per attorney is likely to increase from 190 cases per attorney in calendar 2002 to over 200 cases per attorney in calendar 2003.

POLICE DEPARTMENT

The principal mission of the Police Department is to maintain public safety and security, to respond to calls for emergency aid and to conduct investigations of criminal activity. In 2004, the Department will reach a peak uniform headcount of 37,210 complemented by a planned civilian headcount of 9,532. These numbers include personnel in all operational, patrol, and support functions.

Financial Review

The New York Police Department's 2004 Executive Budget provides for an operating budget of $3.4 billion, a decrease of $229 million from the $3.6 billion forecast in 2003. This decrease is due primarily to reductions in headcount, budgeted overtime and OTPS. Capital commitments in the 10 year strategy total $483 million.

Revenue Forecast

The Police Department collects revenue from fees charged for pistol licenses, rifle permits, fingerprint fees, accident records, tow fees, and unclaimed cash and property that is abandoned or confiscated as a consequence of the commission of a crime. In 2003, the City began collecting an E-911 surcharge imposed on all New York City cellular telephones and an increased surcharge fee for land line telephones. In 2004, the revenue estimate for the Police Department is $97 million.

Expense Budget Highlights

- in July 2003, the Police Department will hire an estimated 1,360 new recruits, replacing only 42 percent of the officers that will have left the force during fiscal 2003. With this recruit class, the peak uniformed force will reach 37,210, a reduction of 3,500 officers since July 2001. This will save $112 million.

- the Police Department will enhance enforcement of traffic regulations by hiring 300 additional Traffic Enforcement Agents in 2004. The Department anticipates that this effort will result in 1.7 million more parking summonses and $69 million in additional net revenue.

- the Department will reduce planned overtime spending by $60 million, primarily through reductions to targeted enforcement programs such as Operation Condor and narcotics and quality of life initiatives.

- the Department will forego virtually all planned vehicle replacements in 2004 and will extend the lifecycles by one year, saving $30 million. Patrol cars, on average, will now be replaced after four years instead of three.

- more than 700 civilian positions have been eliminated from the Police Department through a combination of early retirements and the elimination of positions associated with planned civilianization efforts. The savings total more than $22 million.

- the Police Department saved approximately $3 million by eliminating 109 part-time custodial assistants.

Summary of Agency Financial Data

The following table compares the 2004 Executive Budget with the 2004 Preliminary Budget, the 2003 forecast and actual expenditures for 2002.

Summary of Agency Financial Data

($000's)

			2004		Increase/(Decrease)	
	2002 Actual	2003 Forecast	Preliminary Budget	Executive Budget	2003 Forecast	2004 Preliminary Budget
Expenditures						
Personal Service	$3,465,458	$3,307,539	$3,181,081	$3,176,412	($131,127)	($4,669)
Other Than Personal Service	241,235	278,586	172,462	180,778	(97,808)	8,316
Total	$3,706,693	$3,586,125	$3,353,543	$3,357,190	($228,935)	$3,647
Funding						
City	$3,098,700	$3,197,339	$3,103,019	$3,125,666	($71,673)	$22,647
Other Categorical Grants	131,814	113,711	90,896	71,896	(41,815)	(19,000)
Capital IFA	1,797	1,797	1,797	1,797	—	—
State	9,333	17,300	4,959	4,959	(12,341)	—
Federal						
• CD	1,203	1,350	—	—	(1,350)	—
• Other	339,592	125,228	23,478	23,478	(101,750)	—
Intra-City Other	124,253	129,400	129,394	129,394	(6)	—
Total	$3,706,693	$3,586,125	$3,353,543	$3,357,190	($228,935)	$3,647
Personnel (includes FTEs at fiscal year-end)						
City	51,311	50,655	49,270	48,979	(1,676)	(291)
Non-City						
• IFA	38	74	74	74	—	—
• CD	—	—	—	—	—	—
• Other	575	626	626	626	—	—
Total	51,924	51,355	49,970	49,679	(1,676)	(291)

Programmatic Review

The 2004 Executive Budget reflects the Police Department's goal of maximizing resources in a difficult fiscal environment while continuing to provide heightened security and reduce crime.

Having reduced the uniformed force by 1,600 in 2003, the Police Department will reduce the number of uniformed officers by another 1,900 in 2004. With this cumulative reduction of 3,500 officers, the Police Department will begin 2004 with 37,210 officers. After a year, the Department will replace expected attrition with a new recruit class of approximately 2,400, reaching the peak uniform headcount again in July 2004.

The Department also reduced the number of civilian employees. It originally planned to hire 800 civilians in 2003 so that officers with administrative responsibilities could be deployed to direct enforcement duties. However, 466 of these positions were subsequently eliminated. The Police Department also eliminated 239 full-time positions through the citywide early retirement program. Another 109 part-time custodial assistants have been laid off or redeployed to vacant positions at other City agencies.

In addition to these personnel reductions, the Department will decrease overtime and delay both vehicle replacements and precinct improvements.

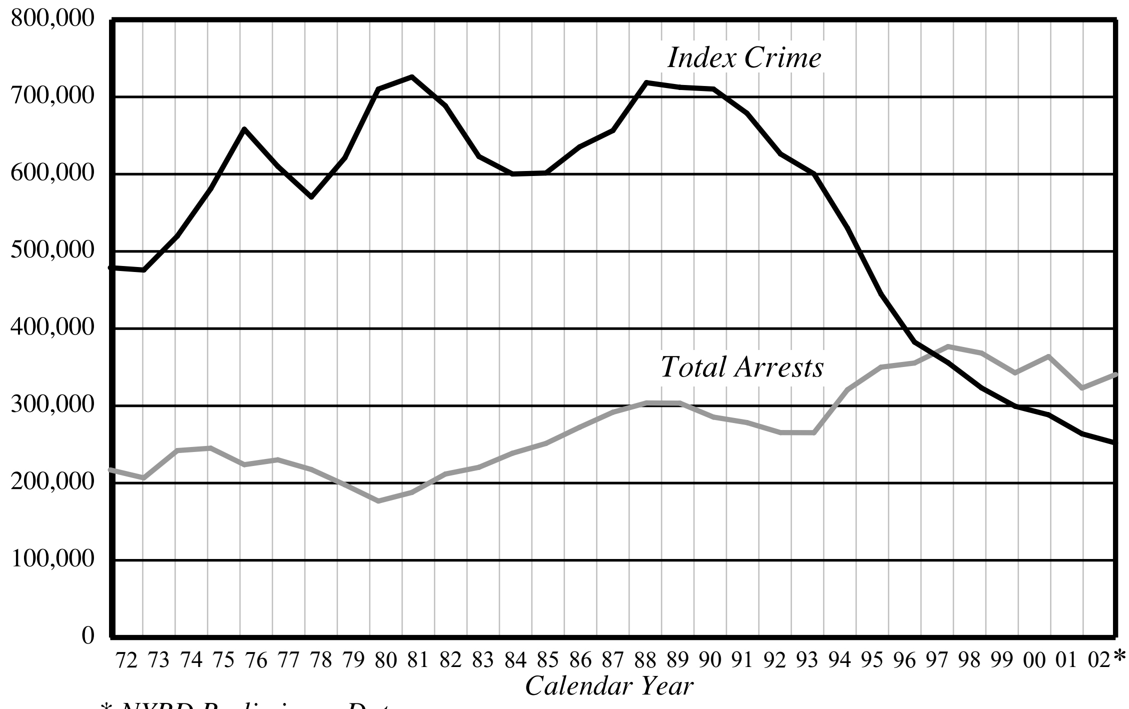
Despite diminished resources, the Department will continue to maintain public safety and provide security from terrorism by strategically deploying its personnel and resources.

In response to the heightened threat of terrorism, the Police Department has created a Bureau of Counter Terrorism. The Department deploys an estimated 1,000 members of service to the Counter Terrorism Bureau, counter terrorism-related intelligence, and heightened security activities daily (not including personnel assigned to Operation Atlas). Through a $38 million Federal grant, the Department is purchasing equipment, vehicles, technology, and other items to implement new security measures. The Police Department reallocated resources and internally reorganized to create this Bureau at no additional City cost.

In 2003, the Department launched a new crime fighting program called Operation Impact. The program aims to prevent and reduce serious violent crimes in areas with high crime rates. On a daily basis, the Department has deployed approximately 1,400 officers to 61 areas within 21 precincts, 38 transit facilities and two housing police service areas throughout the City. The locations were selected based upon analyses of crime trends. The NYPD effectively deployed recruit class graduates and reallocated funding from the Narcotics Initiative and Operation Condor to fund Operation Impact. It will continue to identify strategies to reduce crime within the constraints of diminished funding levels.

Facing personnel reductions, the Police Department has strategically deployed resources, and the City's crime rate has continued to decline. In calendar year 2002, complaints for the seven major crimes in the FBI crime index totaled 251,906, a 4.5 percent decrease from 2001. According to preliminary data, arrests in calendar year 2002 totaled 340,540. Felony arrests for 2002 totaled 105,867 and misdemeanor arrests totaled 216,537.

ARRESTS VERSUS CRIME

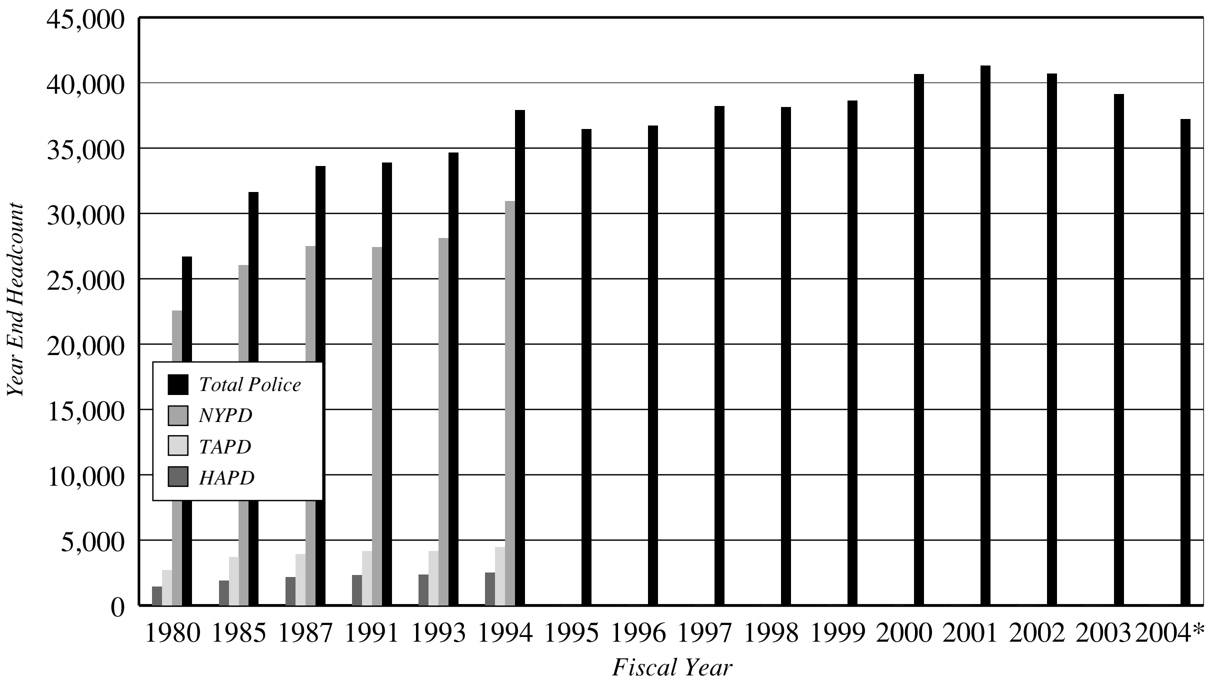


** NYPD Preliminary Data*

Uniformed Headcount

The Department hired 2,549 recruits in July 2002. The next recruit class in July 2003 will be sized to achieve a peak uniformed headcount in 2004 of 37,210, a five percent decrease in headcount from the previous year. The 2004 Executive Budget assumes a recruit class in July of each year so that the peak uniformed headcount will remain at 37,210.

TOTAL CITY, TRANSIT AND HOUSING POLICE FORCE



Note: Merger of the TAPD and HAPD with NYPD was completed in FY 95. ** Projection*

Capital Review

The Ten-Year Capital Strategy allocates $483 million and the Four-Year Program allocates $249 million for the replacement, reconstruction and maintenance of facilities citywide; replacement and upgrade of computer and communications equipment; and the replacement of transportation equipment, including Department helicopters and boats. Through a citywide technology fund, the Department will implement enhanced security measures at Police headquarters.

In order to realize a 30 percent reduction to the 10-year plan, the Department eliminated $228 million for the replacement of 9 precincts (40th, 42nd, 46th, 63rd, 66th, 70th, 103rd, 110th, 120th) and the rehabilitation and reconstruction of 5 precincts (1st, 5th, 10th, 78th, Central Park Precinct). The Department will now perform as-needed capital repairs instead of completely replacing or rehabilitating these facilities.

The Ten-Year Capital Strategy and Four-Year Program includes the following major items:

Police Facilities

- the replacement of major building components for citywide precincts ($101 million).

Communications and Computer Equipment

- life cycle replacement of the Department's radio system ($95 million); portable radios ($56 million) and mobile radios ($8 million).
- acquisition of equipment for the Department's new arrest processing program ($12 million)
- life cycle replacement of the online warrant system ($8 million)
- upgrade of the Department's Automated Fingerprint Identification System ($2 million).

Miscellaneous Equipment

- life cycle replacement and upgrade of miscellaneous equipment such as harbor patrol equipment, computer network infrastructure and laboratory equipment ($44 million).

The table below shows capital plan commitments by program area over the 2003-2007 period.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Police Facilities	90,740	90,740	29,699	29,699	38,480	38,480	10,312	10,312	9,626	9,626	11,500	11,500
Computer Equipment	1,918	1,918	35,959	35,959	7,353	7,353	10,149	10,149	18,752	18,752	5,150	5,150
Communications	11,749	11,749	30,971	30,971	16,557	16,557	18,759	18,759	21,598	21,598	19,676	19,676
Equipment	9,368	9,368	30,133	30,133	11,135	11,135	1,886	1,886	2,091	2,091	2,169	2,169
Vehicles	5,437	5,437	5,770	5,770	20,951	20,951	5,744	5,744	4,377	4,377	13,219	13,219
Total	119,212	119,212	132,532	132,532	94,476	94,476	46,850	46,850	56,444	56,444	51,714	51,714

The 2004 Capital Commitment Plan for the Police Department is $94 million. The Plan includes the following major items:

- enhancement and life cycle replacements of communications equipment ($17 million).
- replacement of operational and support vehicles ($21 million).
- replacement and upgrading of computer equipment ($7 million).
- various police facility improvements ($38 million).
- various Department equipment citywide ($11 million).

DEPARTMENT OF CORRECTION

The Department of Correction provides custody, care, and control of detainees awaiting trial or sentence; misdemeanants or felons sentenced to one year or less; State prisoners with court appearances in New York City; newly sentenced felons awaiting transportation to State correctional facilities; and alleged parole violators awaiting revocation hearings.

Financial Review

The Department of Correction's 2004 Executive Budget provides for operating expenses of $831 million, a decrease of $46 million from the amount forecast in 2003. Capital commitments of $92 million are also provided, a decrease of $48 million compared to the 2003 Plan.

Revenue Forecast

The Department of Correction collects revenue from prison commissary operations, vending machines and surcharges on inmate telephone calls. In 2004, the Department expects to collect approximately $18.3 million from all revenue sources.

Expense Budget Highlights

- Despite an increase in population in 2003, the Department has continued to manage population by closing facilities and consolidating beds. In 2003, the Queens Detention Complex (QDC) closed, resulting in a uniform headcount reduction of 182 and combined salary and overtime savings of $19 million. In 2004, the Brooklyn Detention Complex (BKDC) will close, resulting in the elimination of 153 uniform positions and annual salary savings of $5 million.

- Since January 2002, the Department has reduced uniformed positions by 1,337 through the elimination of fixed posts. Posts have been eliminated through transportation efficiencies, hospital ward consolidations, program eliminations and civilianization. These reductions will result in salary and overtime savings of $66 million. In 2004, the Department will eliminate an additional 162 uniform positions for annual savings of $6 million.

- In 2004 the Department will consolidate food service operations by reducing the number of kitchens operated on Rikers Island from nine to four. This consolidation will result in annual savings of $3 million and the elimination of 75 civilian positions.

- In 2003, the Department eliminated a substance abuse contract and 83 substance abuse counselor positions for a total savings of $6 million. Due to the short stays of most inmates (the average length of stay is 48 days and the median stay is 8 days), focus has shifted from providing substance abuse services while in jail to assisting inmates with discharge and aftercare planning.

- The Department expects to receive $15 million in 2003 through the U.S. Department of Justice State Criminal Alien Assistance Program. This is less than half the amount received in previous years, as the Federal appropriation has been reduced. The reimbursement partially offsets the cost of incarcerating illegal immigrants.

- The planned merger of the Department of Correction and the Department of Probation will provide savings to both agencies through increased efficiencies and the elimination of duplicative functions. Together, the Departments will reduce civilian headcount by 35 for an annual savings of $2 million.

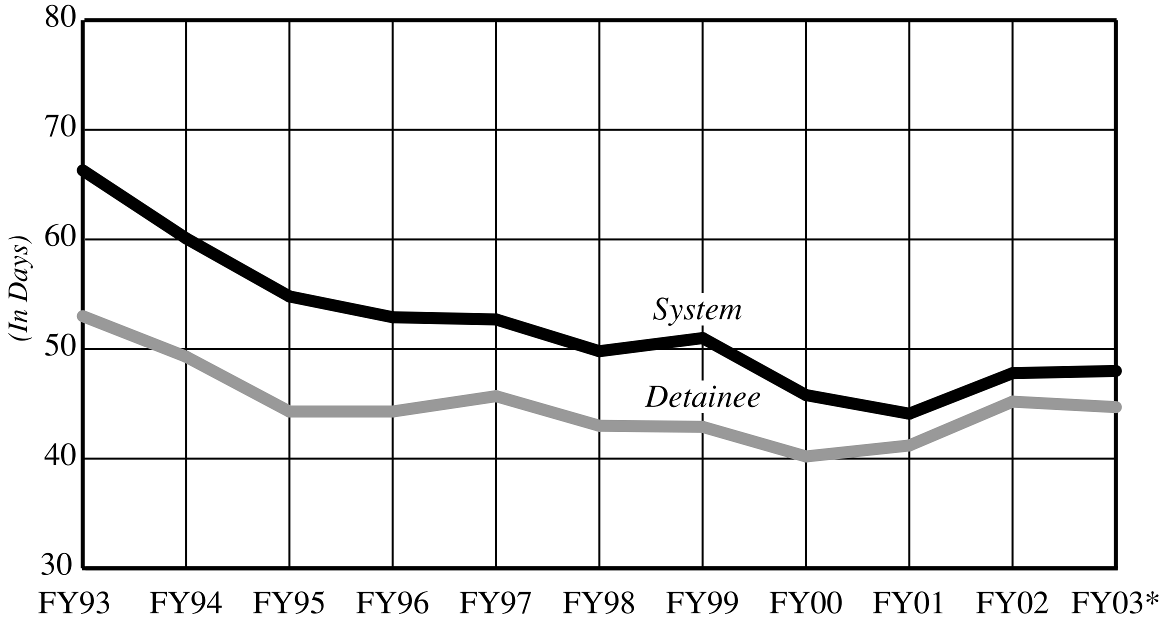
Summary of Agency Financial Data

The following table compares the 2004 Executive Budget with the 2004 Preliminary Budget, the 2003 forecast and actual expenditures for 2002.

Summary of Agency Financial Data
($000's)

			2004		Increase/(Decrease)	
	2002 Actual	2003 Forecast	Preliminary Budget	Executive Budget	2003 Forecast	2004 Preliminary Budget
Expenditures						
Personal Service	$782,731	$770,686	$736,524	$722,753	($47,933)	($13,771)
Other Than Personal Service	103,864	105,997	105,458	108,047	2,050	2,589
Total	$886,595	$876,683	$841,982	$830,800	($45,883)	($11,182)
Funding						
City	$811,524	$837,110	$789,343	$793,161	($43,949)	$3,818
Other Categorical Grants	575	414	—	—	(414)	—
Capital IFA	—	—	—	—	—	—
State	21,612	20,582	19,560	19,560	(1,022)	—
Federal						
• CD	—	—	—	—	—	—
• Other	52,489	17,323	32,324	17,324	1	(15,000)
Intra-City Other	396	1,254	755	755	(499)	—
Total	$886,595	$876,683	$841,982	$830,800	($45,883)	($11,182)
Personnel (includes FTEs at fiscal year-end)						
City	11,404	10,271	10,612	10,222	(49)	(390)
Non-City						
• IFA	—	—	—	—	—	—
• CD	—	—	—	—	—	—
• Other	863	867	858	858	(9)	—
Total	12,267	11,138	11,470	11,080	(58)	(390)

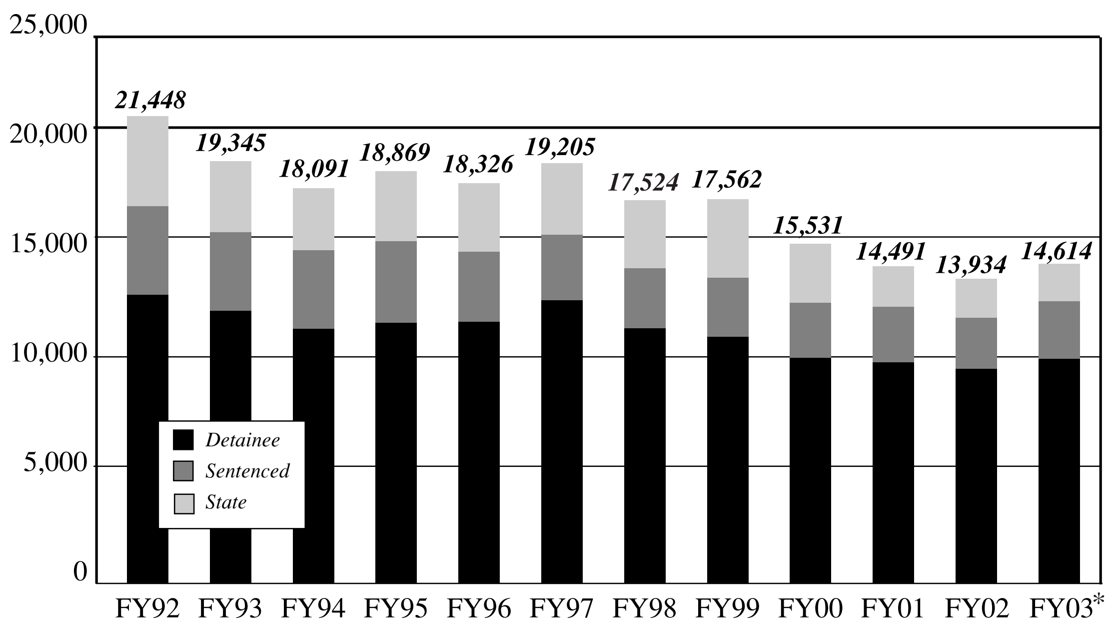
AVERAGE LENGTH OF STAY (By Fiscal Year)



* *YTD through February 28, 2003*

AVERAGE DAILY INMATE POPULATION

By Fiscal Year



* *YTD through February 28, 2003*

The average daily population through February 2003 was 14,614, an increase of five percent compared to 2002. This increase can be explained by below normal admissions in fiscal 2002 immediately after the World Trade Center tragedy. Overall, inmate admissions in fiscal 2003 are seven percent higher than fiscal 2002 admissions, with a 40 percent increase occurring in September and October. Compared to 2001, population in 2003 has increased by one percent.

System length of stay has remained constant at an average of 48 days. There have been small decreases in detainee, supreme court and City-sentenced length of stay, while the average length of stay of parole violators has increased slightly.

With the average daily population remaining below 15,000 for the last three years, the Department has continued to consolidate beds, close entire housing areas and reduce staff. However, with the closure of the Brooklyn and Queens Detention Complexes, the Department has likely maximized the available savings from the inmate decline as the beds available in open jails will barely exceed the current inmate population. Therefore, it has focused on achieving savings through more efficient service delivery (e.g. transportation and food service) and the elimination of programs it can no longer sustain (e.g. substance abuse and adult education).

Capital Review

The Department's Ten-Year Capital Strategy totals $1.4 billion for capital improvements and equipment purchases. The Four-Year Plan totals $442 million. The Four-Year Plan includes $255 million for capacity replacement, $31 million for construction of support space, $109 million for major overhaul of building systems and infrastructure, and $48 million for acquisition of new equipment.

The table below shows capital plan commitments by program area over the 2004-2007 period:

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Capacity Replacement	3,240	3,240	86,465	86,465	31,069	31,069	47,322	47,322	69,098	69,098	107,114	107,114
Support Space	5,208	5,208	607	607	13,263	13,263	8,365	8,365	8,900	8,900	0	0
Building Systems and Infrastructure	14,264	15,121	31,644	31,644	31,831	31,831	31,796	31,796	28,096	28,096	17,102	17,102
Equipment	8,442	8,442	21,218	21,218	15,831	15,831	11,287	11,287	15,348	15,348	5,987	5,987
Total	31,154	32,011	139,934	139,934	91,994	91,994	98,770	98,770	121,442	121,442	130,203	130,203

Capacity Replacement

The Department's capital program funds the replacement of aging modular and sprung structures with permanent structures. Design of the first facility, the 448-cell addition at the George R. Vierno Center, began in 1999. Construction began in 2002 and will continue through 2004.

The modular replacement program will not change the overall bed capacity of the jails. The 5,400 beds in the new, permanent facilities will simply replace existing bed capacity in temporary housing structures. The new facilities will improve the operations, security and environmental health of the jails.

The Four-Year Plan includes $255 million for the modular replacement program. Commitments include:

- construction of a 448-cell addition at the George R. Vierno Center ($28 million in 2004, $83 million in 2003).

- design completion and construction of an 800-bed addition to the Rose M. Singer Center ($84 million).

- design completion and construction of a 200-bed addition to the Adolescent Reception and Detention Center ($21 million).

- design and construction of a 200-bed dormitory addition to the Eric M. Taylor Center ($32 million).

- construction of a 448-cell addition to the George Motchan Detention Center ($87 million).

Building Systems and Infrastructure

The Department will undertake significant improvements to building systems, infrastructure and support space. Commitments in the Four-Year Plan include:

- reconstruction of the façades at Brooklyn and Bronx Detention Complexes ($19 million).

- renovation of the James A. Thomas Center; project was stopped in 2003 and will be delayed until 2007 ($16 million).

- construction of a visit house for the Eric M. Taylor Center ($15 million).

- renovation of the Bronx Detention Complex; project was stopped in 2003 and will be delayed until 2006 ($14 million).

Equipment

The Four-Year Plan provides for upgrades and/or replacements of vehicles, computers, security equipment, and communication systems. Commitments include:

- conversion of the Inmate Information System to Oracle ($11 million).

- replacement of vehicles for inmate transport ($12 million).

Project delays and cancellations

As a result of capital budgets reductions, the Department has eliminated or delayed certain projects from the Four-Year Plan. Delayed projects include:

- design of a new 1,008 cell-bed facility delayed from 2007 until 2008 and construction delayed from 2009 until 2014 ($191 million).

- design of an 896-cell addition to the George Motchan Detention Center delayed from 2007 until 2011 ($24 million).

- stoppage and delay of the Queens Detention Complex renovation from 2003 to 2008 ($16 million).

- miscellaneous infrastructure reconstruction delays or cancellations including repaving, road reconstruction, replacement of cell door controls, and heating and ventilation upgrades and power plant improvements ($50 million).

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) provides a range of services and programs to assist individuals and families to achieve self-sufficiency. Eligible clients receive employment and support services, public assistance, medical assistance, and food stamps. The Department also provides shelter, housing, and supportive services to victims of domestic violence, people with AIDS and HIV-illness, and frail and elderly adults.

Financial Review

The Department's 2004 Executive Budget provides for operating expenses of $6.1 billion, of which $4.3 billion are City funds.

Expense Budget Highlights

Providing Core Services

- with the planned opening of a new Management Information Systems facility at Brooklyn's Metrotech Center in 2004, the Department will continue automation projects to reduce paper processing, streamline functions and provide more efficient service delivery.

- an additional $30 million in City funds in 2004 will provide subsidized employment opportunities for public assistance recipients to assist them to transition to self-sufficiency.

- in order to expedite access to federally funded food stamp benefits, the Department will continue its outreach efforts through programs with the United Way and the development of a shortened application form.

Streamlining/Restructuring

- in 2004, consolidation of common social services eligibility functions into the Department will produce $9.0 million in City savings. Functions include the Office of Child Support Enforcement and day care eligibility from the Administration for Children's Services as well as home care and Home Energy Assistance eligibility from the Department for the Aging.

- in 2004, employment, vocational and substance abuse programs will be centralized in the Department by merging programs from the Department of Employment, the Department of Homeless Services and the Department of Health and Mental Hygiene, creating savings of $15 million in City funds.

- the Department will develop additional job opportunities for public assistance recipients in 2004 through consolidation and restructuring of City agency contracts for entry level office workers, custodial, and security services, producing $15 million in City savings.

- the Department will convert consultants working on major technology projects to full-time staff, saving $5.7 million in City funds.

- the Department will begin the process of contracting out case management services for the HIV/ AIDS Services Administration (HASA) to community-based providers, which will produce savings of $1.0 million in 2004 and additional savings in 2005.

Summary of Agency Financial Data

($000's)

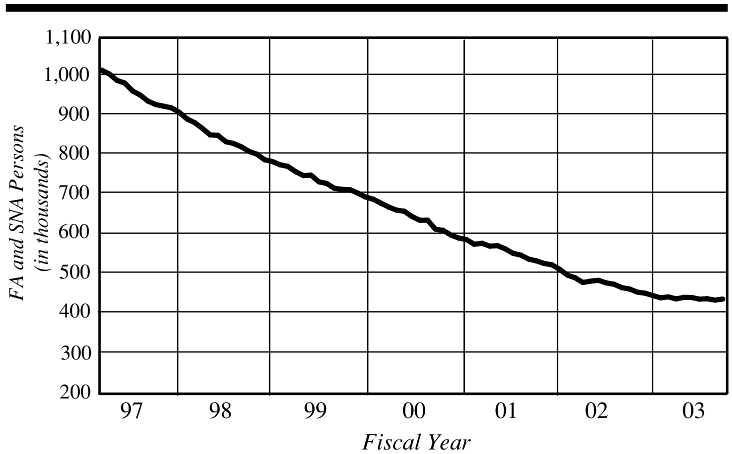
	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$585,093	$566,663	$529,281	$577,236	$10,573	$47,955
Other Than Personal Service	5,382,481	5,474,706	5,469,518	5,541,203	66,497	71,685
Total	$5,967,574	$6,041,369	$5,998,799	$6,118,439	$77,070	$119,640
Funding						
City	$4,133,387	$3,955,670	$4,279,371	$4,268,071	$312,401	($11,300)
Other Categorical Grants	102,291	—	—	—	—	—
Capital IFA	—	—	—	—	—	—
State	773,237	910,133	857,166	821,006	(89,127)	(36,160)
Federal						
• CD	5,973	14,407	2,286	2,286	(12,121)	—
• Other	951,953	1,161,084	859,901	1,027,001	(134,083)	167,100
Intra-City Other	733	75	75	75	—	—
Total	$5,967,574	$6,041,369	$5,998,799	$6,118,439	$77,070	$119,640
Personnel (includes FTEs at fiscal year-end)						
City	10,258	9,315	9,339	10,366	1,051	1,027
Non-City						
• IFA	—	—	—	—	—	—
• CD	47	60	60	60	—	—
• Other	4,055	4,175	3,379	3,829	(346)	450
Total	14,360	13,550	12,778	14,255	705	1,477

Programmatic Review

Family Independence Administration (FIA)

The Family Independence Administration (FIA) administers the Department's public assistance and employment services programs, including Family Assistance (FA), Safety Net Assistance (SNA), and food stamps. FIA assists individuals with employment, providing access to work experience programs and contract services, and ensuring that support services, including childcare and transportation assistance, are available.

PUBLIC ASSISTANCE CASELOAD 1997-2003



Total expenditures in 2004 for FA and SNA, including public assistance payments, as well as employment and other related services, are projected to be $1.6 billion, of which $598.4 million are City funds. As of March 2003, 421,429 persons were receiving public assistance, a decline of 35,492, or 7.8 percent, from the 2002 average.

The Family Assistance program, which is partially funded by Federal Temporary Assistance for Needy Families (TANF) and State funds, assisted 202,885 adults and children in March 2003. Expenditures in 2004 for this program are projected to be $562.0 million, of which $138.9 million will be City funds. As of March 2003, there were 129,144 families who had reached the five-year limit on TANF-funded assistance. The Agency projects spending $258.1 million on these families in 2004, of which $129.1 million are City funds. An additional $323.5 million, of which $161.4 million are City funds, will be spent in the City/State Safety Net program in 2004. There were 89,400 persons receiving Safety Net benefits in March 2003.

Employment Services

FIA offers a wide array of programs and services to help families and individuals achieve independence. In addition to the Employment Service and Placement and Skills Assessment programs, the PRIDE program connects disabled individuals with vendors who offer specialized work experience and job search activities. FIA also coordinates the BEGIN program in cooperation with the State University of New York and not-for-profit organizations. At the beginning of March 2003, 72,497 participants were engaged in employment, training or other work related activities.

Specialized Job Centers

DSS maintains specialized job centers and programs to meet various needs. The Senior Works Program hires public assistance recipients between the ages of 60 and 65 as office temps to earn additional Social Security credits to become eligible for retirement benefits. In conjunction with the New York State Division of Veterans Affairs, the Agency operates the Veteran's Job Center, to assist veterans obtain support and employment services.

DSS operates one Refugee and Immigrant Job Center in Lower Manhattan and one in downtown Brooklyn. The centers serve approximately 5,000 public assistance refugees and asylees and are staffed with bilingual workers who speak a variety of languages including Russian, Spanish, Haitian-Creole, French, Vietnamese, Chinese (Mandarin & Cantonese), Albanian, Khmer, Arabic, Urdu and Hindi.

Child Care

The Department provides child care services to public assistance recipients who are working or engaged in employment activities and continues to provide care for up to 12 months for families whose public assistance cases close because of employment. Through February 2003, an average of 39,866 children were receiving child care subsidies through DSS, with another 3,800 public assistance referrals served by the Administration for Children's Services.

Medical Assistance Program (MAP)

The Medical Assistance Program (MAP) funds health care services through Medicaid for 2.1 million low-income New York City residents. Medicaid consumers receive a wide range of services including primary care, hospital inpatient, emergency room, physician, pharmacy, clinic, nursing home, personal care, dental, rehabilitation, transportation, vision care, laboratory services and x-ray.

The 2004 Executive Budget for Medical Assistance is $3.4 billion in City funds (excluding expenditures for the Health and Hospitals Corporation, the Department of Health and Mental Hygiene, and administrative costs). The 2004 budget is projected to increase by $257 million, or nine percent, above the 2003 forecast.

Disaster Relief Medicaid

As a result of the World Trade Center disaster, the State and City developed a temporary program to enroll medically needy New Yorkers into Disaster Relief Medicaid (DRM). From mid-September 2001 through the end of January 2002, DRM/Family Health Plus (FHP) offered coverage to 253,000 cases, representing approximately 342,800 individuals, through a simplified application and streamlined eligibility process. During 2002 and 2003 DRM participants were evaluated for ongoing Medicaid, FHP and/or Child Health Plus coverage.

Family Health Plus (FHP)

Family Health Plus (FHP) provides comprehensive health coverage to low-income adults ages 19 to 64 who are marginally above Medicaid financial eligibility levels. Benefits include inpatient and outpatient hospital care, prescription drug coverage, emergency room care, vision, dental and hearing services. As of February 2003, 106,710 New York City residents were enrolled in FHP.

Home Care Services Program

The Home Care Services Program assists frail, elderly and disabled residents safely remain in their homes for as long as possible through non-institutional alternatives to nursing home care. In December 2002, the Home Care Services Program served approximately 45,000 beneficiaries in home health services and long term home health care.

The Home Care Services Program also manages seven New York State Department of Health Long-Term Managed Care Demonstration programs. These programs offer coordinated managed health and home care services to dually eligible Medicaid and Medicare consumers with chronic health conditions. This program has grown significantly since its initiation, and in January 2003 had 7,400 enrollees in New York City.

New Initiatives

Five model MAP offices at Jacobi and Coney Island Hospitals, and in Jamaica, Boerum Hill and Central Harlem provide a team approach in a consumer-oriented environment, with minimal office visits, less paperwork and reduced waiting time. The offices have reduced consumer wait times by an average of 50 percent, provided walk in application interviews and have improved case completion timeframes.

Beginning in October 2002, all Medicaid and FHP household recertification changed to a mail-in process. This mail recertification/renewal process was a result of changes to the New York State Health Care Reform Act (HCRA) reauthorization of 2002. The simplified process and the high level of participation in Disaster Relief Medicaid after September 11, 2001 have contributed to the increase in Medicaid and FHP recipients.

Adult Protective Services (APS)

Adult Protective Services (APS) serves adults who, because of physical and/or mental impairment, are unable to care for themselves, or protect themselves from abuse, neglect, or exploitation. APS assists 16,900 participants annually (approximately 4,400 at any one time) with referrals, assessments, crisis intervention, case planning, eviction prevention, financial management, and guardianships. In 2002 the intake unit received 14,198 referrals, an increase of 45 percent over 2001.

The majority of APS clients are referred by Housing Courts, the City Marshal and community agencies. Over 90 percent have a psychiatric diagnosis and nearly 65 percent have physical impairments. Over two thirds of APS referrals are threatened with eviction. APS also petitions the Courts for appointments of Guardians Ad Litem, who appear in Housing Court on behalf of impaired clients, and Community Guardians, who act to safeguard the person and property of those who are legally incapacitated. APS also contracts out 400 protective service and 700 community guardian cases. In 2003, APS will complete automation in all of its offices, develop a plan for a model office, expand its program to assign cases by neighborhood, and expand its preventive service program.

Office of Health and Mental Health Services (OHMHS)

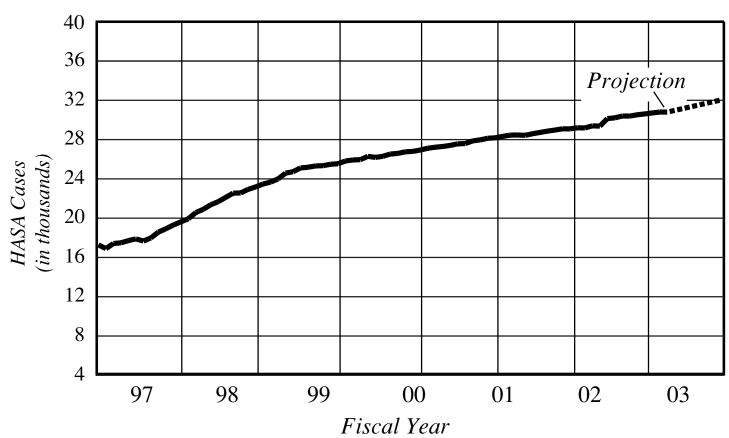
In 2003 DSS implemented the Wellness Plan Coordinated Care Pilot Project to coordinate treatment for public assistance recipients who are temporarily unemployable as a result of medical and/or psychiatric condition(s). Approximately 5,000 recipients are enrolled in the program. In collaboration with the Health and Hospitals Corporation (HHC), the Department makes expedited referrals to primary care and specialty physicians for Wellness Plan participants.

Participants in need of substance abuse treatment are assessed and referred to appropriate case management services. Two providers, serving a total of 2,000 individuals in Brooklyn and the Bronx, provide comprehensive services, including assessment, referrals and treatment monitoring. Another contractor provides intensive case management services to 2,000 substance abusing clients with multiple barriers to self-sufficiency.

HIV/AIDS Services Administration (HASA)

The HIV/AIDS Services Administration (HASA) provides a full range of services to individuals with AIDS, as defined by the Centers for Disease Control, or with advanced HIV illness, as defined by the New York State AIDS Institute. Services may include public assistance, Medicaid, food stamps, Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI), housing, home care, substance abuse treatment, mental health counseling and treatment, employment, vocational rehabilitation and referrals to other social services in the community. The HASA caseload was 30,853 as of January 2003 and is expected to grow to 31,713 by June 2003. The Department plans to contract out the majority of HASA case management services over the next few years and, in 2004, will begin a pilot for this program with select vendors.

HIV/AIDS SERVICES CASELOAD 1997-2003



HASA provides emergency transitional housing for the formerly homeless and permanent housing in congregate facilities and scattered-site apartments as well as rent supplements for families and individuals. Transitional, congregate and scatter-site housing is provided through contracts with community-based agencies that also provide case management. HASA added 375 units of supportive congregate housing in 2003, bringing the total number of supportive units to more than 1,900. HASA plans to add 300 more units in 2004. In addition, HASA supports the ongoing operations of 2,232 units of scattered-site housing.

The Office of Domestic Violence and Emergency Intervention Services (ODVEIS)

The Office of Domestic Violence and Emergency Intervention Services (ODVEIS) is comprised of the Office of Domestic Violence (ODV) which provides emergency shelter and social services to victims of domestic violence, and the Office of Emergency Intervention Services (OEIS). OEIS includes the Crisis and Disaster

Services unit that responds to Citywide disasters, the Heatline, the Utility Assistance Program, the federally funded Home Energy Assistance Program, and the Office of Food Programs.

The Office of Domestic Violence Services administers 36 state licensed emergency domestic violence shelters, including one directly operated by the Department. Domestic violence victims are provided with a safe environment and a range of support services, including counseling, advocacy, and referrals. During 2003, shelter capacity increased to 1,832 beds. DSS also administers four Tier II shelters, which provide 155 units of transitional housing to domestic violence victims and has an agreement to use 450 units run by the Department of Homeless Services.

Non-residential domestic violence programs include telephone hotlines, counseling, and referrals for supportive services. The programs are operated by eleven not-for-profit organizations in all five boroughs. By the end of 2003, the Agency will award contracts to expand the availability of non-residential services featuring a separate legal services component.

The Emergency Food Assistance Program (EFAP) in the Office of Food Programs seeks to improve the nutritional status of low-income New Yorkers by providing nutrition education and funding for distribution of more than 14 million pounds of food to 620 food pantries and soup kitchens.

Capital Review

The Department's Four-Year Capital Plan totals $75.2 million, including $23.8 million for facilities maintenance and improvement, $35.5 million for technology to streamline Department operations, and $15.8 million for the installation of telecommunications equipment to facilitate data transmission.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Buildings	$8,338	$10,369	$36,456	$37,079	$9,708	$11,369	$3,000	$3,371	$3,757	$5,771	$0	$0
Computers	$14,658	$25,847	$17,193	$30,622	$2,297	$3,828	$2,629	$4,382	$7,949	$13,248	$8,432	$14,054
Telecommunications	$2,963	$4,879	$16	$27	$3,266	$5,443	$2,705	$4,509	$3,226	$5,376	$273	$455
Equipment	$0	$0	$1,956	$2,997	$837	$1,395	$0	$0	$1,080	$1,800	$0	$0
Vehicles	$0	$0	$112	$112	$48	$48	$0	$0	$66	$110	$0	$0
Total	$25,959	$41,095	$55,733	$70,837	$16,156	$22,083	$8,334	$12,262	$16,078	$26,305	$8,705	$14,509

Highlights of the Department's Four Year Capital Plan include:

- reconstruction and furnishing of Job Center facilities that will provide the setting for integrated case management services, including the continued rollout of a paperless office system ($18.1 million).
- completion of imaging of paper records in 10 Job Centers by the end of 2004, in addition to 21 already completed centers ($5.5 million).
- continued development of a Wide Area Network system in order to provide greater connectivity among Department personnel, contract service providers and consumers ($13.1 million).

ADMINISTRATION FOR CHILDREN'S SERVICES

The Administration for Children's Services (ACS) administers a broad range of programs that protect and advance the interests of children. The Department investigates allegations of child abuse and neglect, provides preventive services to families and children, and when necessary provides foster care or adoption services for children who cannot safely remain in their homes. The Department also provides subsidized childcare programs and early childhood education through the Head Start program.

Financial Review

The Department's 2004 Executive Budget provides for operating expenses of $2.1 billion, $506.1 million of which are City funds.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- in 2004 ACS will expand its case management programs targeted to families seeking PINS (Persons In Need of Supervision) petitions in Family Court through a transfer of $938,000 in total funds from the Department of Probation.

- in an initiative designed to avoid budget reductions to foster care programs, ACS will work with the State Office of Children and Family Services in 2004 to receive enhanced reimbursement for preventive services provided to foster children.

Restructuring and Streamlining

- in 2004 the Office of Child Support Enforcement and the day care eligibility unit will be consolidated into the Department of Social Services. Along with eligibility units from other agencies, including the Department for the Aging, this restructuring will produce $9.0 million in City savings.

- the Department will work with the Department for the Youth and Community Development (DYCD) and the Department of Education to integrate after school programs for children. Coordination by a single office in DYCD will expand universal access at lower cost, providing City savings of $15 million in 2004.

- the Department will implement several initiatives to improve outcomes and reduce lengths of stay for foster children, including increasing adoptions and reunifications and implementing community based programs that will enable children in costly institutional settings to return to their families or to lower levels of care. In 2004, these initiatives will save $8.9 million in City funds.

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$367,983	$362,784	$367,547	$315,142	($47,642)	($52,405)
Other Than Personal Service	2,007,020	1,999,485	1,834,622	1,776,567	(222,918)	(58,055)
Total	$2,375,003	$2,362,269	$2,202,169	$2,091,709	($270,560)	($110,460)
Funding						
City	$687,911	$632,987	$600,416	$506,135	($126,852)	($94,281)
Other Categorical Grants	—	44	—	—	(44)	—
Capital IFA	—	—	—	—	—	—
State	430,555	533,808	493,906	493,832	(39,976)	(74)
Federal						
• CD	14,275	35,261	22,051	22,051	(13,210)	0
• Other	1,241,978	1,160,020	1,085,647	1,069,518	(90,502)	(16,129)
Intra-City Other	285	149	149	173	24	24
Total	$2,375,003	$2,362,269	$2,202,169	$2,091,709	($270,560)	($110,460)
Personnel (includes FTEs at fiscal year-end)						
City	7,889	7,419	7,442	6,378	(1,041)	(1,064)
Non-City						
• IFA	—	—	—	—	—	—
• CD	6	7	7	7	—	—
• Other	58	510	505	155	(355)	(350)
Total	7,953	7,936	7,954	6,540	(1,396)	(1,414)

Programmatic Review

Division for Child Protection (DCP)

DCP investigates allegations of child abuse and neglect and is responsible for monitoring children and families until it is determined whether children may remain safely in their homes, or must be placed in foster care. ACS investigates an average of 55,925 reports of child abuse or neglect each year, a number that is projected to remain constant in 2004. To ensure optimal outcomes for children and families, Protective Services also conducts case conferences to bring caseworkers, parents, relatives and service providers together. These conferences ensure that service and placement decisions are based on all available information and perspectives.

Preventive Services for Children and Families

Preventive services assist families in crisis to avert the risk of foster care placement. The Department provides a variety of both direct and contracted preventive services designed to prevent foster care placement or reduce the time that children spend in foster care. The Department provides intensive services through its direct Family Preservation Program to a monthly average of 163 families. In addition, the Department contracts for 9,885 general preventive slots; 1,150 Family Rehabilitation Program (FRP) slots, which provide intensive services for families with substance abuse issues; and 403 specialized slots for families with special needs, including the deaf and hard of hearing. Preventive services also include contracts with community-based agencies to provide homemaking for families in crisis, and the housing subsidy program, which provides time-limited rental assistance to families and youth leaving foster care.

ACS works collaboratively with other City agencies to address the multiple issues facing families receiving preventive services. ACS has also initiated the Family Violence Prevention Program to provide preventive service agencies with on-going training and education in assessing and serving families with domestic violence issues.

Foster Care

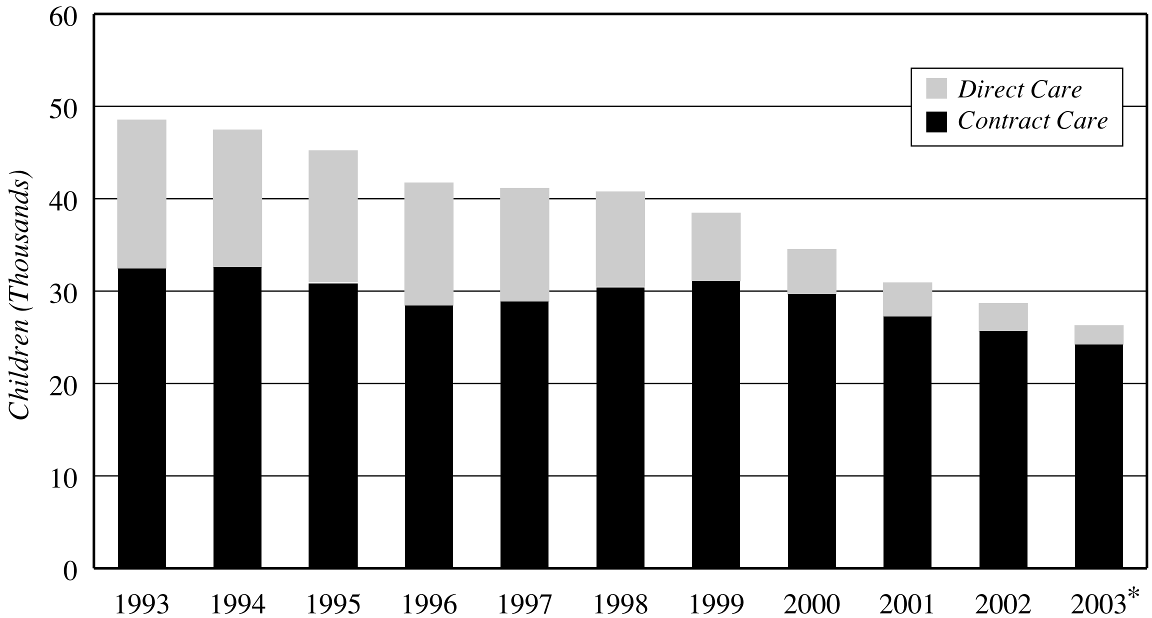
ACS provides foster care services through contracted agencies and directly run programs. Placements in foster boarding homes, congregate settings or specialized residential care facilities are provided on a temporary basis until children can be reunified with their families. If reunification is not an option, children receive services that will lead to adoption or development of independent living skills.

Since 1996, the foster care population has declined 45 percent from 47,414 to a projected average of 26,245 in 2003 and is expected to decline further in 2004 due to initiatives that will reduce length of stay. Although there are fewer children in care, the proportion requiring specialized treatment, including mental health, developmental and behavioral services has increased. To better address the needs of these children, ACS is developing specialized congregate care programs and high service foster boarding homes that will reduce the use of private institutions.

Initiatives designed to reduce the length of time children remain in foster care include “Babies Can’t Wait,” an effort that will improve placements and service planning for infants in foster care, and “Families for Teens,” a program that will move children in costly institutional settings home or to less intensive levels of care through the utilization of specialized community based services. ACS will implement new procedures to limit the assignment of independent living goals to younger adolescents in order to encourage adoption and reunification. ACS will also work closely with the court system to expedite finalization of pending adoptions. It is expected that nearly 600 additional children will either be adopted or reunified with their families and that 150 will be moved to lower levels of care in 2004 through these efforts.

In 2004, ACS will continue programs that enhance foster care service delivery. Neighborhood-based foster care agencies work with local preventive service providers and other community resources to minimize disruption in the lives of children removed from their homes. The Evaluation and Quality Improvement Protocol (EQUIP) has produced a comprehensive evaluation of provider performance on process, quality and outcome measures, which is being used to shift capacity from poor performing programs to high performers.

AVERAGE FOSTER CARE CASELOAD: 1993-2003



** Projected*

Note: Beginning in 1996 the number of children in contract care is calculated using number of care-days rather than reported census.

Adoption

Adoption provides a stable and permanent home for children who cannot return to their birth parents. Most children adopted from ACS are considered hard to place and their adoptive families receive ongoing adoption subsidy payments to support their care. In 2003, an average of 32,409 former foster children was in adoptive homes. The Department's efforts to recruit adoptive parents, including the adoption hotline and the award winning Wednesday's Child television segment, have contributed to a 30 percent increase in annual adoptions, from 2,312 in 1994 to a projected 3,000 in 2003.

Head Start

Head Start is a federally funded program that provides education and developmental services to low-income three and four-year old children. The goal of the program is to better prepare children for school by working with the entire family to support children's cognitive and social development. As of February 2003, the Head Start program's funded capacity was 18,985 children at 189 Head Start program sites provided by 74 delegate agencies. An additional 513 children will be served and four new delegate agencies will be added during 2004, bringing ACS Head Start capacity to 19,498.

Agency for Child Development

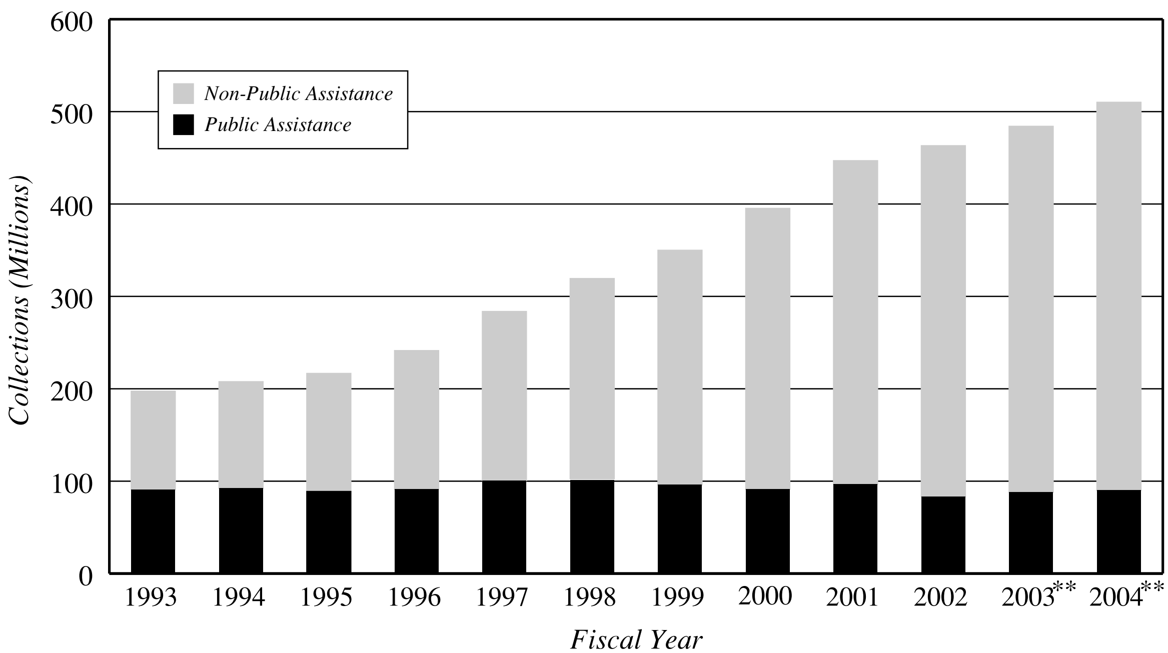
The Agency for Child Development (ACD) provides quality child care that enhances child development and assists families in achieving and maintaining self-sufficiency. ACD contracts with hundreds of private, non-profit organizations to operate child care programs in communities across the city. Contracted care is provided in group child care centers that are licensed by the Department of Health and Mental Hygiene (DOHMH) or in the homes of child care providers that are registered by DOHMH. ACD also issues vouchers to eligible families that may be used by parents to purchase care in any legal child care setting. Subsidized child care is targeted to low-income working families, public assistance recipients who are employed or engaged in work activities and families receiving child welfare services. An average of 59,000 children was enrolled in ACD programs in 2003. In addition, the Department of Social Services funds child care services for parents receiving public assistance and those transitioning from welfare.

Office of Child Support Enforcement

The Office of Child Support Enforcement (OCSE) assists custodial parents in establishing and enforcing financial support orders for their children. Services include locating absent parents, establishing paternity, obtaining support orders and collecting and disbursing support payments. In 2003, it is projected that OCSE will collect a total of $88 million in child support for public assistance families and $396 million on behalf of non-public assistance families. Growth in non-public assistance collections since 1996 is a result of the greater numbers of public assistance families who have achieved self-sufficiency.

As part of 2004 Citywide restructuring and streamlining, OCSE will be transferred to the Department of Social Services, where it will be integrated with DSS's Office of Revenue Investigations (ORI).

CHILD SUPPORT COLLECTIONS*



* *Includes support collected from New York City residents on behalf of other states.*
*** Projected*

Capital Review

The Department's Four Year Capital Plan totals $88.4 million, including $13.5 million for renovation of congregate foster care facilities, $24.2 million for construction and renovation of child care facilities, $13.1 million for renovation and furnishing of ACS offices, and $37.6 million for technology and telecommunications to streamline agency operations.

Capital Commitments
($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Child Welfare	$8,513	$8,526	$6,543	$6,654	$3,867	$3,906	$416	$416	$2,500	$2,500	$2,607	$2,607
Child Care	$1,739	$1,739	$9,763	$10,218	$479	$542	$3,120	$3,120	$10,333	$10,333	$2,624	$2,624
Buildings	$2,791	$3,464	$6,310	$6,350	$100	$100	$0	$0	$5,221	$6,609	$1,000	$1,266
MIS	$6,372	$8,451	$11,747	$15,085	$4,941	$6,255	$7,765	$9,877	$5,261	$6,443	$4,938	$6,252
Total	$19,415	$22,180	$34,363	$38,307	$9,387	$10,803	$11,301	$13,413	$23,315	$25,885	$11,169	$12,749

Highlights of the Four Year Capital Plan

- the renovation of over 63,000 square feet at 2501 Grand Concourse in Bronx to be used as a Bronx Field Office (5.5 million).
- renovation and expansion of the Jefferson Group Home for adolescent foster children ($2.2 million); and acquisition of three sites to provide direct care services to 16 additional "hard-to-place" teenagers ($817,000).
- continued development and expansion of MIS projects including the Integrated Case Management System ($6.5 million); the Legal Tracking System ($2.5 million); and the Outcome Compliance Reporting System ($1.3 million).

DEPARTMENT OF HOMELESS SERVICES

Since its inception in July 1993, the Department of Homeless Services (DHS) has carried out its mandate to provide temporary housing and services to homeless families and single adults. DHS provides a range of services that enable homeless families and single adults to attain self-sufficiency and return to independent living.

Financial Review

The Department's 2004 Executive Budget provides for operating expenses of $636.3 million, of which $255.7 million are City funds.

Expense Budget Highlights

The Department provides services for eligible homeless families and single adults in a safe, supportive environment and delivers services through a continuum of care in which clients assume responsibility for achieving the goal of independent living.

Budgetary Priorities: Providing Core Service

- an additional $19.5 million in total funds in 2004 will provide increased capacity for homeless families. In addition, $25.3 million is provided for new initiatives to increase placement of families in permanent housing, including aftercare services ($3.1 million), EARP/Section 8 landlord bonuses ($13.9 million) and housing placement staff ($2.6 million).

- in 2004, the Department, in conjunction with the Department of Social Services (DSS), will continue implementation of a Long Term Stayer's Rent Supplement Program, targeted to families who are not eligible for other subsidized housing programs.

- an increase of $10.4 million in 2004 over the 2003 forecast will support additional shelter capacity for single adults.

Restructuring and Streamlining

- the Department will continue to work with the State Office of Temporary and Disability Assistance (OTDA) to increase family and single adult eligibility for programs providing State and federal reimbursement.

- in 2004, DHS will continue to implement the Agency's strategic plan, which focuses on prevention and outreach, client services, permanency, and efficiency and accountability.

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$96,768	$96,482	$98,402	$92,927	($3,555)	($5,475)
Other Than Personal Service	443,445	545,058	563,780	543,337	(1,721)	(20,443)
Total	$540,213	$641,540	$662,182	$636,264	($5,276)	($25,918)
Funding						
City	$253,080	$285,660	$304,327	$255,743	($29,917)	($48,584)
Other Categorical Grants	—	—	—	—	—	—
Capital IFA	—	—	—	—	—	—
State	158,432	182,080	191,324	190,226	8,146	(1,098)
Federal						
• CD	4,964	9,070	6,190	6,190	(2,880)	—
• Other	110,333	163,230	160,341	154,105	(9,125)	(6,236)
Intra-City Other	13,404	1,500	—	30,000	28,500	30,000
Total	$540,213	$641,540	$662,182	$636,264	($5,276)	($25,918)
Personnel (includes FTEs at fiscal year-end)						
City	2,054	2,079	2,122	1,970	(109)	(152)
Non-City						
• IFA	—	—	—	—	—	—
• CD	2	3	3	3	—	—
• Other	7	—	—	—	—	—
Total	2,063	2,082	2,125	1,973	(109)	(152)

Programmatic Review

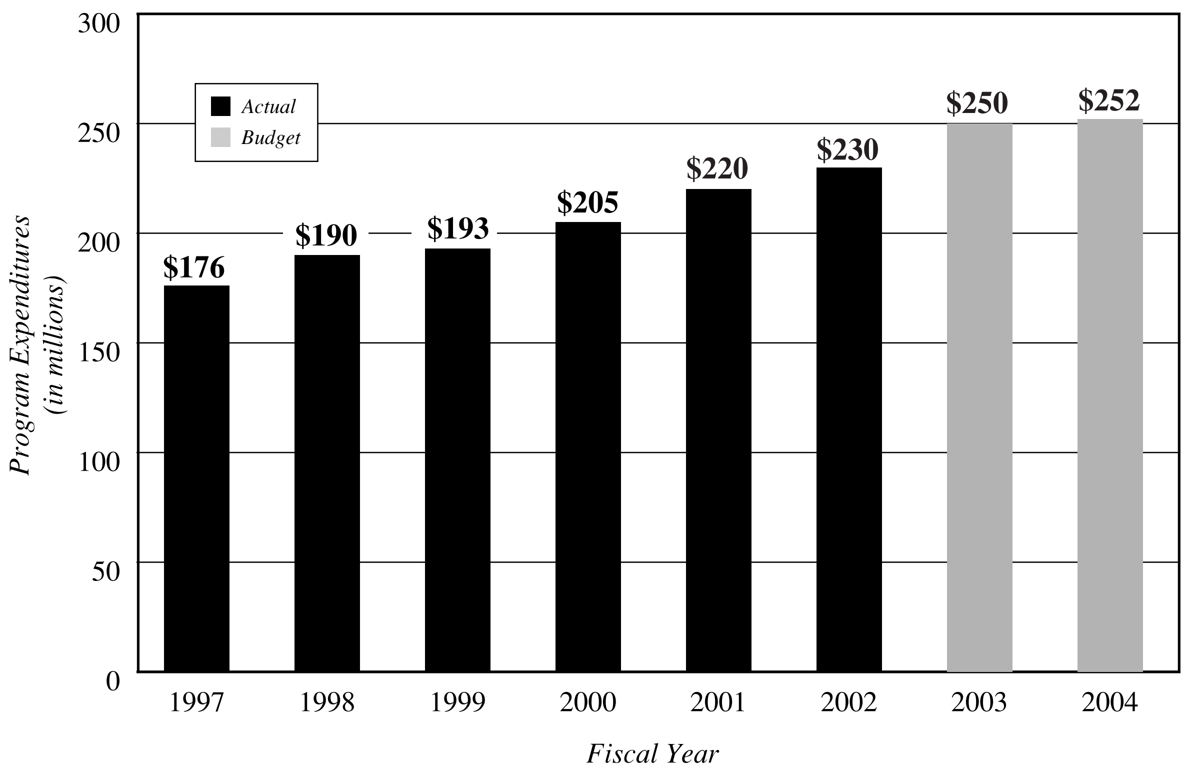
Homeless Single Adults

The number of homeless single adults increased from an average of 7,667 in 2002 to 8,237 as of February 2003. In 2004, the Department will provide additional capacity for homeless adults in transitional housing units with an additional $10.4 million in total funds over the 2003 forecast.

The Department provides a variety of services for homeless single adults, including street outreach and drop-in centers for the hardest to serve, general and specialized transitional facilities, and permanent supportive housing. In 2004, DHS will continue to improve and expand specialized programs providing substance abuse, mental health and employment services to address barriers to independent living. Sixty-seven percent of beds for single adults are associated with program services.

The Department supports outreach services, both directly and through contract, and funds drop-in centers operated by not-for-profit organizations. Outreach teams identify and engage a diverse population of homeless single adults living in public spaces such as streets, parks, terminals, transportation facilities and encampments, and link them with services that will eventually enable them to move into protective settings like transitional or permanent housing. Nine drop-in centers provide counseling, crisis intervention, meals, clothing and referrals to a variety of support services. An average of 1,156 individuals were served daily in 2003, an increase of 20 percent over 2002. The Department also offers permanent housing assistance, including referral to supportive Single Room Occupancy (SRO) units operated by a network of not-for-profit providers.

HOMELESS INDIVIDUALS - PROGRAM EXPENDITURES: 1997-2004



In 2004, the cost of serving homeless single individuals will be $252 million, including $6.3 million from the Department of Mental Health and the Federal Emergency Shelter Grant program, which will be added during the year. The budget is supported with $111 million of City funds.

Homeless Families

The number of homeless families increased from an average of 6,976 in 2002 to 9,230 as of February 2003. In response to the increase in the family shelter population, the Department has developed initiatives to increase placement into permanent housing, and to target families that use the shelter on a long term basis.

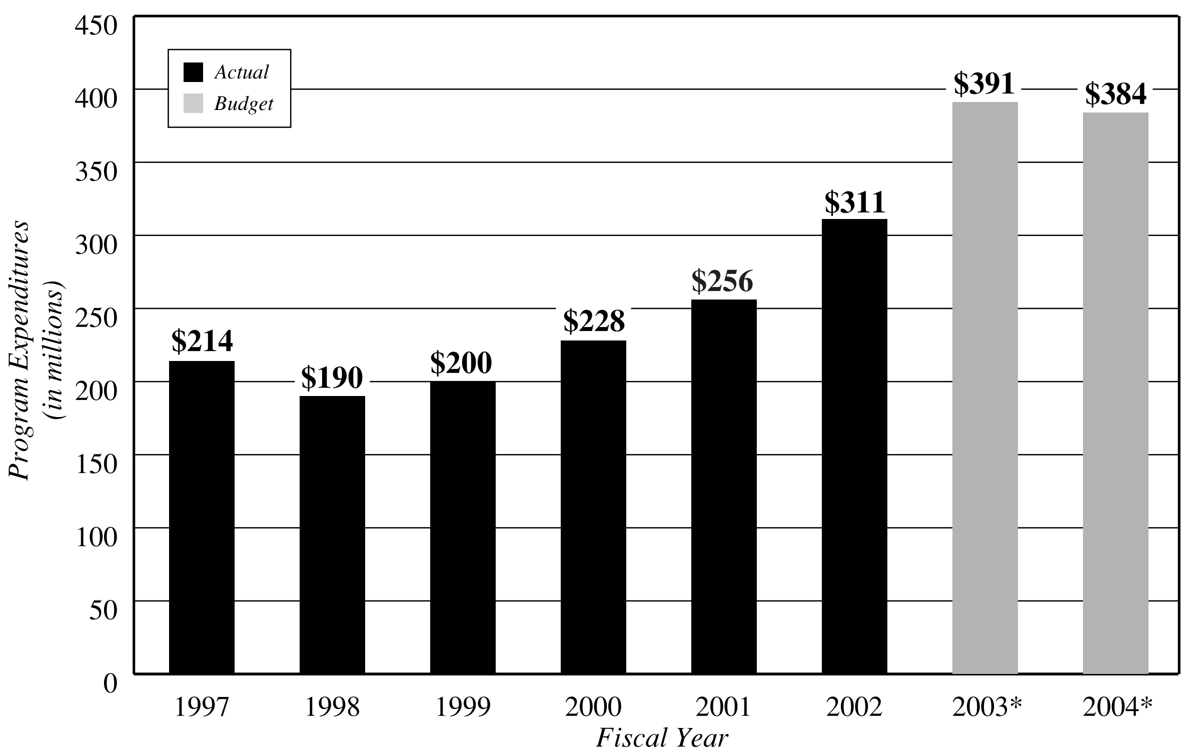
The Department serves homeless families through a network of transitional housing facilities. Transitional housing provides families with stable living situations and supportive social services designed to lead to self-sufficiency. Families receive access to permanent housing and follow-up services to assist them in maintaining independence.

During the spring of 2003, DHS will implement client responsibility standards. These standards will ensure that all homeless families receive safe, temporary shelter and that permanency planning begins immediately so that families move expeditiously from homelessness to permanent housing. Families will be required to follow an Independent Living Plan, seek and accept permanent housing, and avoid behavior that places other shelter residents or staff at risk. If a family fails to meet these standards, they will be subject to a discontinuance of shelter eligibility and will be unable to receive shelter services in the future. However, the family will be offered a suitable apartment of the City's choice.

The Long Term Stayer Rent Supplement Program (LTSP), which received State approval in fall 2002, is a new rental assistance program that provides a pathway out of shelter for families that have been in the system for nine months or longer and who are ineligible for Section 8 subsidies. DHS funding for this program is $1.7 million annually, with an additional $8.8 million in DSS.

The Department has recruited a wide range of organizations to present special events and programs for clients and children in transitional housing, including monthly Latin music workshops and concerts, and a recreational and educational day camp program at the City College of New York. Thousands of children have benefited from donated trips to Sesame Street Live, Ringling Brothers Circus, Disney on Ice and the Neighborhood Theater for Kids. The support of numerous cultural institutions, corporations, foundations, and other government agencies make many of these activities possible.

HOMELESS FAMILIES - PROGRAM EXPENDITURES: 1997-2004



* *Increased expenditures in 2003 and 2004 reflect growth in census and initiatives to increase housing placements.*

The cost of housing homeless families in 2004 will be $384 million, of which $146 million are City funds.

Capital Review

The Department's Four Year Capital Plan totals $91.1 million. Projects for homeless families total $24.7 million, projects for single adults total $58.1 million, and $8.2 million is allocated for administration, computer systems and equipment purchases.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Homeless Families . . . . .$	13,162	13,162	3,726	3,726	9,868	9,868	4,875	4,875	5,254	5,254	4,700	4,700
Homeless Individuals . . .$	7,304	7,304	11,808	11,808	13,343	13,343	10,650	10,650	18,149	18,149	16,000	16,000
Equipment and Vehicles .$	3,520	3,520	574	631	188	188	750	750	1,000	1,000	1,000	1,000
Administrative Facilities .$	10	10	10	10	5,300	5,300	0	0	0	0	0	0
Total.	$23,996	$23,996	$16,118	$16,175	$28,699	$28,699	$16,275	$16,275	$24,403	$24,403	$21,700	$21,700

Highlights of the Four Year Capital Plan

- building upgrade and repairs: $5.5 million at facilities for homeless adults, including Park Slope Armory, Willow and the Charles Gay Annex, and $14.0 million at facilities for homeless families, including the Bronx Emergency Assistance Unit, Seneca House and Tier II facilities constructed by NYCHA and HPD in the 1990s.

- envelope stabilization and restoration, including $3.3 million at family facilities and $4.4 million at adult facilities. The work includes sidewalk bridges; demolition; repair/replacement of masonry, metals, windows, roofing; and associated plumbing.

- upgrade of four existing SRO sites: Veterans, Commonwealth, Webster and Mt. Eden ($1.4 million).

- development of a new DHS supply warehouse and maintenance and repair workshop ($5.3 million).

- upgrade of the DHS computer network system, including an integrated client tracking system with enhanced client and shelter information reporting; and computerization of the Rehousing Unit, which tracks and locates permanent housing for homeless families ($2.3 million).

DEPARTMENT FOR THE AGING

The Department for the Aging (DFTA) administers a wide range of programs that enable senior citizens to lead independent and productive lives. Services include congregate and home-delivered meals, home care, employment counseling and placement, social and legal services, transportation, and information and referral services. The Department also advocates for the City's elderly through legislative activity and public policy initiatives.

Financial Review

The Department's 2004 Executive Budget provides for operating expenses of $169.9 million, of which $69.9 million are City funds.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- in 2004, the Department will focus on its core services to senior citizens, including providing home care services and benefits assistance and serving more than 13 million congregate and home-delivered meals.

- in 2004, the Department will continue to use Federal Community Development Block Grant (CDBG) funds, totaling $4.0 million, to renovate and upgrade senior centers that are not eligible for capital funds.

Restructuring and Streamlining

- the Department will transfer 105 senior centers in New York City Housing Authority (NYCHA) projects to NYCHA for savings of $29.0 million in 2004, and will assist the Authority in operating them.

- a citywide initiative to consolidate food purchasing for human service agencies will produce savings of $8.0 million in the Department's congregate and home delivered meals.

- in 2004, the Department anticipates that participant contributions will increase to $1.00 per meal, which will help to maintain ongoing congregate and home-delivered meal services.

- the Department will also utilize the Department of Social Services to streamline the screening process for home care clients.

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$22,616	$26,774	$16,734	$16,356	($10,418)	($378)
Other Than Personal Service	208,611	212,281	169,792	153,531	(58,750)	(16,261)
Total	$231,227	$239,055	$186,526	$169,887	($69,168)	($16,639)
Funding						
City	$167,191	$117,293	$86,431	$69,851	($47,442)	($16,580)
Other Categorical Grants	5	—	—	—	—	—
Capital IFA	—	—	—	—	—	—
State	23,391	23,349	19,609	19,609	(3,740)	—
Federal						
• CD	2,978	5,654	4,459	4,459	(1,195)	—
• Other	37,249	92,228	75,496	75,496	(16,732)	—
Intra-City Other	413	531	531	472	(59)	(59)
Total	$231,227	$239,055	$186,526	$169,887	($69,168)	($16,639)
Personnel (includes FTEs at fiscal year-end)						
City	157	115	79	73	(42)	(6)
Non-City						
• IFA	—	—	—	—	—	—
• CD	2	2	2	2	—	—
• Other	682	746	668	668	(78)	—
Total	841	863	749	743	(120)	(6)

Programmatic Review

In 2004, DFTA will continue to serve the City's elderly through a network of over 300 senior centers, which provide nutrition, recreation and social services. Seniors throughout the five boroughs receive congregate and home-delivered meals through senior center programs. Over four million home-delivered meals and over nine million congregate meals will be served.

The Department's Senior Citizen Rent Increase Exemption Program (SCRIE) will subsidize the annual rent increases of over 45,000 elderly households through property tax abatements to the owners of more than 29,000 buildings participating in the program.

The Department will provide caregiver services through 11 community-based contracts. Services for caregivers to the elderly will include: counseling; support groups; training and respite care, such as home care and social adult day services. In addition, services will be provided to grandparents caring for grandchildren. The Department will also provide Elder Abuse prevention and intervention services through nine community-based contracts.

Capital Review

The Department's Four Year Capital Plan totals $15.9 million. Capital projects include the rehabilitation of facilities that provide services to the elderly, technology projects to improve operations and the enhancement of a computerized network to assist seniors to apply for entitlement and benefit programs directly at local senior centers.

Capital Commitments
($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Elec. Data Processing	$687	$687	$5,818	$5,818	$151	$151	$977	$977	$1,565	$1,565	$700	$700
Building Renovations and vehicles	$6,971	$6,971	$12,156	$12,156	$3,312	$3,312	$1,093	$1,093	$6,717	$6,717	$1,400	$1,400
Total	$7,658	$7,658	$17,974	$17,974	$3,463	$3,463	$2,070	$2,070	$8,282	$8,282	$2,100	$2,100

Highlights of the Four Year Capital Plan

- renovation of existing senior centers and expansion of centers in neighborhoods with growing senior populations ($12.2 million).
- provision of computers to senior centers that will be used to provide direct and indirect services. ($3.4 million)

DEPARTMENT OF HEALTH AND MENTAL HYGIENE

The mission of the New York City Department of Health and Mental Hygiene is to protect and promote the health and mental health of all New Yorkers, to support the recovery of individuals with mental illness and chemical dependencies, and to promote the realization of full potential for individuals with mental retardation and developmental disabilities. The Department is committed to maintaining core public health services and continues to introduce new programs and technologies to improve the health status of New Yorkers.

In 2004, the Department will focus on screening and prevention of colon cancer, effective treatment of depression, post-traumatic stress disorder, and chemical dependency, and improving the management of blood pressure, blood sugar, and lipid levels that can prevent debilitating chronic illnesses. The Department will also strengthen its tobacco control activities, including the distribution of free nicotine replacement treatment to City residents, and will educate doctors and the public on how they can help fight the leading epidemic of our times. Working closely with the Department of Education, the Department will improve the health of school children by fostering healthy patterns of diet and physical activity, preventing smoking and drug use, promoting safe and responsible sexual behavior, and preventing violence at an early age. The Department will also target its public health activities in a few neighborhoods, particularly Harlem, Central Brooklyn, and the South Bronx, that bear a disproportionate share of New York City's burden of excess physical and mental illness and premature death.

Financial Review

The Department of Health and Mental Hygiene's 2004 Executive Budget provides for $1.29 billion, which is $176 million less than the 2003 forecast. Additional funds of approximately $135 million will be modified during the fiscal year when Federal and State award notifications are received. Capital commitments of $23.0 million are also provided, a decrease of $71.8 million over the 2003 Plan amount.

Due to the City's current fiscal condition, the Department has been required to reduce funding allocations for various programs as part of the 2004 Executive Budget. As a result of these reductions, the proposed decrease in City funds for 2004, as compared to the 2003 current modified budget, for the units of appropriation for mental health, mental retardation, and alcoholism services is greater than the decrease proposed for the units of appropriation for public health services. However, when this comparison is adjusted by: (1) removing public health expenses associated with Early Intervention, a State-mandated entitlement program that is driven by need rather than the availability of funds; (2) adding back substance abuse funds being transferred from the Department to the Human Resources Administration with no service impact; and (3) adding back City funds for mental hygiene costs that have been removed as a result of revenue enhancement initiatives with no service impact, the proposed 2004 decrease in City funds for mental health, mental retardation, and alcoholism services is no greater than the decrease proposed for public health services. Therefore, pursuant to New York City Charter Section 551(a), it is in the City's best interest to submit an executive budget at variance with the City funds appropriation formula set forth in that provision.

Revenue Forecast

The Department of Health and Mental Hygiene generates revenue from licenses, permits, inspections and service fees, and fines for violations of the New York City Health Code. The Department will generate $46.4 million in 2004, $9.6 million more than in 2003. The increase is attributable to additional fees from birth and death certificates pending State legislative approval and a higher minimum fine amount for food service violations.

Expense Budget Highlights

Restructuring and Streamlining

- a savings of $6.8 million will be generated through attrition, early retirement, and the elimination of vacant positions totaling 238 full-time equivalents (FTEs) in programs throughout the Department.
- a savings of $6.8 million will be generated by closing 12 child health clinics and eliminating subsidies for six Communicare clinics operated through a contract with the Health and Hospitals Corporation (HHC).
- a savings of $5.5 million will be generated in the Department's correctional health services contract with HHC as a result of the closure of the Queens and Brooklyn Houses of Detention.
- a savings of $3.5 million will be generated by consolidating or closing mental health and substance abuse programs funded through contracts with HHC.
- a savings of $2.6 million will be generated in the School Health Program through the termination of the Hepatitis B Immunization Initiative and reductions in support staff for nurses in large elementary schools. This is in addition to a prior reduction of $5.5 million resulting from the elimination of 264 vacant nursing positions.

Summary of Agency Financial Data
($000's)

			2004		Increase/(Decrease)	
	2002 Actual	2003 Forecast	Preliminary Budget	Executive Budget	2003 Forecast	2004 Preliminary Budget
Expenditures						
Personal Service	$245,109	$252,514	$237,746	$229,822	($22,692)	($7,924)
Other Than Personal Service	1,467,085	1,214,831	1,080,772	1,061,174	(153,657)	(19,598)
Total	$1,712,194	$1,467,345	$1,318,518	$1,290,996	($176,349)	($27,522)
Funding						
City	$537,358	$534,334	$559,205	$525,987	($8,347)	($33,218)
Other Categorical Grants	107,371	202,673	210,493	210,493	7,820	—
Capital IFA	—	—	—	—	—	—
State	428,237	465,436	472,158	468,321	2,885	(3,837)
Federal						
• CD	443	553	553	553	—	—
• Other	263,226	259,715	72,093	81,626	(178,089)	9,533
Intra-City Other	375,558	4,634	4,016	4,016	(618)	—
Total	$1,712,194	$1,467,345	$1,318,518	$1,290,996	($176,349)	($27,522)
Personnel (includes FTEs at fiscal year-end)						
City	4,564	3,904	4,110	3,818	(86)	(292)
Non-City						
• IFA	—	—	—	—	—	—
• CD	—	—	—	—	—	—
• Other	1,057	1,426	968	967	(459)	(1)
Total	5,621	5,330	5,078	4,785	(545)	(293)

Programmatic Review

Health Services

The Department is committed to protecting and promoting the health of the public through monitoring, prevention, and control activities for individuals, families, and communities in New York City. The Department prevents epidemics and the spread of diseases such as HIV/AIDS, other sexually transmitted diseases (STDs), and tuberculosis (TB); protects against environmental hazards; prevents unintentional injuries; promotes and encourages healthy behaviors; responds to disasters and assists communities in recovery; and ensures the accessibility of health services.

Agency Initiatives

In 2004, the Department will continue to develop and implement its comprehensive tobacco control plan in New York City through a combination of media and public outreach, regulation, and medical care. Its five areas of focus include: (1) increased taxation, including enforcement of existing taxes on cigarette sales via the internet; (2) legislative activities, including smooth and uniform enforcement of the Smoke Free Air Act (SFAA) to ensure that virtually no one who works in New York City has to choose between their health and their job; (3) increased use of tobacco cessation interventions through the provision of nicotine replacement therapy and provider education on the use of effective medical therapies to help smokers quit; (4) education and intervention in targeted communities through grassroots and media campaigns; and (5) monitoring and evaluation of interventions to determine the most effective approaches to changing behaviors and conditions related to tobacco use.

The Department is recognized for operating one of the most experienced and innovative local bioterrorism readiness programs in the nation. However, the events of September 11, 2001, and the subsequent anthrax incidents have underscored the need to improve the Department's ability to plan for and manage all public health emergencies, including biological, chemical, or radiological terrorism. The Department has established an Emergency Preparedness Unit that oversees its readiness for and response to public health emergencies. In addition, with funding from the Federal Centers for Disease Control and Prevention, the Department will augment and improve preparedness planning and readiness assessment, surveillance and epidemiology capacity, laboratory capacity, communications and information technology, risk communication and health information dissemination, and education and training.

Disease Control

The Department safeguards the health of New Yorkers through the identification, surveillance, treatment, control, and prevention of infectious diseases and protects the health of citizens during emergencies.

The Department will continue its efforts to reduce further the incidence of TB in New York City. While the number of TB cases continues to drop to historic lows – cases have decreased by 67 percent from the peak of 3,777 new cases in 1992 to 1,244 new cases in 2002 – the proportion of cases in non-U.S.-born individuals has remained steady, accounting for 65 percent of all cases in 2002, compared with 18 percent in 1992. The Department has targeted high-risk immigrant communities and is working to improve completion rates for treatment of latent TB infection.

The Bureau of Sexually Transmitted Diseases has faced new challenges with the sharp increase in syphilis cases, which increased from 117 to 282 to 423 cases in the past three years. The Department will continue outreach activities and targeted screening efforts, with a primary focus on social venues that cater to men who have sex with men (MSM). A Syphilis Advisory Group will provide input into development of new interventions to address this nationwide trend. The 10 full-service STD clinics and 4 free standing HIV Counseling and Testing sites perform 35,000 HIV tests each year. These clinics will begin the provision of emergency contraception and will increase hepatitis-related services.

The Bureau of HIV Services will continue community planning through the Prevention Planning Group and the Planning Council, will perform HIV/AIDS surveillance, and will oversee $145 million in contracts for HIV care services and prevention. These programs face new issues with regard to the rise in unsafe sexual practices in the MSM population, prevention of the spread of HIV by HIV-positive individuals, and the availability of a rapid HIV test.

The Bureau of Communicable Disease and the Public Health Laboratory will continue core functions of identification and investigation of infectious diseases such as Severe Acute Respiratory Syndrome (SARS), but will also have greatly expanded roles in terms of bioterrorism. The types and sophistication of syndromic surveillance, as well as the development of a bioterrorism lab, are new areas of focus. The immunization program will continue to operate immunization clinics, monitor school entrance vaccination rates, and maintain the Citywide Immunization Registry while overseeing the voluntary smallpox vaccination program recommended by the Federal government.

A new Bureau of Emergency Management was established during the past year and will continue to coordinate preparation, mitigation, response, and recovery activities for both internal and external emergencies. It will continue to act as the principal liaison to the Office of Emergency Management, coordinate the Weapons of Mass Destruction (WMD) Advisory Group, coordinate the Department's emergency response plan, and develop the Health Alert Network to communicate urgent information to the medical community.

Epidemiology

The Department provides timely, systematic, and ongoing collection, analysis, and dissemination of data to monitor trends and inform interventions. In 2004, data collection and analysis will be increasingly important to Departmental activities. By designing and conducting surveys and analyzing results, the Department will better monitor trends in the health status of the City and of its communities and neighborhoods.

The Community Health Survey, a random-sample telephone survey of 10,000 households in New York City first conducted in 2002, is the largest-ever health survey of its type in the City. Results are being disseminated both in print and via the internet, and the survey will be conducted annually to monitor trends and evaluate the impact of targeted community interventions.

The Department will continue to operate the Bureau of Vital Statistics, which registers, processes, certifies, and issues reports of births, deaths, and spontaneous and induced terminations of pregnancy. By analyzing and disseminating vital statistics data, the Department will monitor changes in birth and death rates that may reflect changes in disease patterns in New York City.

Health Promotion and Disease Prevention

In 2004, the Department will continue its focus on reducing disparities in health care within vulnerable communities through a new program of District Public Health Offices (DPHOs). Working with other programs in the Department, DPHOs will address: high mortality rates secondary to malignancies; increased health complications of diabetes; increased complications of cardiovascular disease; and risk factors for chronic illness, including high rates of obesity, insufficient physical activity, and smoking.

The Department provides public health services in public and non-public elementary and intermediate schools. These services include comprehensive reviews of children's medical conditions, response to emergencies, provision of medication and management of chronic illnesses, vision and hearing screening, and follow-up of conditions requiring referral.

The Department will continue its efforts to reduce the infant mortality rate, which fell to a record low of 6.1 deaths per 1,000 live births in 2001. However, infant mortality remains unacceptably high in certain neighborhoods in the City. In 2004, the Department will continue its comprehensive program to reduce infant mortality in selected neighborhoods. This initiative coordinates infant mortality reduction efforts through community partnerships and education of residents and service providers.

Through its Early Intervention Program, the Department serves an estimated 40,000 patients annually. The Early Intervention Program is designed to: create an efficient system for the early identification and referral of infants and toddlers from birth to age three with developmental delays; reduce the duplication of services; provide timely and efficient evaluation of young children; and provide comprehensive services in a natural setting for each child.

Regulatory and Environmental Health Services

The Department is prepared to respond 24 hours a day to radiological, chemical, hazardous material, and food-borne illness emergencies, including emergencies related to acts of terrorism. The events of September 11, 2001, and subsequent anthrax incidents generated many environmental health concerns that were systematically addressed by the Department. Ongoing activities include enforcement of orders of the Commissioner; wastewater, drinking water, and radiological surveillance; rodent control; and restaurant inspections, including enforcement of the SFAA. Department personnel will continue to participate in the Lower Manhattan Air Quality Task Force.

Department personnel participate in ongoing emergency response planning to enhance preparedness. The Department continues to refine biological, chemical, and radiation response plans and response teams. Activities include emergency response, participation in various emergency planning teams, and membership in the Local Emergency Planning Committee.

Bureau of Food Safety and Community Sanitation inspectors will enforce provisions of the SFAA in all food service establishments. Upon receipt of a complaint, the business will receive a letter informing its operator/manager of the complaint, along with a summary of SFAA provisions. An Environmental Health Technician (EHT) will be deployed to inspect complaints about restaurants or bars upon receipt of an initial complaint, and for all other workplaces upon receipt of a second complaint. Notices of Violation will be issued for violations beginning in May 2003. Inspectors and EHTs will issue notices for observed smoking, as well as the presence of ashtrays or absence of appropriate signage. Additionally, violations will be issued for owner-operated bars, tobacco bars, and membership organizations that have not registered exemptions with the Department once the grace period for registration expires. Inspectors and EHTs will also issue notices for illegally-operated separate smoking rooms.

The Department issued a new scoring system for food service establishments, which was implemented in early 2003. The new scoring system emphasizes elimination of food-borne illnesses through proper sanitation and food preparation and storage practices, and encourages education and training of food service personnel. It distinguishes between severe and less severe violations by increasing fines for serious violations that are likely to lead to food-borne illnesses.

In 2004, the Department will continue its traditional rodent control activities and will also pilot-test new control methods that are expected to be more effective at reducing rodent populations over the longer term. The Department will continue to identify strategic geographic areas with rodent problems and develop customized plans to address rodent infestation in these areas. In 2004, the Department anticipates making more than 16,000 initial inspections in response to complaints. The total number of rodent control inspections conducted is expected to exceed 50,000. In the area of mosquito control, the Department plans to focus efforts on control of larvae in order to reduce the need to apply pesticide for control of adult mosquitoes and prevent human arboviral disease, including illnesses related to the West Nile virus.

Health Care Access and Improvement

This division is responsible for developing, implementing, and monitoring programs to expand the availability of health services. In conjunction with the Human Resources Administration and the New York State Department of Health (NYSDOH), it oversees New York City's Medicaid Managed Care program, in which enrollment became mandatory for Medicaid clients beginning in 1999. During 2003, enrollment exceeded one million out of an eligible population of 1.2 million City residents, and the Department expects the program to be fully phased in by the end of 2004. During 2004, the Department will develop a plan to enroll 140,000 Social Security recipients into managed care and will increase collaboration with managed care plans on public health priorities by improving health care management and implementing effective prevention activities.

The Department expects to execute six contracts with providers certified by NYSDOH to operate managed care plans for persons with HIV/AIDS and begin enrollment for the HIV Special Needs Plan program in the spring of 2003, with implementation continuing during 2004. The Department also plans to institute quality improvement site surveys of Article 28 facilities.

Mental Hygiene Services

Through its Division of Mental Hygiene, the Department provides planning, funding, and oversight for the provision of mental health, mental retardation, developmental disabilities, alcoholism, and substance abuse services for New York City residents. In addition, the Department funds public education, prevention, and training while maintaining culturally-responsive, cost-effective, and high-quality care for its clients. The Department serves 403,000 clients annually through 365 contracts with voluntary service agencies and hospitals and HHC facilities.

Mental Health

The Department plans and funds a variety of mental health services, including outpatient services for adults and families, outreach services, and services for special populations, including immigrants. The Department's priorities include programs for children and adolescents, the homeless, the severely and persistently mentally ill, and the mentally ill forensic population.

Mental Retardation and Developmental Disabilities

The Department plans and funds services for people with developmental disabilities, including mental retardation, cerebral palsy, epilepsy, autism, and other neurological impairments. Services include adult vocational programs, employment programs, diagnostic evaluations, clinic treatment programs, family support programs, counseling, after-school and weekend recreation and respite programs, special continuing education, sleep-away camp, transportation, information and referral, and public education.

Alcoholism

The Department plans and funds an array of services to assist individuals in need of alcoholism treatment, including inpatient detoxification, alcoholism crisis centers, comprehensive outpatient services, and community residences. The priority populations include the homeless, pregnant women, families, and adolescents.

Substance Abuse Services

The Department funds a variety of services to assist individuals in need of substance abuse treatment, including integrated outpatient services for adult substance abusers and mentally ill chemical abusers (MICA), family centered adolescent substance abuse and MICA treatment, and integrated substance abuse services focusing on sobriety and employment readiness.

Project Liberty

In response to the September 11, 2001, attack on the World Trade Center, the Department implemented Project Liberty, a program funded by the Federal Emergency Management Agency that provides free individual and group counseling and public education. To date, over 470,000 individuals, including 53,000 children, have been served. As part of a new Project Liberty initiative, which will be launched shortly, the program will provide intensive counseling sessions for people most seriously affected by the disaster and will develop initiatives directed at community resilience.

Forensic Services

As a result of the recently signed agreement which settled the Brad H. lawsuit against the City for inadequate provision of discharge planning services for mentally ill clients leaving the correctional system, the Department will work closely with Correctional Health Services and Service Planning and Assistance Network (SPAN) offices adjacent to the courts to assist discharged inmates with obtaining entitlements, mental health services, medications, and housing. During 2004, the Department will establish 16 supportive housing beds in the Bronx and Manhattan to serve mentally ill forensic consumers.

Office of the Chief Medical Examiner

The WTC terrorist attack killed an estimated 2,792 victims and has resulted in almost 20,000 remains recovered to date. The American Airlines Flight 587 crash killed 265 people and resulted in over 2,000 remains recovered. Over the past year, the Office of the Chief Medical Examiner (OCME) has identified 275 of the 2,792 WTC victims for a total of 1,481 identifications. The OCME response has utilized all of the strengths of forensic science – from DNA fingerprinting to forensic dentistry – to identify victims. The OCME continues to meet with the families and relatives of the victims to help in the identification process and to facilitate linkages to appropriate community support services. The archiving of all case folders and the return of the OCME to routine operations is not expected to occur for at least a year after the completion of the identification of remains.

The Office operates an accredited Forensic Biology Laboratory that processes DNA evidence from over 3,000 homicide and sexual assault cases. The Laboratory also analyzes DNA data from 16,000 evidence kits of historical sexual assault cases held by the New York City Police Department (NYPD). These cases are tested by outside laboratories for semen, and DNA profiles are analyzed by the OCME if positive indications of semen are found. The average turnaround time for completion of sexual assault casework is 40 days for regular cases and seven days for rush cases.

By the start of 2004, the OCME will expand its DNA laboratory with the opening of a new High Sensitivity Laboratory. This laboratory will isolate and profile small amounts of DNA found on a wide variety of evidence gathered from crime scenes, including various parts of stolen vehicles, telephones, doorknobs, cigarette butts, or soda cans. The laboratory will provide training for a core group of scientists in high sensitivity DNA analysis and will validate the methodology, procedures, and equipment needed to process 35,000 property crime cases.

The High Sensitivity Laboratory will be the training ground for the staffing of a new DNA facility scheduled to open by 2007. This new building will consolidate OCME's existing laboratories into a world class, custom-built facility for forensic DNA analysis. This fifteen-story, 360,000 square foot building will be located on the campus of Bellevue Hospital. The new building will house the following expanded functions: (1) a new evidence delivery area capable of accepting over 100,000 pieces of evidence per year; (2) high-density storage systems to house 12 years of evidence as retained specimens; (3) an expanded casework laboratory to handle 16,000 cases annually, up from the current level of 3,000; (4) a total of 70,000 property crime cases, up from the 35,000 cases to be processed in the High Sensitivity Laboratory; (5) a high-volume, high-throughput exemplar laboratory to perform DNA profiling from blood and saliva taken from suspects, elimination samples, postmortems, and for paternity testing; (6) a mitochondrial laboratory to perform DNA typing of hair samples for body identifications where regular DNA from blood and semen is unavailable; (7) an in-situ/genetics laboratory that will use DNA and biochemical testing to perform molecular autopsies; and (8) training facilities and conference rooms essential for supporting programs on proper evidence collection.

In 2004, the Office will open new medical examiner facilities in Queens and Brooklyn. The new buildings will replace aging, inadequate facilities and offer the public a dignified, accommodating environment during a time of grief and loss. The facilities will allow the OCME to improve the technical quality of forensic services offered to the criminal justice system.

In response to the threat of terrorist attacks using biological, chemical, or radiological weapons, the OCME has created a Special Operations Team for WMD events. This team includes DNA scientists, medical examiners, investigators, and other technical specialists. Team members have been trained as Hazardous Material Technicians, with some members trained in specialty areas of chemical and radiological hazards. This team will allow for a safe and comprehensive forensic investigation of fatalities from a WMD event.

Capital Review

The 2004-2007 Capital Plan totals $61.5 million for facility renovations and equipment.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Equipment	$12,051	$12,051	$44,259	$44,259	$11,320	$11,320	$1,766	$1,766	$500	$500	$5,487	$5,487
Renovation	31,985	31,985	50,560	50,560	11,714	11,714	12,632	12,632	16,600	16,600	1,513	1,513
Total	$44,036	$44,036	$94,819	$94,819	$23,034	$23,034	$14,398	$14,398	$17,100	$17,100	$ 7,000	$7,000

Highlights of the Four-Year Plan include:

- $22.5 million for the upgrade of heating, ventilation, and air conditioning (HVAC) and fire alarm systems, electrical service, plumbing, and general conditions at the Department's Public Health Laboratory facility located at 455 First Avenue.

- $7.7 million for laboratory equipment replacement.

- $5.4 million for the renovation of various health clinics.

- $3.6 million for the renovation of the Jamaica Health Center.

- $2.8 million for the renovation of the Central Harlem STD clinic.

- $2.0 million for the acquisition of the Queens and Bronx shelters for the Center for Animal Care and Control (CACC).

- $1.5 million for the construction of a free-standing mortuary at Queens Hospital.

- $1.5 million for the construction of a free-standing mortuary at Kings County Hospital.

FIRE DEPARTMENT

The Fire Department is responsible for protecting the lives and the property of the citizens of New York City while responding to fire, medical and other emergencies, and investigating building hazards. The Fire Department extinguishes fires, promotes fire prevention awareness, investigates suspicious fires, provides ambulance and emergency medical services, and inspects for building safety. The Department currently has 362 fire units that provide fire and rescue and emergency medical services, while public outreach and enforcement of New York City's fire codes promote fire prevention. The Department's Fire Marshals investigate arson cases and apprehend perpetrators. The Bureau of Emergency Medical Services (EMS), assisted by the Certified First Responder – Defibrillation (CFR-D) trained personnel responding from Engine Companies, provides pre-hospital emergency medical care and ambulance transport, where required.

Financial Review

The Fire Department's 2004 Executive Budget provides for operating expenses of $1.1 billion, a decrease of $120.5 million from the amount forecasted for 2003. This decrease is primarily due to overtime funding in 2003, and in 2004 through the elimination of eight Engine Companies, and the fifth firefighter post in 53 engine companies. In addition, fire marshal positions and full-time and part-time civilian personnel will be reduced.

Capital commitments of $48.2 million are also provided in 2004. This represents a decrease of $122.8 million or a 72 percent change from 2003 due to accelerated procurement and construction activity in 2003 primarily for apparatus replacement, the reconstruction of the Fire Academy at Randall's Island, the purchase of a new CAD (Computer Aided Dispatch) system and renovations of the five borough communications offices.

Revenue Forecast

The Fire Department issues permits and collects fees for the inspection of fire suppression and electrical systems, places of public assembly, laboratories, high-rise buildings, and the storage and use of combustible materials. In addition, the Department realizes revenues from fees charged to out-of-state fire insurers that issue policies in New York City and to private fire alarm companies. In 2004, the Department will collect $69.6 million in revenues, $13.3 million more than in 2003. The additional revenue is attributable to a proposed tax increase on out-of-state fire insurers which will increase the tax from 2% to 4% and requires State legislative approval.

The Department also collects revenue from Emergency Medical Services (EMS) ambulance transports. In 2004, revenue from Medicaid and non-Medicaid sources is projected at $95.8 million, which is $4.2 million more than in 2003. This increase in EMS revenue projections is primarily due to an increase in Medicare reimbursements and increased ambulance transport fees. In 2003, the Department contracted with a private firm to collect non-Medicaid EMS revenues on its behalf.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- an increase in the firefighter roster to strengthen response to structural fires and non-fire emergencies, such as hazardous materials spills. This increase has been accomplished by the civilianization of support and administrative positions, the redeployment of Fire Marshals to field duty, and other redeployment efficiencies.

- the hiring of 300 Probationary Firefighters in May 2003 to replace attrition and offset overtime costs in 2004.

- provide on-site emergency medical care and ambulance transport services citywide.

- re-certification (CFR-D) training for First Responder firefighters, who respond to life-threatening medical incidents citywide.

Streamlining

- the Department has redeployed 27 full duty civilian personnel who serve as EMS Battalion Aides to field duty in 2003.

- the Department will redeploy 30 Emergency Medical Technicians, now serving in administrative positions, back to field duty to reduce overtime expenditures in 2004.

- the Department will hire seven fire protection inspectors to conduct residential sprinkler inspections in 2004.

- the Department has outsourced the billing and collection of ambulance transport revenue in 2003.

- the Department has redeployed 20 Fire Safety Education Program positions to the field in 2003 and is working with the Fire Safety Education Fund to disseminate fire safety information to the public.

- the Department is retiring uniformed personnel on extended limited duty assignments through the disability retirement process.

- the Department has eliminated 185 civilian positions through early retirement and a 100% hiring freeze in administrative areas in 2003.

- an additional 75 full-time and 119 part-time civilian positions will be eliminated through layoffs. ($7.8 million)

Service Reductions

- the Department will eliminate eight engine companies in 2004, and is projecting minimal impact on emergency response times. ($10.8 million)

- the Department will eliminate the fifth firefighter on 53 engine companies in 2004. ($13.3 million)

- the Department has eliminated 59 Fire Marshals positions and redeployed 30 Fire Marshals in 2003 and will further reduce and redeploy Fire Marshal positions by 33 positions in 2004. ($1.4 million)

- the Department has eliminated the Fire Safety Cadet Program in 2003.

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$1,134,967	$1,127,848	$954,662	$1,018,091	($109,757)	$63,429
Other Than Personal Service	131,273	100,700	87,658	89,950	(10,750)	2,292
Total	$1,266,240	$1,228,548	$1,042,320	$1,108,041	($120,507)	$65,721
Funding						
City	$1,058,530	$1,111,266	$941,796	$1,007,517	($103,749)	$65,721
Other Categorical Grants	103,731	94,157	98,398	98,398	4,241	—
Capital IFA	—	—	—	—	—	—
State	1,311	1,742	1,896	1,896	154	—
Federal						
• CD	—	—	—	—	—	—
• Other	102,608	21,383	230	230	(21,153)	—
Intra-City Other	60	—	—	—	—	—
Total	$1,266,240	$1,228,548	$1,042,320	$1,108,041	($120,507)	$65,721
Personnel (includes FTEs at fiscal year-end)						
City	15,844	15,786	15,103	15,155	(631)	52
Non-City						
• IFA	—	—	—	—	—	—
• CD	—	—	—	—	—	—
• Other	10	14	14	14	—	—
Total	15,854	15,800	15,117	15,169	(631)	52

Programmatic Review

In 2003, over one half of the responses by the Department's fire companies are projected for medical and other non-fire emergencies. The Department's citywide response time to structural fires is estimated to be less than four and one half minutes in 2004. The Department anticipates that its ambulances will respond to over one million medical incidents in 2004.

Fire Extinguishment

The Fire Department currently provides fire and rescue operations via 203 Engine Companies, 143 Ladder Companies, seven Squads, five Rescue Units, three Marine Companies, and one Hazardous Materials Unit.

Emergency Medical Services

The Department provides pre-hospital medical care through the deployment of 545 daily ambulance tours. Engine Companies' personnel have received CFR-D training, and re-certification continues through 2004 for those whose initial certification will expire.

Fire Prevention and Building Safety

The Bureau of Fire Prevention is responsible for enforcing the City's Fire Code through the inspection of public and private properties, and for providing fire safety education and community outreach. The Bureau will hire 31 inspectors and support staff to focus on high-rise building inspections, overdue account inspections, residential sprinkler inspections, and conduct fire safety director examinations. The Department has proposed, subject to City Council approval, eliminating the exemption from inspection fees presently granted to charitable and not-for-profit institutions, to cover the cost of providing this service.

Fire Investigation

The Bureau of Fire Investigation is responsible for investigating and determining the cause and origin of all suspicious fires, and for the apprehension of arsonists. The Department has redeployed 89 Fire Marshals to field duty in 2003 and will redeploy an additional 33 Fire Marshals in 2004 resulting in a staffing level of 100.

Capital Review

The Capital Commitment Plan allocates $444.8 million over the next ten years. This funding will be used for the purchase of fire-fighting apparatus, support vehicles, fire suppression and emergency medical equipment, and the upgrade and replacement of computer and communications systems. It will also fund the acquisition and construction of EMS ambulance stations, and the renovation and modernization of firehouses and training facilities.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Fire Alarm Communications	15,639	15,639	15,361	15,361	2,986	2,986	881	881	634	634	622	622
Electronic Data Processing	9,658	9,658	38,168	38,168	0	0	0	0	150	150	150	150
Reconstruction/Modernization of Facilities	62,058	62,038	62,384	62,384	18,647	19,147	27,359	27,359	46,937	46,937	9,890	9,890
Vehicles and Equipment	61,729	61,729	55,118	55,118	26,056	26,056	12,228	12,228	18,321	18,321	25,280	25,280
Total	149,084	149,064	171,031	171,031	47,689	48,189	40,468	40,468	66,042	66,042	35,942	35,942

Highlights of the Ten-Year Capital Strategy and 2004 Executive Budget

- the replacement of front-line fire-fighting apparatus according to mandated replacement cycles and support vehicles and equipment ($292.4 million).
- the renovation of firehouse components such as boilers, electrical upgrades, kitchens, roofs, bathrooms, waterproofing, apparatus doors, floors, and windows ($77.1 million).
- the complete restoration of five firehouses ($24 million).
- the acquisition, design and construction of a new fleet maintenance facility in Maspeth, Queens ($34.5 million).
- the construction of two EMS ambulance stations ($9.2 million).

- the purchase and upgrade of computer equipment to support agency operations ($1.2 million).

- the purchase of new mobile radios that are compatible with the Channel 16 radio infrastructure for front-line vehicles and the purchase of communications equipment for the call box network ($6.3 million).

The 2004 Plan for the Department totals $48.2 million and highlights include:

- the replacement of front-line fire-fighting apparatus and support vehicles and equipment ($26.1 million).

- the renovation of firehouse components such as boilers, electrical upgrades, kitchens, roofs, bathrooms, waterproofing, apparatus doors, floors, and windows ($11.6 million).

- the acquisition and design of a new fleet maintenance facility in Maspeth, Queens ($7 million).

- the purchase of new mobile radios that are compatible with the Channel 16 radio infrastructure for front-line vehicles ($2 million).

DEPARTMENT OF SANITATION

As one of the oldest, largest, and most diverse public solid waste organizations in the United States, the Department of Sanitation maintains sanitary conditions and enforces sanitary compliance through the collection, management, recycling, and disposal of municipal solid waste in the City's 59 Community Districts.

Financial Review

The Department of Sanitation's 2004 Executive Budget provides for operating expenses of $962.1 million, a decrease of $44.5 million from the 2003 forecast. This decrease is primarily due to snow emergency funding in 2003, surpluses in Fresh Kills Landfill closure costs, and the impact of favorable recycling bids in 2004. The 2004 Executive Budget provides $150.0 million for capital commitments, a decrease of $19.2 million from the 2003 forecast.

Revenue Forecast

The Department of Sanitation generates revenue from privately bid contracts for the removal of abandoned vehicles from City streets and property, from concession fees on methane gas extracted from the Fresh Kills Landfill, from the sale of recycled paper and metal to private processors, and from an assortment of miscellaneous fees and minor sales. The Department's 2004 revenue estimate is $11.1 million from these sources.

Expense Budget Highlights

Streamlining

- savings of $0.6 million in uniformed overtime from the closure of the Fresh Kills Landfill.
- the Department will save approximately $5.0 million in 2004 through the layoff of both civilian and uniformed staff.
- the Department will save $3.0 million annually in labor and material costs within the Bureau of Motor Equipment as a result of reduced collection frequency.

Service Reductions

- savings of $23.6 million from refuse collection frequency reductions and the implementation of alternate week recycling, where feasible.
- the elimination of Department staffing for the State's Roosevelt Island Operating Corporation Automatic Vacuum Refuse Collection (AVAC) system ($0.5 million).
- various non-alternate side of the street cleaning programs will be eliminated ($4.0 million).
- the elimination of the self-help bulk collection sites for savings of $0.9 million.
- savings of $1.4 million in overtime from the elimination of the Supplemental Basket Collection Program.

Summary of Agency Financial Data

($000's)

			2004		Increase/(Decrease)	
	2002 Actual	2003 Forecast	Preliminary Budget	Executive Budget	2003 Forecast	2004 Preliminary Budget
Expenditures						
Personal Service	$643,404	$620,701	$574,220	$579,130	($41,571)	$4,910
Other Than Personal Service	361,624	385,915	378,288	382,973	(2,942)	4,685
Total	$1,005,028	$1,006,616	$952,508	$962,103	($44,513)	$9,595
Funding						
City	$906,116	$972,318	$924,196	$936,299	($36,019)	$12,103
Other Categorical Grants	1,848	1,819	1,600	1,600	(219)	—
Capital IFA	9,873	11,294	12,562	10,032	(1,262)	(2,530)
State	—	—	—	—	—	—
Federal						
• CD	8,824	12,013	12,000	12,022	9	22
• Other	74,666	6,932	—	—	(6,932)	—
Intra-City Other	3,701	2,240	2,150	2,150	(90)	—
Total	$1,005,028	$1,006,616	$952,508	$962,103	($44,513)	$9,595
Personnel (includes FTEs at fiscal year-end)						
City	9,747	8,502	8,618	8,566	64	(52)
Non-City						
• IFA	171	203	203	203	—	—
• CD	187	227	227	227	—	—
• Other	—	—	—	—	—	—
Total	10,105	8,932	9,048	8,996	64	(52)

Programmatic Review

The Department's main administrative and planning divisions include the Bureau of Long Term Export, Financial Management and Administration, and the Bureau of Waste Prevention, Re-use, and Recycling. The two operational divisions are the Bureau of Cleaning and Collection (BCC) and the Bureau of Waste Disposal (BWD). The Bureau of Motor Equipment (BME) and the Bureau of Building Management (BBM) provide support operations.

Long Term Solid Waste Management

On July 31, 2002 the Mayor announced changes to the City's Long Term Solid Waste Management Plan (SWMP). The plan will utilize and upgrade the Department's existing transfer station infrastructure to provide for the containerization of the City's approximate 13,000 tons of municipal solid waste (MSW) collected every day. Containerization of the City's MSW will provide the City with an environmentally sensitive approach to waste management and greater flexibility in disposal options.

The Department's Ten-Year Capital Strategy provides $545.4 million for the implementation of the City's SWMP.

Bureau of Waste Prevention, Re-use, and Recycling

The Department continues its efforts to reduce the quantity of solid waste that must be disposed. The Department currently operates a dual-stream recycling program that requires residents to place metal and paper in separate bins, bags or bundles. While the materials designated for recycling in 2003 have been reduced, the City will generate approximately $5.5 million in revenues from metal and paper commodities that are being marketed and recycled.

Pursuant to Local Law 11 of 2002, the plastic and glass components of the metal, glass and plastic (MGP) recycling stream had been suspended in 2003. Plastic is scheduled for re-introduction in 2004, and, glass, in 2005.

In 2002, the MGP processing cost was $58.73 per ton. Though in 2003, the City managed to obtain a favorable revenue bid of $30.11 per ton for metal which will generate $2.4 million. Similarly, the paper recycling program generates an average of $7.04 of revenue per ton from various vendors or $3.1 million per year. With the re-introduction of plastic scheduled for 2004, the City has again obtained a favorable revenue bid of $5.10 per ton for both the metal and plastic streams.

Due to lower recycling tonnage experienced in 2003, as a result of the temporary suspension of plastic and glass, the 2004 Executive Budget, while assuming the re-introduction of plastic recycling, also assumes a reduction in recycling collection frequency, where feasible, from weekly to alternate week collection.

Bureau of Cleaning and Collection

The Bureau of Cleaning and Collection (BCC) is primarily responsible for collecting household refuse and recyclables, cleaning city streets, and enforcing recycling regulations and portions of the City's health and administrative codes.

Currently, BCC provides refuse collection services two to three times a week depending on the population density of the community. During 2002, the Department's curbside collection program averaged 10.3 tons per truck, while, in 2003, partly because of the temporary suspension of plastic and glass recyclables, the average has been 11.0 tons per truck. In an effort to maximize collection route efficiency and reduce costs, the Department will reduce refuse collection frequency in 39 out of 59 districts and save $11.0 million.

Bureau of Waste Disposal

The Bureau of Waste Disposal (BWD) is responsible for the receipt, transfer, transportation, and final disposal of approximately 13,000 daily tons of residential and institutional waste through its waste export contracts.

BWD is also responsible for the Fresh Kills landfill closure activities. The Financial Plan includes funds for closure activities including final capping of the landfill, leachate treatment and control, methane gas collection and flaring, maintenance and security of the site and waterways, and environmental monitoring.

Support Bureaus

The Bureau of Motor Equipment (BME) provides services related to the acquisition, repair, and maintenance of the Department's motor equipment including collection trucks, street sweepers, salt spreaders, cranes, tractors, and other vehicles and equipment. BME operates an extensive repair and maintenance facility to ensure that equipment is available to implement the Department's operational functions. This Bureau researches and develops equipment specifications to improve productivity, vehicle design, and to take advantage of alternative fuel vehicles.

The Bureau of Building Maintenance continues to provide facility management services. BBM provides maintenance and emergency repair work for the Department's 204 facilities.

Capital Review

The Department's 2004-2013 Ten-Year Capital Strategy totals approximately $2.3 billion. The Ten-Year Capital Strategy provides the Department with funding to construct, rehabilitate, purchase, and develop the necessary infrastructure and assets to support refuse collection, recycling, cleaning, waste disposal, and support operations. The Department's Ten-Year Capital Strategy consists of three major components – garage construction and rehabilitation, transfer stations renovation and construction, and vehicle purchases. These three major programs represent 94.8 percent of the total 2004-2013 Ten-Year Capital Strategy.

The Department supports its collection and cleaning operations through its garage program. The garage program will be developed to complement the size of the Department's fleet and work force. Garages and facilities will be constructed and rehabilitated in all five boroughs. The Department has also embarked on the renovation and the construction of eight transfer stations, six marine and two land-based, in accordance with the Long Term Solid Waste Management Plan. These facilities will enable the City to export its refuse via barge or rail. The Department continues to replace vehicles, in accordance with established life cycles, including collection trucks, dual bin trucks, mechanical brooms, and salt spreaders in order to support operations.

Capital Commitments
($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Bureau of Waste Disposal	37,276	37,276	1,178	1,178	-10,903	-4,653	1,629	1,629	12,500	12,500	10,000	10,000
Solid Waste Management Plan	21,864	21,864	13,396	13,396	58,637	58,637	487,664	487,664	0	0	0	0
Garages	61,040	61,040	134,716	134,716	29,449	29,449	120,626	120,626	124,750	124,750	115,200	115,200
Equipment	96,222	96,222	19,876	19,876	59,567	66,567	34,394	34,394	65,447	65,447	80,231	80,231
TOTAL	216,402	216,402	169,166	169,166	136,750	150,000	644,313	644,313	202,697	202,697	205,431	205,431

Highlights of the 2004-2013 Ten-Year Capital Strategy and 2004 Executive Capital Plan

- construction and rehabilitation of garages ($789.7 million), including Queens District 14 Garage ($30.1 million); Brooklyn Districts 13/15 Garage ($65.0 million) and 3/3A Garage ($47.3 million); Manhattan Districts 1/2/5 ($54.6 million), 6/8/8A Garage ($118.3 million), and 4/4A/7 Garage ($43.8 million).

- construction and renovation of eight Transfer Stations in accordance with the Long Term Solid Waste Management Plan ($545.4 million).

- replacement of vehicles ($821.1 million), including collection trucks ($498.4 million), mechanical brooms ($103.7 million), and salt spreaders ($55.8 million) in accordance with established replacement cycles.

The 2004 Plan provides $150.0 million including:

- design and consultant services necessary for the Transfer Stations program ($42.0 million).

- replacement of collection trucks ($39.0 million), mechanical brooms ($9.8 million) and salt spreaders ($4.6 million) in accordance with established replacement cycles.

- construction of Queens District 14 Garage ($10.0 million).
- demolition of the existing and design of the replacement for Manhattan District 6/8/8A Garage ($8.4 million).
- construction of salt sheds, citywide ($3.2 million).

DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation maintains one of the oldest and most extensive municipal park systems in the country. The Department maintains 28,633 acres of developed, natural, and undeveloped parkland, which constitutes 13.9 percent of the City's landmass. The municipal park system includes 614 turf ball fields, 550 tennis courts, 33 outdoor swimming pools, 10 indoor swimming pools, 38 recreation centers, 14 miles of beaches, 13 golf courses, six ice rinks, four stadia, and three zoos. The Department is also responsible for the care and cultivation of approximately 2.5 million park and street trees.

Financial Review

The 2004 Executive Budget for the Department provides for operating expenses of $183 million, which represents a net decrease of $78.9 million from the amount forecasted in 2003. This decrease is primarily due to 2003 funding for the Parks Opportunity Program (POP) initiative and grants.

Capital commitments for 2004 of $154.3 million are also provided, a decrease of $251.4 million from the 2003 capital plan of $405.7 million. This decrease is primarily attributable to planned commitments in 2003 for the construction of Hudson River Park, 8th Avenue Columbus Circle, Brooklyn Bridge Park, the reconstruction of East River Park and Yankee and Shea Stadia.

Revenue Forecast

The Department of Parks and Recreation issues recreational permits, collects revenue from stadium rentals, and receives revenue generated by concessions operated on Parks property. In 2004, the Department will collect $64.0 million from these sources, compared to $59.2 million in 2003. One component of the increase is the collection of back-rent from the New York Mets professional baseball franchise as the result of an audit by the City Comptroller. In addition, the Department expects to collect additional revenue from park concessions.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- maintaining the level of acceptable ratings for the cleanliness and overall condition of parks.
- maintaining the City's parks, playgrounds, infrastructure, and safety equipment.
- operating pools and beaches, employing lifeguards at beaches, and providing instructional and recreational programs.
- developing artistic, athletic and academic skills for children at recreational centers and playgrounds.

Service Reductions

- savings of $6.0 million from not hiring 1,155 seasonal park maintenance and recreational workers which will impact park, beach and pool cleanliness, operation of water fountains, recreational programs and require the closing of comfort stations.
- elimination of $1.2 million in Forestry Pruning Contracts that will limit tree pruning functions to emergency conditions.
- elimination of the City's subsidy to the Wildlife Conservation Society for operating the Prospect Zoo and Queens Wildlife Center ($5.8 million).

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$214,844	$211,819	$149,258	$143,288	($68,531)	($5,970)
Other Than Personal Service	55,897	50,198	43,818	39,751	(10,447)	(4,067)
Total	$270,741	$262,017	$193,076	$183,039	($78,978)	($10,037)
Funding						
City	$169,045	$159,379	$154,747	$144,710	($14,669)	($10,037)
Other Categorical Grants	6,367	2,930	—	—	(2,930)	—
Capital IFA	14,851	16,246	16,246	16,246	—	—
State	580	898	—	—	(898)	—
Federal						
• CD	5,483	6,292	5,764	5,764	(528)	—
• Other	1,801	2,027	—	—	(2,027)	—
Intra-City Other	72,615	74,245	16,319	16,319	(57,926)	—
Total	$270,741	$262,017	$193,076	$183,039	($78,978)	($10,037)
Personnel (includes FTEs at fiscal year-end)						
City	6,323	5,789	3,008	2,811	(2,978)	(197)
Non-City						
• IFA	287	395	406	395	—	(11)
• CD	102	129	131	130	1	(1)
• Other	23	21	—	—	(21)	—
Total	6,735	6,334	3,545	3,336	(2,998)	(209)

Programmatic Review

During this period of fiscal austerity the Parks Department will continue to explore innovative approaches to provide for safe and clean recreational space. To that end the Department will build upon past successes in establishing private and public partnerships to assist in parkland maintenance.

Maintaining Parks

Due to the City's fiscal position, the Department of Parks and Recreation will be pressured to optimize its reduced manpower resources in order to maintain cleanliness in all parks and playgrounds citywide. In 2004 the Department will absorb a 41% reduction in seasonal employees, a key component of the Department's workforce responsible for maintaining park cleanliness.

As a cost cutting measure the Parks Department will continue to accelerate the reconstruction of asphalt or barren athletic fields, converting them to fields carpeted with synthetic turf. This initiative, known as the "Green Acres" program, maximizes recreational use of the fields, which can then sustain year-round play. Furthermore, the program reduces maintenance costs by eliminating the need to mow, weed, fertilize or seed, thus allowing the Department to shift resources to other facilities or programs.

In addition to cleanliness, the Department places an equal emphasis on beautification. With funding from the City Parks Foundation and in partnership with the Brooklyn Botanic Garden, the Department enrolled 19 of its gardeners and assistant gardeners in a special horticulture course. The Department envisions that these gardeners will impart this newly acquired knowledge to other field employees thus enhancing the skills of its workforce.

Expanding Public-Private Partnerships

The Department of Parks and Recreation continues to explore a variety of opportunities to increase resources for specific programmatic allocation. In the past, the Department has received support for capital projects, maintenance and programming from non-profit partners like the Central Park Conservancy, the City Parks Foundation, the Prospect Park Alliance, and the Friends of Van Cortland and Pelham Bay Park. Additionally, through its Partnership for Parks and other volunteer programs, the Department was successful in enlisting 66,000 individuals to contribute nearly 400,000 volunteer hours.

The Department is expanding its partnerships to include corporate sponsors to support maintenance and operations, and recreation programs. For example, the Department has formed partnerships with organizations such as Met Life, which has agreed to adopt five greenstreets in Queensboro Plaza.

Recreational Services

In an effort to promote cultural, recreational, and academic enrichment, the Department offers free after-school programs in 33 recreation centers citywide, serving 7,000 children between 3:00 pm and 9:00 pm, from September through June. All after-school programs offer educational and recreational activities for children between the ages of six and seventeen years and provide a safe-haven where participants can learn and play.

Capital Review

The Four-Year Plan totals $377.4 million, including $21 million of non-city funding. The table below shows capital commitments by program area over the 2004 - 2007 period.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Beaches and Boardwalks . .	1,576	1,576	1,193	1,193	427	427	500	500	1000	1000	700	700
Land Acquisition and Tree Planting.	9,277	9,277	41,087	42,975	3,875	3,875	5,237	5,237	14,454	14,454	15,569	15,569
Major Recreation Facilties	8,567	8,567	46,592	48,311	8,619	8,818	107	107	1,414	4,072	1,441	1,441
Neighborhood Parks and Playgrounds	52,523	53,200	76,193	85,662	18,289	20,809	11,228	11,228	28,048	28,048	16,834	16,834
Vehicles, Equipment and Facility Reconstruction . .	16,132	16,132	20,555	21,018	6,700	7,587	6,485	6,485	17,792	17,792	10,516	10,516
Large, Major and Regional Park Reconstruction	77,413	79,528	153,915	197,291	94,211	108,675	16,918	16,918	52,142	52,142	16,648	16,948
Zoos	774	774	9,280	9,280	4,128	4,128	0	0	3,079	3,079	0	0
TOTAL	166,262	169,055	348,815	405,730	136,249	154,319	40,475	40,475	117,929	120,587	61,708	62,008

Highlights of the Four-Year Capital Strategy and the 2004 Executive Budget

- reconstruction and replacement of safety surfaces, play equipment and paths ($40.7 million).
- planting an average of 11,000 street trees per year ($23.7 million).
- reconstruction of bridges within parks ($17.9 million).
- rehabilitation of stadia ($9.4 million).
- replacement and upgrade of computer, information technology and communication systems ($4.9 million).
- reconstruction of pools ($4.2 million).
- reconstruction of roofs ($12 million).
- replacement of boilers ($3.7 million).
- reconstruction and rehabilitation of park buildings ($3.7 million).
- Hudson River Park ($37.5 million).

The 2004 Plan for the Department totals $154.3 million and highlights include:

- reconstruction and replacement of safety surfaces, play equipment and paths ($3.6 million).
- rehabilitation of stadia ($9.1 million).
- reconstruction of roofs ($2 million).
- Hudson River Park ($27.5 million).
- reconstruction of neighborhood parks and playgrounds ($20.8 million).
- construction of Charleston Park ($6.3 million).

DEPARTMENT OF ENVIRONMENTAL PROTECTION

The major functions of the Department of Environmental Protection (DEP) include the collection, storage and delivery of the City's water; the conveyance and treatment of stormwater and sanitary flow; the enforcement of air, noise and water use regulations; water use billing, revenue collection and customer service; the management of environmental issues and natural resource protection; and the construction and reconstruction of the related infrastructure. The City is reimbursed for the costs of operating the water and sewer system by the New York City Water Board (the "Water Board") and the Department's capital program is financed through the New York City Municipal Water Finance Authority (the "Water Authority").

Financial Review

The Department of Environmental Protection's 2004 Executive Budget provides $726.0 million in operating expenses, a decrease of $50.9 million from the amount forecast for 2003. It also provides capital commitments of $1.9 billion in Water Finance Authority Funds, $0.4 million in City Funds and $25.0 million in State funds.

Revenue Forecast

The Department collects revenue from environmental quality permits, the sale of hydro-energy to upstate power utilities, property rentals, summonses adjudicated before the Environmental Control Board (ECB), and other fees. The revenue estimate for 2004 is $60.5 million. In addition, DEP also gathers the data used to generate bills for customers and collects water and sewer fees for the New York City Water Board. DEP projects approximately $1.69 billion in water and sewer bill collections for 2004.

The Bureau of Environmental Compliance, which regulates air, noise and hazardous materials, performs inspections, issues licenses and permits, and reviews technical plans related to asbestos control, air quality, and noise abatement laws. The Bureau will collect $9.7 million from these sources in 2004. The Environmental Control Board will collect $48.0 million in 2004, $3.0 million more than 2003. The additional revenue is attributable to a fine increase for sanitation code violations.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- supplying on average 1.3 billion gallons per day of drinking water to eight million City residents and one million upstate residents. Approximately 1,780 personnel and $262.7 million are dedicated to this function.

- collecting and treating approximately 1.2 billion gallons of dry-weather sewage per day. Approximately 2,230 personnel and $290.4 million are dedicated to this function.

- enforcing the City's air and noise codes, responding to hazardous materials emergencies, and adjudicating environmental violations through the Environmental Control Board. Approximately 290 personnel and $25.4 million are dedicated to this function.

- new funding of $5.0 million per year over the next four years will be provided for new and/or continued water filtration avoidance programs.

- the Department will continue to enhance its environmental health and safety programs by adding $3.0 million in recurring expenses. DEP will reallocate 18 new positions to the central Office of Environmental

Health and Safety, one new position to the Bureau of Legal Affairs, eight new positions to the Bureau of Wastewater Treatment and nine new positions to the Bureau of Water and Sewer Operations. This brings total recurring expenses for DEP's environmental health and safety program to $7.8 million, including 100 positions.

- the Department will continue to enhance its watershed police due to increased security concerns by adding $222,500 in baseline OTPS funding bringing baseline OTPS funding to $768,000 plus an additional $502,500 for 2004 only. The personnel cost is $7.6 million which is comprised of 219 budgeted police positions including 198 environmental police officers.

Productivity and Restructuring Initiatives

- the Department will contract out for sewer dragging services in the areas of Canal Street in Manhattan, Zerega Avenue in the Bronx and Knickerbocker Avenue in Brooklyn to alleviate the accumulation of debris and silt ($0.5 million in 2004 and $1.1 million in 2005).

- the Department will continue to contract out for various services and repairs at its wastewater treatment plants. This includes emergency generators, diesel generators, relay and meters, slip loss recovery controls for main sewage pumps, auto samplers, fire alarm systems, bailey control systems, odor control system and miscellaneous mechanical engineer repairs ($2.0 million).

- the Department will continue to contract out for the annual and five year inspection of Chemical Bulk Storage (CBS) and maintenance of Petroleum Bulk Storage (PBS) tanks at its wastewater treatment plants. The Department will also reallocate two engineers to handle the execution and administration of the cited contracts ($0.8 million).

- DEP will contract out water audits of large city owned buildings, including municipal hospitals. This will help New York City to conserve water ($1.0 million).

- DEP will contract for improvements to its water and sewer computer billing system ($2.0 million).

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$320,147	$329,278	$326,636	$333,588	$4,310	$6,952
Other Than Personal Service	348,059	447,549	369,807	392,396	(55,153)	22,589
Total	$668,206	$776,827	$696,443	$725,984	($50,843)	$29,541
Funding						
City	$627,142	$663,665	$658,649	$688,258	$24,593	$29,609
Other Categorical Grants	—	—	—	—	—	—
Capital IFA	32,754	37,302	37,302	36,702	(600)	(600)
State	285	3,024	—	—	(3,024)	—
Federal						
• CD	—	—	—	—	—	—
• Other	7,533	72,344	—	—	(72,344)	—
Intra-City Other	492	492	492	1,024	532	532
Total	$668,206	$776,827	$696,443	$725,984	($50,843)	$29,541
Personnel (includes FTEs at fiscal year-end)						
City	387	402	401	402	—	1
Non-City						
• IFA	712	799	799	784	(15)	(15)
• CD	—	—	—	—	—	—
• Other	4,781	5,107	5,092	5,165	58	73
Total	5,880	6,308	6,292	6,351	43	59

Programmatic Review

Water Supply Strategies

The New York City Water System consists of 18 collecting reservoirs and three control lakes located within the 2,000 square miles of the Croton, Catskill and Delaware watersheds. The Croton Watershed provides 10% of the City's water supply and is located approximately 45 miles north of the City in Westchester and Putnam Counties. The Catskill Watershed provides 40% of the City's water supply and is located 100 miles north of the City in the central and eastern portions of the Catskill Mountains. The Delaware Watershed provides 50% of the City's Water Supply and is located approximately 125 miles north of the City along the branches of the Delaware River.

A renewed water Filtration Avoidance Determination (FAD) for the City's Catskill and Delaware water supplies was issued by the United States Environmental Protection Agency (USEPA) on November 26, 2002. The renewed FAD, which provides the City with an additional five year water filtration waiver, is based on DEP's ongoing long-term watershed protection program and will continue funding for programs that have been particularly effective and enhance or modify certain programs where needed. Additionally, the new FAD also requires DEP to build an ultraviolet light disinfection facility to disinfect Catskill and Delaware water.

DEP will also continue to address environmental health and safety issues within the Bureau of Water Supply and the Bureau of Water and Sewer Operations. The Bureau of Water Supply's Health and Safety Office, which is fully budgeted at 26 positions, will enhance its health and safety program by developing policies and procedures and designing and implementing numerous training modules addressing wide array of health and safety concerns. The Bureau of Water and Sewer Operations' Environmental Health and Safety Office, which will also be engaged in developing and implementing policies and training programs, will add nine positions to fully budget 24 positions within the auditing, health and safety, training and environmental engineering sections of its office.

In addition, DEP will continue to address security concerns by providing the Watershed Police with increased baseline funding in addition to the one time funding increase for 2004. These funds will be used to purchase specialized equipment and vehicles, and to expand training efforts to deal with potential watershed security concerns.

Wastewater Treatment Initiatives

The City's 14 Wastewater Treatment Plants play a crucial role in the City's efforts to improve water quality. These facilities treat about 1.2 billion gallons of wastewater from homes, businesses, schools, and streets in the five boroughs everyday. These plants treat captured sewage to the standards established by State and Federal laws and regulations for the discharge into the City's receiving waters. This not only ensures environmental compliance with applicable laws and regulations but also ensures maintenance of exceptional quality of life standards for communities.

The renegotiated federal consent order governing the disposal of the City's dewatered sludge (or biosolids) allows the City to replace its prior management program with an improved and more cost-effective program. Beginning in 1999, under the new program, DEP's biosolids disposal strategy has realized annual cost savings of approximately $45 million while obtaining greater environmental benefits through increased recycling or reuse. The Department will continue this successful program in 2004, with 100 percent of its dewatered sludge beneficially used at a projected cost of approximately $50 million.

According to a recent Harbor Survey issued by the Department, water quality in New York Harbor and its surrounding rivers continues to improve. The Harbor Survey has provided ongoing monitoring of water quality at 53 sampling stations since 1909. For example, coliform bacterial counts, which are indicators of sewage pollution, have continued to decline and, since 1993, compliance with New York State standards continues at the highest levels recorded by this program. Improvements have also been realized in the measure of dissolved oxygen (DO) in the City's surrounding waters. DO is a universal indicator of overall water quality in aquatic systems and its concentrations in most areas of the Harbor have been notably higher throughout the 1990s than in the prior decade. These improvements are primarily in response to the following Department initiatives: continued wastewater treatment plant (WWTP) reconstruction and upgrades throughout the City; the abatement of illegal discharges; improved surveillance and sewer maintenance; decreased water consumption, and increased capture of wet weather flows.

DEP will also continue to address environmental health and safety issues within the Bureau of Wastewater Treatment, by expediting the development and implementation of programs that prevent violations of environmental laws, and employee health and safety laws. This Bureau's Safety and Health programs are fully budgeted at 30 positions including eight positions that will be added in 2004.

Customer Services Programs

As required by the NYS Department of Environmental Conservation and the NYC Water Board, the Department is progressing towards its goal of universally metering all properties. The major goals of universal metering include water conservation, improved water supply system management and rate equity. The Department services approximately 828,000 water and sewer customer accounts, of which 54,000 are un-metered and 774,000 are metered accounts. Of the metered accounts, DEP bills 737,000 for water and sewer services based on metered consumption and 37,000 on an annual flat-rate system. These 37,000 accounts are receiving a flat rate during a transition period which allows owners to install water saving devices and conduct water leak audits. Owners of 18,000 properties that still have not taken steps to have meters installed are billed surcharges added to their annual flat rate bills.

The Department's outreach program continues to offer communities an opportunity to have local meetings during which customers can speak directly with customer service representatives about their water and sewer bills, have inspections performed and billing adjustments made, and learn about water conservation. DEP has improved convenience for customers paying their water and sewer bills by entering into an agreement with privately operated Neighborhood Payment Centers (NPCs). Customers can make payments by cash, check, or money order at over 400 NPCs.

DEP has enhanced the capabilities of its Interactive Voice Response (IVR) system so that customers now hear key information about their accounts including current balance due, payment received, and data from their last meter reading. In addition, customers may now view current water and sewer charges, make payments and view bills for the last year on the City's NYCServe Website.

The Department's conservation programs will also conduct 25,000 annual surveys for water leaks on customers' properties and supply low-flow showerheads and faucet aerators at no cost to its customers. Where leaks are detected and promptly corrected, customers may qualify for a "forgiveness" program that reduces increased charges caused by the leaks. The program was recently expanded to service both residential and commercial properties.

Environmental Compliance

The Bureau of Environmental Compliance staff of 136 positions with $9.8 million in funding responds to hazardous material emergencies, maintains a Citywide database of facilities containing hazardous materials under its Right-to-Know Program (RTK), monitors emissions and environmental impacts from alternative fuel vehicles, reviews and inspects asbestos abatement projects, investigates air quality and noise complaints, maintains four air monitoring stations on Staten Island, and assists environmental economic development.

The Asbestos Control Program (ACP) staff of approximately 40 positions with $2.0 million in funding works on numerous tasks including the certification of asbestos handlers, telephone response service to contractors and the public, laboratory analysis of asbestos materials, and inspections of asbestos remediation projects. ACP also inspects the cleanup of parks containing soil and dust contaminated by lead-based paint (LBP) from nearby bridges.

Capital Review

Overview

In total, the Ten-Year Capital Strategy provides $16.5 billion from the following sources: $16.2 billion in Water Finance Authority Funds; $21.1 million in City Funds; and $272.6 million in State funds. A major revision of DEP's Ten-Year Capital Strategy has been completed, increasing the funding for the program by $8.6 billion from the Preliminary Ten-Year Plan. The water and sewer system is currently facing significant increases in the estimated costs of mandate compliance and improvements to its water supply system. This Capital Plan for the City's water and sewer system seeks to balance necessary investment in this vital service with as moderate an impact on City water and sewer ratepayers as can be achieved.

The major elements of the Ten-Year Capital Strategy include:

- designing and commencing construction of the Kensico to City Tunnel, a 16 mile long tunnel from the Kensico Reservoir in Westchester County to the Van Cortlandt Park Valve Chamber in the Bronx, bypassing the Hillview Reservoir that will provide redundancy for the sections of the Catskill and Delaware Aqueducts that run from the Kensico Reservoir to the City ($1.7 billion).

- constructing the Croton Water Filtration Plant ($1.4 billion).

- designing and constructing alternate water supplies to be used by the City during drought situations, repairs and inspections of existing aqueducts and tunnels, and to augment the City's daily water supply ($1.2 billion).

- replacing and extending approximately 527 miles of trunk and distribution water mains ($1.2 billion).

- extending and reconstructing approximately 481 miles of sewers ($1.3 billion).

- continuing construction of Stage Two of City Tunnel Number 3 for $833.0 million. Work on this stage of tunnel construction will be in Queens and Manhattan.

- designing and constructing an ultra-violet light water disinfection plant for water from the Catskill and Delaware Watersheds ($588.0 million). This facility along with other elements of the FAD will enable DEP to avoid having to construct a conventional filtration plant estimated to cost between $4.0 billion and $6.0 billion.

- allocating $504.6 million for the design and reconstruction of upstate dams, including $210.0 million for the reconstruction of the Gilboa Dam in the Catskill Watershed.

- allocating $139.0 million for the continuation of certain existing programs under the 1997 Watershed Memorandum of Agreement and commencing new programs specified under the renewed FAD.

- continued upgrading to secondary treatment of the Newtown Creek Wastewater Treatment Plant (WWTP) ($1.5 billion).

- ensuring compliance with mandated permit requirements by stabilizing in-City WWTPs, including: Bowery Bay WWTP ($300.0 million), Hunts Point WWTP ($430.0 million), Jamaica WWTP ($190.3 million), North River WWTP ($230.0 million), Red Hook WWTP ($80.0 million), Rockaway WWTP ($100.0 million), Staten Island-Port Richmond & Oakwood Beach WWTP ($150.0 million), Tallman Island WWTP ($289.9 million), Ward's Island WWTP ($535.0 million), and 26th Ward WWTP ($390.0 million).

- implementing initiatives that address water quality problems attributable to combined sewer overflow (CSO) discharges into the City's surrounding waterways during rainstorms. These include an estimated $200 million in New York State funds, as part of the Clean Water/Clean Air Bond Act of 1996, for various water quality improvement projects that are included in the Ten-Year Plan ($803.6 million).

Major projects scheduled for 2004 include:

- extending and replacing 58 miles of in-city water mains ($135.1 million).

- extending and reconstructing 34 miles of sewers ($192.9 million).

- commencing the construction of an ultra-violet light facility to treat Catskill and Delaware water supply sources ($40.0 million).

- designing alternate water supplies to be used by the City during drought situations, repairs and inspections of existing aqueducts and tunnels and to augment the City's daily water supply ($40.0 million).

- designing and reconstructing several upstate dams in the Catskill and Croton Watersheds ($60.1 million).

- continuing the upstate land purchase program which will protect environmentally sensitive land around the City's reservoirs ($20.0 million).

- upgrading portions of the Newtown Creek Wastewater Treatment Facility ($651.0 million).

- stabilizing in-City wastewater treatment facilities including: Bowery Bay ($35.0 million), Jamaica ($140.3 million), Tallman Island ($14.9 million), Wards Island ($35.0 million), and 26th Ward ($75.0 million).

- planning of the Use and Standard Attainment project to address a wide range of water quality and habitat issues that are essential to the Department's effort of meeting the goals of the Clean Water Act in the most cost-efficient method possible ($25.0 million).

The table below shows capital commitments by program area over the 2002-2007 period.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Water Pollution	834,895	834,895	823,273	881,135	1,161,628	1,186,628	1,058,123	1,083,123	652,675	677,675	79,800	104,800
Water Mains	504,303	504,303	664,802	668,594	392,238	392,238	607,801	607,801	654,958	654,958	986,386	986,386
Sewers	231,319	231,378	287,754	289,288	192,911	192,923	129,929	129,929	91,824	91,824	124,000	124,000
Water Supply	138,139	138,139	108,143	108,143	71,071	71,071	178,100	178,100	327,000	327,000	114,500	114,500
Equipment	116,405	239,944	164,099	164,099	82,079	82,079	103,778	176,341	30,063	30,063	56,732	56,732
Total	1,825,061	1,948,659	2,048,071	2,111,259	1,899,927	1,924,939	2,077,731	2,175,294	1,756,520	1,781,520	1,361,418	1,386,418

The 2004-2013 Capital Strategy provides $16.5 billion in funding. The major elements of the Ten-Year Plan are described below in the context of the four major program areas.

Water Supply

DEP provides water for consumption and fire fighting in the City, and in many upstate communities, by maintaining 18 reservoirs and three controlled lakes in three watersheds, with a storage capacity of about 550 billion gallons. A network of three aqueducts, three City water tunnels, and 106,312 hydrants, 94,358 valves and 6,794 miles of water mains are or will be used to convey water from upstate to provide water within the City and to several upstate communities.

Over the next 10 years, DEP will balance its focus between water pollution control and water supply. As of the 2002 Capital Budget, DEP forecasted 64 percent of its capital funding towards water pollution control and 36 percent towards water supply. Within this Ten-Year Plan, DEP has allocated 51 percent of its capital funds to water supply and 49 percent to water pollution control. The Ten-Year Plan provides approximately $8.1 billion for the protection and upkeep of the City's source water supply and water distribution systems, of which $3.3 billion is scheduled for the first four years. The highlights of this Ten-Year Plan include the initiation of the construction of the Kensico to City Tunnel, Water Conveyance Measures, the Croton Filtration Plant, the Catskill/Delaware Ultraviolet Light Water Disinfection Facility, Stages One and Two of City Tunnel Number 3, the replacement and construction of distribution water mains and trunks and various improvements to the water supply system upstate.

Within this Ten-Year Plan, DEP provides $1.7 billion for the construction of the Kensico to City Tunnel, including $65.0 million over the next four years. The Kensico to City Tunnel will be a 16 mile long tunnel from the Kensico Reservoir to the Van Cortlandt Park Valve Chamber, bypassing the Hillview Reservoir. This tunnel will provide redundancy for the sections of the Catskill and Delaware Aqueducts that run from the Kensico Reservoir to the City.

The Ten-Year Plan also includes $1.2 billion for Water Conveyance Measures, including $140.0 million over the next four years. This program will research and develop alternate water supplies for the City in order to provide more dependability within the Water System. The alternate water supplies could be used during drought situations, repairs and inspections of existing aqueducts and tunnels and to augment the City's daily water supply.

The Ten-Year Plan forecasts $1.4 billion for the construction of the Croton Filtration Plant, including $956.6 million over the next four years. The construction of the Croton Filtration Plant at the Mosholu Golf Course in the Bronx has been delayed due to the February 2001, New York State Court of Appeals ruling stating that the City must receive New York State legislative approval before construction can begin on the parkland. DEP is currently seeking legislative approval and weighing alternative options including designing a smaller facility.

DEP also forecasts $1.6 billion within this Ten-Year Plan for improvements to the watershed upstate, including $1.2 billion over the next four years. This includes the continuation of the Filtration Avoidance Measures totaling $139.0 million and the construction of an Ultraviolet Light Water Disinfection Facility for Catskill and Delaware totaling $588.0 million.

The Ten-Year Plan provides $833.0 million for the completion of Stage Two of City Tunnel No. 3, including $313.0 million over the next four years. The bulk of this amount will be committed towards the construction of Shaft sites 24B through 30B on the west side of Manhattan at a cost of $607.0 million and the construction of the shaft sites on the east side of Manhattan at a cost of $150.0 million.

Sewers

DEP operates and maintains over 6,400 miles of sanitary, storm and combined sewers. Approximately 70 percent of the existing system is composed of combined sewers that carry both storm and wastewater to the City's 14 wastewater treatment plants for treatment. The sewage collection system, which is divided into 14 drainage areas, also includes 131,243 catch basins and approximately 5,000 seepage basins to prevent flooding and sewer backups. The Ten-Year Capital Plan allocates a total of $1.3 billion for the replacement, construction and expansion of the City's sewer system to improve the collection and transport of storm and wastewater. DEP will commit $538.6 million of this Ten Year Plan in the first four years.

The Ten-Year Plan provides $33.7 million for the programmatic replacement and reconstruction of deteriorating sewers citywide. Approximately $17.0 million is scheduled for the replacement and augmentation of sewers to enhance capacity where required by population increases and economic development projects.

Approximately $530.0 million is allocated for the replacement of sewers experiencing chronic malfunctions that may cause flooding or potential health hazards. Of this, DEP will commit $241.0 million in the first four years of this plan. DEP will continue to extend the sewer system into new areas that are currently underserved, primarily in Queens and Staten Island, for $725.0 million in the next ten years, including $263.0 million in the first four years of the plan.

For 2004, the plan forecasts $97.7 million in spending for the replacement of chronically failing components, including $9.5 million for the reconstruction of catch basins throughout the City. The 2004 plan also forecasts $87.1 million in spending for extensions to accommodate new development in 2004, including $19.0 million for storm and sanitary sewer extensions in Gateway Estates, Brooklyn.

Wastewater Treatment

DEP's Bureau of Wastewater Treatment operates 14 wastewater treatment plants (WWTPs), one storm-overflow retention facility, 89 wastewater pumping stations, nine laboratories, eight sludge dewatering facilities and three inner-harbor sludge transport vessels. On average each day, these facilities treat approximately 1.3 billion gallons of dry-weather sewage and handle approximately 1,200 wet-tons of sludge. The Ten-Year Plan for wastewater treatment projects is $6.5 billion, including $200.0 million of State funds. The Four-Year Plan for wastewater treatment projects is $3.0 billion, including $100.0 million of State funds.

The Ten-Year Plan includes $1.8 billion for consent decree upgrading and construction projects for water pollution control facilities. The largest of these projects is $1.5 billion for the continued upgrade of the Newtown Creek WWTP to provide full secondary treatment ($2.4 billion total cost). The Department will also complete certain work at the Owls Head WWTP ($75.0 million), and Coney Island WWTP ($60.0 million). The Four-Year Plan includes $1.3 billion in funding with $651.0 million forecasted in 2004 for the Newtown Creek upgrade.

The Ten-Year Plan has scheduled $2.7 billion for the stabilization of in-City wastewater treatment facilities that are in need of system-wide reconstruction to ensure their continued compliance with mandated permit requirements into the future. These facilities include the Bowery Bay, Hunts Point, Jamaica, North River, Red Hook, Rockaway, Staten Island-Port Richmond and Oakwood Beach, Tallman Island, Wards Island, and 26th Ward WWTPs. The Four-Year Plan includes $985.3 million for plant stabilization projects. The 2004 Capital Commitment Plan includes: $35.0 million for improvements at Bowery Bay, $140.3 million for improvements in Jamaica, $14.9 million for improvements at the Tallman Island, $35.0 million for the improvement at the Ward's Island and $75.0 million for the 26th Ward Island.

The Ten-Year Plan allocates $1.1 billion for the reconstruction of wastewater pumping stations, regulators, tide gates, and force mains. The System's 89 pumping stations are used to convey wastewater over long distances, to drain low-lying areas, and to lift flows to WWTPs. In addition, the Ten-Year Plan allocates funds for the reconstruction or replacement of individual components at DEP's wastewater treatment facilities required for continued reliable operations. These components encompass valves, pumps, boilers, generators and other mechanical equipment. The Four-Year Plan includes $403.0 million for this function including $71.0 million forecasted in 2004 for improvements for plant upgrading and reconstruction.

Portions of the City's water bodies have been identified as having significant water quality impacts in part from combined sewer overflow (CSO) discharges. The Ten-Year Plan provides $803.6 million for the study, design and implementation of CSO abatement projects that includes the following: Flushing Bay, Paerdegat Basin, Use and Standard Attainment Project, Residual Chlorine Reduction, Hunts Point, Alley Creek, Jamaica Bay (26th Ward), and the Gowanus Canal. These include $200.0 million that the Department is forecasting in State funds, as part of the Clean Water/Clean Air Bond Act of 1996, for various water quality improvement projects. The Four-Year Plan provides $297.4 million in total funding for various water quality improvement projects. The

2004 Capital Commitment Plan consists of: $7.2 million for the continued construction of the Flushing Bay CSO Tank and $25.0 million for the planning of the Use and Standard Attainment project addressing a wide range of water quality and habitat issues.

Equipment

The Ten-Year Plan totals $567.9 million for this category that is funded as follows: $21.1 million in City General Obligation funding, $72.6 million in State funds, and $474.2 million in Water Authority funding. Within the first four years, DEP will commit $345.2 million that is funded as follows: $21.1 million in City General Obligation funding, $72.6 million in State funds, and $251.5 million in Water Authority Funding. The plan includes the remediation of closed landfills, water meter installation, facility purchase and reconstruction and the relocation of utility gas mains for sewer and water projects and the purchase of vehicles and computer equipment.

DEP will continue upgrading and consolidating its facilities over this Ten-Year Plan for a cost of $157.8 million. DEP will commit $107.3 million in the next four years. This will include the construction of the Clove Rd. Consolidated Maintenance Facility for Water & Sewer Operations in Staten Island, for $30.5 million and the upgrade of DEP's East 38th St. Water & Sewer Operations Maintenance Facility in Manhattan for $15.6 million.

DEP will continue to remediate certain landfills previously operated by the Department of Sanitation. As a result of past illegal dumping which occurred at these sites, they have been placed on the State list of inactive hazardous waste sites. DEP will supervise the remediation of Brookfield Avenue Landfill, which will require a cap, gas collection and disposal system and stormwater management system. Remediation scheduled for 2005 will cost $93.6 million, of which $20.7 million will be funded by City G.O. funds and $72.6 million funded by State funds.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation (DOT) maintains, operates and reconstructs City bridges, maintains and resurfaces streets and arterial highways within the five boroughs, plans and funds street reconstruction, manages the streetlighting system and traffic signal network, maintains and collects revenue from parking meters, operates parking facilities, helps regulate traffic flow, coordinates transportation planning, oversees subsidized bus and private ferry operations, manages street use franchises, and operates the Staten Island Ferry.

Financial Review

The Department's 2004 Executive Budget provides for operating expenses of $475.7 million, a decrease of $65.2 million from the amount forecast for 2003. This decrease is primarily the result of Federal and State grants expiring at the end of 2003. A number of these grants are expected to be renewed during 2004. Capital commitments of almost $1.2 billion are also provided for 2004, including $343.0 million in Federal and State funding.

Revenue Forecast

The Department of Transportation collects revenue from parking meters and garages, franchises, concessions, and street opening permits. In 2004, the Department will collect $181.8 million in revenue, $14.0 million more than in 2003. The increase is attributable to the expansion of the Commercial Parking Program.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- approximately $51.9 million to energize all streetlights and traffic signals throughout the City, including approximately $11.0 million for the maintenance of the electrical distribution systems connecting streetlights and signals.

- over $35.4 million in 2004 for the operation of the Staten Island Ferry and private ferry service.

- approximately $65.3 million for the resurfacing of 695 lane miles of streets and the repair of approximately 100,000 street defects (potholes).

- funding of $21.1 million for the maintenance of over 11,300 traffic signalized intersections and $20.5 million for the maintenance of over 333,600 streetlights, citywide.

- over $14.2 million for the preventive maintenance, cleaning, and painting of City bridges.

- approximately $11.5 million in 2004 for the maintenance and cleaning of arterial highways located throughout the five boroughs.

- an allocation of approximately $11.2 million to repair hazardous, or potentially hazardous safety and structural conditions on bridges.

Service Reductions

- a reduction of $7.2 million and 68 positions (23 full-time, 45 seasonals) due to a decrease of 100 lane miles resurfaced annually by in-house resurfacing crews.

- a savings of $2.4 million, as well as a reduction of 32 positions, by eliminating the fourth boat from the Staten Island Ferry rush hour schedule, thereby adjusting the rush hour schedule from every 15 minutes to every 20 minutes.

- a reduction of $531,000 in the bridge preventive maintenance program due to the reduction in bridge debris removal and sweeping.

- a savings of $227,000 will be achieved by reducing overtime for pothole repair and other street operations.

Streamlining

- a savings of $4.9 million in maintenance and energy costs resulting from the installation of energy efficient Light Emitting Diodes (LEDs) in all five boroughs.

- a reduction of $1.7 million and 54 positions for the Parking and Red Light Camera Programs, without impacting revenues or services.

- a savings of $739,978 in 2004 will be achieved through extending the maturation period for Seasonal Assistant City Highway Repairers from five seasons to seven seasons before they become full time personnel in the street resurfacing program.

- a reduction of $307,046 as a result of furloughing 19 street resurfacing personnel (four motor grader operators and 15 gas roller engineers) during the winter to reflect reduced street resurfacing operations in the winter months.

Restructuring

- a savings of almost $8.0 million in operating subsidies to the franchise bus program resulting from increasing the express bus fare from $3 to $4, keeping in line with the express fare charged by MTA-NYCT.

- an increase of $4.0 million and 111 positions for the expansion of the Commercial Parking Program to improve traffic flow, resulting in an increase of $11.7 million in revenue.

- a savings of $1.2 million due to a revision in the bridge spot painting program schedule and a reduction in graffiti removal on bridges.

- a savings of $1.1 million annually and 16 positions as a result of contracting out overnight Staten Island Ferry service.

- the consolidation of arterial maintenance yards will result in a savings of $545,961 and the elimination of 13 positions.

- a decrease of $324,000 and 10 positions as a result of the reconfiguration of staff caused by the current elimination of vehicle transport on the Staten Island Ferry due to security restrictions.

- a decrease of $250,000 in 2003 and $500,000 in 2004 due to efficiencies obtained by employing a "third party administrator" to handle and settle insurance claims against the City's Subsidized Franchise Bus operators.

- a reduction of five positions in the Field Inspection and Audit Team unit will result in a savings of $231,087.

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$255,467	$258,251	$227,764	$221,437	($36,814)	($6,327)
Other Than Personal Service	259,620	282,683	263,365	254,260	(28,423)	(9,105)
Total	$515,087	$540,934	$491,129	$475,697	($65,237)	($15,432)
Funding						
City	$277,098	$286,462	$291,016	$281,797	($4,665)	($9,219)
Other Categorical Grants	1,253	1,651	—	—	(1,651)	—
Capital IFA	89,276	92,059	95,846	90,336	(1,723)	(5,510)
State	49,891	57,635	29,940	34,048	(23,587)	4,108
Federal						
• CD	69	602	87	87	(515)	—
• Other	41,655	39,879	11,924	11,924	(27,955)	—
Intra-City Other	55,844	62,646	62,316	57,505	(5,141)	(4,811)
Total	$515,087	$540,934	$491,129	$475,697	($65,237)	($15,432)
Personnel (includes FTEs at fiscal year-end)						
City	2,320	1,977	2,217	1,992	15	(225)
Non-City						
• IFA	1,021	1,315	1,333	1,277	(38)	(56)
• CD	—	2	2	2	—	—
• Other	1,231	1,436	848	921	(515)	73
Total	4,572	4,730	4,400	4,192	(538)	(208)

Programmatic Review

Bridges

The Bureau of Bridges is responsible for the reconstruction, repair, maintenance and operation of approximately 800 bridge and tunnel structures. In 2004, the Bureau of Bridges will be staffed with 803 positions and have an operating budget of $56.7 million, a decrease of $7.7 million from the amount forecast for 2003. This decrease is primarily the result of Federal and State grants expiring at the end of 2003 and reductions in bridge preventive maintenance and painting. A number of the remaining grants are expected to be renewed during 2004.

The Bridge program in the 2004 Executive Budget continues the City's commitment to preserve and maintain its infrastructure. The Bridge "Flag" Repair program corrects structural and safety deficiencies on bridges by using both in-house and contract forces. The Executive Budget provides $16.7 million in 2004 for the "Flag" and Corrective Repair programs. Of that amount, approximately $3.0 million is provided for contracts to help reduce the backlog of "yellow" and "safety" flags and to keep current on all new occurrences of "red" flags. The in-house staff of over 175 positions for "flag" and corrective repair has been maintained at current levels. Flag Repair is also performed by the Department's Capital Budget contractors doing large-scale reconstruction work on the East River Bridges and other bridges. As a result of these combined strategies, the more serious "red" flags are treated expeditiously.

The preservation of the City's infrastructure remains a high priority. The Preventive Maintenance program will have a workforce of 207 positions for the oiling, sweeping, cleaning, washing, electrical maintenance and spot and salt splash zone painting of the City's bridges. Operating in conjunction with the expense-funded program, the Capital Budget also funds large-scale bridge protective coating programs.

To complement the City's commitment to the Bridges program, the Federal government will continue to pay for preventive maintenance on the Manhattan, Williamsburg, Queensboro and Brooklyn Bridges while these four bridges are under capital reconstruction.

This continuing commitment to the City's Bridges program, in conjunction with a Ten-Year Capital Plan of approximately $4.5 billion, will result in an extensive bridge system in good condition, with lower future capital reconstruction costs, fewer emergency repairs, and a more cost effective maintenance and repair program.

Highway Operations

The Street and Arterial Maintenance Division is responsible for maintaining approximately 5,700 linear miles of streets and arterial highways within the five boroughs. The Permits Management and Construction Control programs are responsible for regulating the excavation and various other uses of City streets and sidewalks. In 2004, these operations will be staffed by 951 full-time and over 200 seasonal positions with a budget totaling $100.1 million, a decrease of $12.6 million from the amount forecast for 2003. This decrease is primarily the result of Federal and State grants expiring at the end of 2003. A number of the remaining grants are expected to be renewed during 2004.

The City continues to devote significant resources to its in-house and contract resurfacing programs, with 208 linear miles (695 lane miles) to be resurfaced in 2003, a decrease of 30 linear miles (100 lane miles) over the amount resurfaced in 2002. The City also intends to repair approximately 100,000 small street defects in 2004, in addition to other street defects addressed in the street resurfacing program. Currently, over 82.4 percent of the City's 5,700 linear miles of street surfaces are rated in good condition.

In an effort to maintain the arterial highways within the City and increase community participation, the Department will continue its successful Adopt-a-Highway Program, whereby sponsors may adopt up to 362 miles of highway and contribute funding for the cleaning and maintenance of the roadside. In conjunction with City and private funding, the Department also utilizes State aid to perform both road maintenance and safety repair activities. Currently, the Department annually cleans and maintains 1,175 lane miles of arterial highway and 2,525 acres of landscaped areas and shoulders with a staff of approximately 350.

Traffic Operations

The Bureau of Traffic Operations maintains and collects revenue from approximately 73,000 metered spaces, operates 55 municipal parking facilities, and installs and maintains approximately 1.2 million traffic signs, approximately 11,300 signalized intersections, and over 333,600 streetlights. The 2004 Executive Budget provides for 1,084 positions and $175.6 million, a decrease of $25.7 million from the amount forecast for 2003. As with the Highway Operations budget, this decrease is a result of Federal and State grants expiring at the end of 2003. A number of these grants are expected to be renewed during 2004. The 2004 Executive Budget includes $41.6 million for the continued maintenance of streetlights and traffic signals.

The Red Light Camera program is designed to promote safe, responsible driving by photographing and fining vehicles "running" red lights. To further enhance the effectiveness of the Red Light Camera program, DOT installed over 200 dummy and spare red light cameras at various intersections throughout the City. As drivers become aware of the operation of a red light camera at an intersection, the number of drivers "running" a red light at that intersection declines. DOT has begun rotating red light cameras among various locations to maximize the benefits of the program.

The Bureau is proceeding with a contract to collect traffic safety data on the City's 1,359 elementary and middle schools. Under this contract, DOT has preliminarily identified the 135 schools with the greatest traffic safety risks and will develop recommendations for these schools. In addition to this effort, DOT has commenced $10 million of Engineering Services contracts that will allow DOT to address unforeseen traffic safety issues elsewhere in a timely and cost-effective manner.

The Bureau is expanding the successful Commercial Parking Program in the central business core of Manhattan. The initial program has alleviated traffic congestion in midtown by creating expanded traffic corridors, reducing double parking, improving timely parking space turnover, and expediting cross-town traffic flow.

Transit Operations

The Passenger Transport Division operates and maintains the Staten Island Ferry and its terminals, regulates private ferry operations, provides school bus service for disabled pre-kindergarten children, and manages the subsidized franchise bus program. The 2004 Executive Budget provides for 510 positions and an operating budget of $97.6 million, a decrease of $15.0 million from the 2003 forecast. This decrease is primarily the result of Federal and State grants expiring at the end of 2003. A number of the remaining grants are expected to be renewed during 2004. In addition, the Passenger Transport Division will provide oversight for expenditures of over $190 million in subsidies to the franchised bus program, including $50.4 million in State subsidies.

The Staten Island Ferry is expected to carry approximately 19.9 million passengers and the Department anticipates that the Ferry program will achieve an on-time performance rate of 98 percent. As a result of heightened security stemming from the WTC disaster, vehicles are not currently allowed on the Staten Island Ferry. Prior to September 11, 2001, over eight million passengers per year were transported on privately operated commuter ferries. Since that time, the Division estimates that ridership has increased to approximately 15 million passengers per year.

The Passenger Transport Division also manages the operating contracts, provides financial management and operating assistance, and administers the capital program for the subsidized franchise bus program. The program, which includes seven bus operators, provides local and express service in areas not covered by New York City Transit's bus network. This system is expected to carry approximately 100 million passengers in 2004. In addition, the City is currently managing and monitoring selected private express bus service to southern Staten Island.

The compounded effects of the World Trade Center disaster, the economic recession and a recent strike, which lasted about seven weeks in the summer of 2002, has had significant negative effects on franchise bus ridership. Ridership on the subsidized franchise buses has decreased approximately 12 percent as compared to the prior year, as opposed to a five-year average increase of over seven percent on NYCT buses.

The City currently owns two bus depots, located in College Point, Queens and in Southeast Brooklyn, that are equipped to fuel and maintain Compressed Natural Gas (CNG) buses. Currently, 356 out of 1,289 buses are fueled by Compressed Natural Gas (CNG).

The City is currently negotiating with the Metropolitan Transportation Authority (MTA) with the goal of transferring the franchise bus services to the MTA.

Capital Review

The Department's 2004-2013 Ten-Year Capital Commitment Plan totals $8.2 billion for the reconstruction of transportation infrastructure, of which approximately 80 percent is City-funded. The table below shows commitments by program area over the 2002-2007 period.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Highways and Streets	$15,076	$15,020	$250,107	$286,633	$247,522	$315,529	$222,779	$265,423	$297,801	$327,759	$252,865	$289,879
Highway Bridges	12,882	12,882	257,180	306,013	286,951	325,205	370,937	425,437	212,355	395,110	308,782	308,782
Waterway Bridges	4,559	4,680	192,922	264,252	171,449	199,413	223,523	263,041	50,375	50,375	212,301	322,301
Traffic	16,304	23,664	24,331	75,451	58,056	116,534	12,925	31,735	36,492	54,872	11,856	30,359
Vehicles/Equipment	263	263	32,777	33,017	15,588	15,588	15,100	15,100	6,120	6,120	5,000	5,000
Ferries	2,000	2,000	35,986	120,657	10,350	17,650	9,500	9,500	7,500	7,500	8,500	8,500
Franchise Transit	0	0	1,098	2,955	18,210	161,189	1,623	19,760	3,148	29,023	2,875	30,938
Total	$51,084	$58,509	$794,401	$1,088,978	$808,126	$1,151,108	$856,387	$1,029,996	$613,791	$870,759	$802,179	$995,759

While some projects have been delayed or reduced due to fiscal constraints, the 2004-2013 Plan provides $8.2 billion. Major highlights include:

- the continued reconstruction/rehabilitation of the four East River Bridges and the complete reconstruction/rehabilitation of 190 other bridge structures. The Plan also includes programs to resurface bridge decks, replace expansion joints and other bridge components, and apply protective coating treatments to prolong the useful life of City bridges ($4.5 billion, including $2.3 billion in 2004-2007).

- the reconstruction and/or resurfacing of approximately 2,307.9 linear miles (7,677.7 lane miles) of City streets to maintain and improve their condition. In addition it provides for the installation of pedestrian ramps at 51,629 corners to increase accessibility for the disabled, and the reconstruction of 46.2 million square feet of sidewalk to reduce defects ($2.8 billion, including $1.2 billion in 2004-2007).

- the modernization and expanded computerization of the City's traffic signal network to improve traffic flow, the upgrade of the streetlighting system, the installation of pavement markings, and the reconstruction of municipal parking facilities ($509.9 million, including $233.5 million in 2004-2007).

- the reconstruction and improvement of various ferry vessels and facilities, including the continued construction at the Whitehall and St. George Ferry Terminals and the construction of three next generation Kennedy Class ferry vessels ($82.0 million, including $43.2 million in 2004-2007).

- the purchase of CNG and diesel-fueled buses, equipment and the rehabilitation of bus facilities for the City's subsidized franchise transit program ($240.9 million, all in 2004-2007).

- the replacement of vehicles for field forces and the upgrading of computer equipment ($71.8 million, including $41.8 million in 2004-2007).

Bridges

The Ten-Year Plan for the Bureau of Bridges totals almost $4.5 billion, of which 76 percent is City-funded. The plan includes $833.3 million for the reconstruction of the East River Bridges, including $278.3 million for the reconstruction of the Brooklyn Bridge, $336.9 million for the Manhattan Bridge, $23.0 million for the Williamsburg Bridge and $195.1 million for the Queensboro Bridge. The Ten-Year Plan will complete the major reconstruction of all four East River Bridges.

In the four year period (2004-2007), the Bridge Program totals $2.3 billion, of which 80 percent is City-funded. The Four-Year Plan provides $473.7 million for reconstruction of the East River Bridges, including $101.5 million for the reconstruction of the Brooklyn Bridge, $198.4 million for the Manhattan Bridge and $171.0 million for the Queensboro Bridge. The Four-Year Plan will address all major work necessary to complete the infrastructure rehabilitation of all four East River Bridges.

Another $1.4 billion is provided in the Four-Year Plan to reconstruct six "poor" and 45 "fair" bridge structures, including the Willis Avenue Bridge over Harlem River, the Hamilton Avenue Bridge over the Gowanus Canal and four of the Belt Parkway bridges. The Bridge Life Extension program, designed to address the capital needs of bridges before total capital reconstruction becomes necessary, will rehabilitate 27 bridge structures, at a total cost of over $352.1 million. All bridge structures currently rated "poor" will be committed for reconstruction by 2007. In addition, $50.8 million is provided to apply protective coating treatments to various highway and waterway bridges to preserve and enhance their condition.

The 2004 Capital Plan for Bridges totals $524.6 million, including $162.5 million for the protective coating and reconstruction of the Queensboro Bridge. Additionally, the Plan includes $268.3 million for the reconstruction of "fair" rated bridge structures, including the 145th Street Bridge over the Harlem River and the Metropolitan Avenue Bridge over English Kills.

Highways

The Ten-Year Plan for Highways totals $2.8 billion of which 94 percent is City-funded. The Plan provides $1.5 billion for street reconstruction of 223.9 linear miles (734.1 lane miles), and $808.3 million for street and arterial resurfacing of 2,084.0 linear miles (6,943.6 lane miles). The Plan also provides $150.7 million for the installation of pedestrian ramps at 51,629 corners. Another $331.5 million is allocated for the replacement of over 46.2 million square feet of sidewalks, citywide.

The Four-Year Plan for the Bureau of Highways totals $1.2 billion, of which 85 percent is City-funded. The Plan provides $609.0 million for street reconstruction of 101.8 linear miles (336.4 lane miles), and $317.3 million for street and arterial resurfacing of 833.6 linear miles (2,777.4 lane miles). A total of $121.6 million in Federal funds will be provided to reconstruct 14.8 linear miles (101.9 lane miles) of streets in the World Trade Center area. The Plan also provides $82.4 million for the installation of pedestrian ramps at 32,473 corners. Another $157.5 million is allocated for the replacement of over 21.5 million square feet of sidewalks, citywide.

The 2004 Capital Plan for Highways totals $315.5 million and includes $251.8 million for the reconstruction or resurfacing 239.5 linear miles (799.1 lane miles) of streets, including streets in the Rosedale section of Queens, streets in the Frederick Douglass Circle area of Manhattan, and Seguine Avenue in Staten Island. Funds are also provided for constructing a second asphalt plant in order to realize savings in asphalt purchasing contracts as well as to avoid costs to dispose of asphalt millings.

Traffic

The Ten-Year Plan provides a total of $509.9 million for construction projects supporting Traffic Operations. Of this amount, approximately 57 percent is City-funded. This Plan includes $212.4 million for the maintenance, installation and computerization of the City's traffic signals and $116.8 million for the maintenance and installation of streetlights. Additionally, the Plan includes $107.9 million for streetlight and signal projects implemented in conjunction with the highway and bridge reconstruction program and $14.3 million for the installation of pavement markings in conjunction with the in-house highway resurfacing program. The Plan also includes $38.1 million for the replacement of electrical distribution systems and $20.5 million for the reconstruction of City-owned parking facilities and the purchase of parking meters.

The Four-Year Plan for Traffic totals $233.5 million, of which 51 percent is City-funded. The Plan provides $113.6 million for signal installations and maintenance, as well as the computerization and modernization of signalized intersections to improve the flow of traffic. The Plan includes $43.0 million for the upgrade and replacement of lampposts and luminaires for lighting and safety, $37.1 million for signal and streetlight work associated with the highway and bridge reconstruction programs, $5.6 million for the installation of approximately 16 million linear feet of thermoplastic markings for traffic control in conjunction with the in-house resurfacing program, and $14.9 million for the replacement of 165,000 linear feet of electrical distribution systems along the City's streets. In addition, the Plan includes $19.4 million for the rehabilitation of five municipal parking garages and nine parking lots and the purchase of over 18,000 parking meters.

The 2004 Capital Plan for Traffic totals $116.5 million. This includes $18.7 million for the installation of signals at roughly 220 intersections. Additionally, the Plan includes $40.4 million for the final phase of the Traffic Operations Program to Increase Capacity and Safety (TOPICS) IV initiative – which will connect 2,200 signalized intersections to DOT's signal control system in order to improve traffic flow and control in the outer boroughs.

Transit

The Ten-Year Plan for Passenger Transport totals $322.9 million, including $82.0 million for Ferries and $240.9 million for Franchise Transit. The Plan for Ferries, which is 91 percent City-funded, includes $57.4 million for the reconstruction or replacement of ferry boats, including $6.9 million for the continued construction of the next generation Kennedy Class boats and $10 million for the design of the next generation Barberi Class boats. This is in addition to $120 million in contracts registered in 2002 for the next generation Kennedy Class boats, which are expected to be completed during 2004-2005. The Plan also includes $24.6 million for ferry terminal and facility upgrades, including $22.5 million for the completion of reconstruction work at St. George and Whitehall and $2.1 million for ferry maintenance facility improvements.

The Four-Year Plan for Ferries, which is 83 percent City-funded, includes $27.4 million for the reconstruction or replacement of ferry boats and $14.8 million for ferry terminal improvements. The 2004 Capital Plan for Ferries totals $17.7 million, including $6.9 million for next generation Kennedy Class construction contract change orders.

The Ten-Year Plan for the Franchise Transit program, of which 11 percent is City-funded, provides $227.8 million for the purchase and inspection of approximately 600 diesel and 130 Compressed Natural Gas (CNG) buses. Additionally, the Plan provides $9.4 million for the construction and improvement of bus facilities, including $4.3 million for the construction of a vehicle emissions lab and $2.8 million for the design of a bus facility in Queens, and $3.8 million for other bus-related projects and miscellaneous equipment. All projects are scheduled during the Four-Year plan period (2004-2007).

The 2004 Capital Plan for the Franchise Transit program totals $161.2 million, including $150.7 million for the scheduled purchase and inspection of over 320 diesel and 80 CNG buses, in accordance with Local Law 6 which mandates that 20 percent of all new bus purchases should be alternative fuel vehicles, $2.6 million for an Automatic Vehicle Location and Control (AVLC) System pilot program on the Q60 local bus route in Queens and $1.2 million for bus stop signs.

HOUSING PRESERVATION AND DEVELOPMENT

The Department of Housing Preservation and Development (HPD) is responsible for the preservation, rehabilitation and expansion of New York City's housing stock. HPD serves as a catalyst for private investment in communities with the greatest need. As reflected in the 2004 Executive Budget, the agency will work towards the preservation and development of affordable housing through direct investment and the provision of loans and other forms of financial assistance. The agency will also continue to enforce compliance with housing quality standards and maximize neighborhood ownership and management of housing by soliciting local participation in its disposition and development programs. The Office of Housing Operations and the Office of Development manage the majority of HPD's programs.

The primary responsibility of the Office of Housing Operations is the maintenance of tenant occupied, privately owned and City owned (*in rem*) buildings. This Office is also charged with addressing emergency repairs where necessary. Through its six divisions, this Office also enforces the City's Housing Maintenance Code, assists owners in correcting dangerous code violations and provides emergency shelter for households displaced as a result of fire or emergency vacate orders. Within this office, the Division of Anti-Abandonment works to prevent the abandonment and consequent City ownership of distressed buildings. The Division of Alternative Management Programs designs initiatives to return buildings that are currently in City ownership to responsible private owners. The Division of Tenant Resources also provides low income families with housing made affordable through the use of Federal Section 8 vouchers and certificates that subsidize monthly rental payments.

The Office of Development, through its three divisions, provides affordable housing opportunities by promoting the construction of new homes and apartments on formerly City owned vacant land and by reconstructing and selling vacant and occupied buildings. Through various neighborhood initiatives and homeownership programs, the Division of Homeownership helps build new homes, making HPD the most prolific developer of affordable housing in the nation. In order to encourage private construction, rehabilitation, and economic development, the Division of Housing Finance provides loans for multifamily housing development and uses a variety of tools, including tax incentive programs, low interest loans, and Low Income Housing Tax Credit allotments. The Office also includes the Division of Special Needs Housing which administers the Supportive Housing Loan Program.

The Office of Legal Affairs, the Office of the Special Counsel, the Office of Community Partnerships and the Office of Planning and Intergovernmental Affairs provide support for the above programs.

Financial Review

The 2004 Executive Budget for HPD provides $403 million for operating expenses as compared to $449 million in 2003, a decrease of $46 million. Of the total operating expenses, $116 million is for personal services and the remaining $287 million is for other than personal services. Concurrently, the Four Year Plan allocates $1.25 billion in capital to the City's housing programs over the period 2004-2007.

Revenue Forecast

HPD collects revenue from residential and commercial tenants occupying *in rem* buildings and from the sale of *in rem* buildings back to the private sector. HPD also collects fees for processing tax abatement and exemption applications, multiple dwelling registrations, document searches, and administrative costs. Revenues generated by the Department will be $39.4 million in 2004, $23.9 million less than the amount for 2003. The 2004 decrease is primarily attributable to non-recurring revenue from negotiated land sales and the one time collection of application fees in 2003. Additional decreases reflect reductions in *in rem* rental income due to the disposition of *in rem* units to the private sector.

Expense Budget Highlights

Providing Core Services

The agency will maintain its core services in 2004 including *in rem* property management, housing maintenance code enforcement, development of new affordable housing, and preservation of privately owned housing.

- HPD continues to maintain services for the City's stock of occupied *in rem* dwelling units, including emergency repairs, fuel, utilities, and handypersons.

- Community Development Block Grant (CDBG) funding is maintained for HPD's Emergency Repair Program (ERP) to remove hazardous conditions in private buildings where landlords have been negligent in correcting violations detrimental to the life, health and safety of tenants.

- HPD administers a portion of New York City's allotment of Federal Section 8 subsidies to eligible New Yorkers. Over $140 million worth of subsidies, serving 25,000 households, are planned in 2004. HPD achieved some tax levy savings by contributing Section 8 administrative fees towards the agency's fringe benefits.

- HPD currently provides funding for contracts with many community organizations that provide tenant organizing, landlord training, housing court assistance and housing education. Due to citywide operating reductions, these contracts have been reduced or eliminated in 2004.

- several City funded areas of operation support HPD's programmatic divisions, including legal services, human resources, fiscal, development, administrative support and technical services. Since January 2002, HPD has reduced its City funded headcount by 49. These reductions are the result of early retirement, attrition, funding shifts and layoffs.

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$119,460	$123,001	$117,601	$116,055	($6,946)	($1,546)
Other Than Personal Service	288,323	325,875	248,315	285,934	(39,941)	37,619
Total	$407,783	$448,876	$365,916	$401,989	($46,887)	$36,073
Funding						
City	$88,004	$62,857	$55,501	$56,234	($6,623)	$733
Other Categorical Grants	1,370	2,233	—	—	(2,233)	—
Capital IFA	12,223	13,069	15,069	14,619	1,550	(450)
State	858	877	877	877	—	—
Federal						
• CD	121,644	160,545	146,799	144,799	(15,746)	(2,000)
• Other	170,913	196,942	138,124	175,914	(21,028)	37,790
Intra-City Other	12,770	12,353	9,546	9,546	(2,807)	—
Total	$407,783	$448,876	$365,916	$401,989	($46,887)	$36,073
Personnel (includes FTEs at fiscal year-end)						
City	604	620	611	583	(37)	(28)
Non-City						
• IFA	249	288	288	278	(10)	(10)
• CD	1,253	1,453	1,333	1,331	(122)	(2)
• Other	466	465	464	463	(2)	(1)
Total	2,572	2,826	2,696	2,655	(171)	(41)

HPD's budgeted headcount of 2,568 positions is funded at $116 million, $27 million of which is City funds. Funding for other than personal services amounts to $287 million, $30 million of which is City funds.

Programmatic Review

Housing Operations

The Division of Alternative Management Programs (DAMP) promotes the rehabilitation, management and ownership of occupied City owned buildings by tenant, not-for-profit, and for-profit housing organizations. DAMP also administers the Article 7A Program, which manages and funds necessary repairs for privately owned buildings that have been all but abandoned.

The Division of Property Services manages City owned (*in rem*) residential and commercial properties until they can be returned to responsible private ownership. In 2004, the Division will maintain an average of approximately 4,600 *in rem* residential units in occupied multiple dwellings and one- and two-family homes. In addition, within Property Services, the Division of Anti-Abandonment (DAA) identifies, monitors and recommends treatment plans for distressed buildings. DAA also coordinates several stages of the "Third Party

Transfer” process, which will convey approximately 2,539 units in tax delinquent buildings to responsible new owners between 2004 and 2007. DAA also oversees the work of Neighborhood Preservation Consultants. Within the division, the Emergency Housing Services Bureau provides emergency housing for victims of fires and other disasters.

The Division of Enforcement Services enforces compliance with the City’s Housing Maintenance Code and the New York State Multiple Dwelling Law and responds to complaints concerning possible housing violations such as the lack of heat, water or electricity. In addition, this division is budgeted at $8 million in capital and expense funds to seal and demolish vacant and unsafe buildings. The Division of Maintenance, within Enforcement Services, performs emergency repairs in privately owned buildings in response to emergency violations (including lead paint) issued by code inspectors if the landlord fails to perform the repair. The Division also coordinates major repairs and contracts for improvements in City owned buildings, including lead hazard violation remediation.

The Division of Tenant Resources develops and coordinates programs designed to enhance the economic self sufficiency of tenants of City owned and City assisted housing. This Division also provides permanent housing assistance to households that have been displaced by fires or emergency vacate orders. The Rent Subsidies unit provides low income families with housing made affordable through the use of Federal Section 8 certificates and vouchers that subsidize monthly rental payments.

The Division of Housing Supervision is responsible for the regulation of 141 Mitchell-Lama rental and co-op housing companies with approximately 60,000 apartments. Housing Supervision is also responsible for administering the Senior Citizens Rent Increase Exemption program for 4,500 households in City and State Mitchell-Lamas.

The Division of Architecture, Construction and Engineering (DACE) reviews the contract documents of private architects to ensure conformance to HPD standards and to all zoning and building codes. DACE also monitors ongoing construction work to ensure conformity to contract documents, construction techniques and codes.

Development

The Office of Development is responsible for HPD’s housing production functions. Its Division of Homeownership promotes the construction of new homes and apartments on formerly vacant City owned land. Activity for 2004 includes the construction of over 1,037 units in new one- to three-family homes, multiple dwellings and mixed use multiple dwellings. These owner occupied housing units will be built on City owned land with City capital subsidies for construction and associated costs. Through the Alliance for Neighborhood Commerce, Home Ownership and Revitalization (ANCHOR), HPD combines retail development along targeted commercial corridors with new housing construction to generate economic activity and provide neighborhood services in revived residential communities. HPD will also continue the development of long term, large scale projects for both homeowners and rental tenants in selected neighborhoods in Brooklyn, the Bronx, Manhattan and Queens from 2004 through 2007.

The Office of Development’s Division of Housing Finance administers multifamily and small building disposition and loan programs. Through these programs, vacant City owned buildings are rehabilitated and returned to the private housing market. The Division of Special Needs Housing is also responsible for the Supportive Housing Program, which from 2004-2007 will produce approximately 1,604 units of supportive housing for mentally ill and low income New Yorkers.

Capital Review

The 2004-2007 Four Year Capital Plan for HPD is $1.25 billion, including $903 million in City funding and $350 million in other, primarily Federal, funds. The agency continues to use its City capital sources to leverage State and Federal funds as well as substantial private equity (which does not flow through the City's capital budget). The Four Year Plan reflects the City's continuing commitment to affordable housing by funding the creation and preservation of units in City owned and privately owned buildings.

New Initiatives

Through HPD's newest initiative, known as "The New Housing Marketplace," several programs have been created and existing programs expanded to provide an array of housing options. In five years, from 2004 to 2008, New Housing Marketplace capital programs (described below) will provide close to $1 billion to support the development of over 30,000 affordable housing units. In addition, the redirection of City and Federal funding to targeted neighborhood renewal and HPD's maintenance of effort commitment of $2 billion in capital and expense funds will create or preserve thousands more units for a total plan of $3 billion and 65,000 units over the next five years.

The City's Housing Development Corporation (HDC) will invest $500 million in the development of 12,500 units. Low cost financing and, in some cases, direct subsidies will provide for construction of multifamily rental and cooperative housing for low and moderate income households. In addition, HDC will contribute to substantial rehabilitation, residential conversion, and preservation of Mitchell-Lama and other affordable housing assets.

A total of $107 million will fund an expansion of the supportive housing network, incorporating units large enough for families, as well as units for singles; addressing youth aging out of foster care; and developing pilot homeownership plans for formerly homeless families. Over 2,000 units will benefit these low income households.

Through the New Venture Incentive program, $200 million will be used to provide pre-development subsidies for acquisition, environmental review, remediation, and site clearance, which, because of their cost, often preclude private investment. These funds will enable the construction of 10,000 units by private developers. Capital funding is also dedicated to the recently created New Partners program, which allocates $20 million to rehabilitate approximately 500 residential units that have been kept off the market for want of low cost financing.

Furthermore, as part of the new initiative, $36 million in Federal funds will be used to assist first time homebuyers with downpayments and other closing costs through the HomeFirst Downpayment Assistance Program and the Employer Assisted Housing Program (3,500 units). Finally, $27 million in Low Income Housing Tax Credits will be utilized to develop 2,670 units of affordable housing.

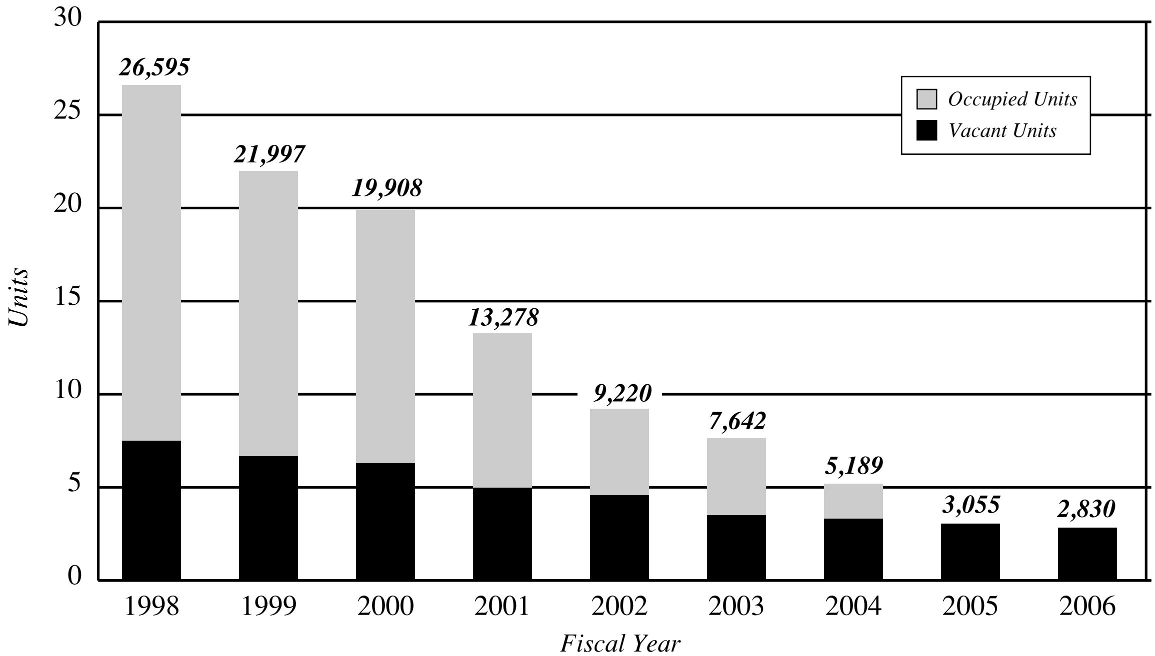
Ongoing Programs

Under the Four Year Plan, the City will continue to pursue the "Building Blocks!" strategy: the rehabilitation and sale of *in rem* residential buildings to responsible private owners, including tenant cooperatives, not-for-profit organizations, and local entrepreneurs. A total of $626 million ($412 million in City funds) is provided to fund the occupied *in rem* programs under this strategy, namely TIL, NRP, NEP, and Neighborhood Homes. HPD will also continue to return vacant buildings to the private sector under the StoreWorks program. Through the use of asset sales and the tax exemption certificate program, HPD will be able to transfer additional housing units to the private sector.

The table and chart below summarize the progress of the *in rem* disposition program from FY98 through the Four Year Plan.

HPD *IN REM* DISPOSITION PROGRAM HISTORY

There were 44,000 *in rem* dwelling units in FY94, when HPD initiated most of its current *In Rem* Disposition programs. The chart below shows remaining units by fiscal year and includes commercial units.



Concurrently, the City will enhance its efforts to prevent abandonment of privately owned buildings and forestall their entry into City ownership by investing a total of $492 million ($378 million in City funds) in programs providing financial and technical assistance to private landlords. The City will combine its current loan programs, such as Participation Loan (PLP), Article 7A (7A), Article 8A (8A), Small Homes Private (SHP), Home Improvement (HIP), and Senior Citizen Home Assistance (SCHAP), with the more recent Housing Preservation program. The Housing Preservation program, also referred to as Third Party Transfer, will allow tax delinquent property to be transferred to responsible new owners without the City taking title in the interim.

The Four Year Plan also includes funds for new construction projects to promote homeownership to families at various income levels. Neighborhood Based Initiatives and the Nehemiah program provide for the construction of one- to three-family homes. These programs form the basis for the new construction projects being built in conjunction with large scale neighborhood redevelopment programs in Brooklyn, the Bronx, Manhattan and Queens.

The table below shows capital commitments by Ten Year Plan category over the 2004-2007 period, including actual commitments for 2002.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Occupied *In-Rem* Rehab/ Privatization	$175,596	$262,691	$97,364	$168,131	$99,969	$145,846	$113,919	$198,698	$134,729	$205,147	$56,578	$69,924
Vacant *In-Rem* Rehab	3,352	3,559	6,344	6,344	2,366	2,366	0	0	0	0	0	0
New Construction	12,457	12,457	18,054	28,253	28,253	45,298	11,475	17,475	10,000	10,000	79,000	95,000
Neighborhood Initiatives	13,320	13,320	15,053	15,053	15,329	15,329	11,173	12,573	9,702	9,702	26,881	26,881
Assistance to Private Owners	102,828	133,508	73,116	112,430	58,572	129,814	70,403	131,455	112,677	142,260	142,770	186,770
Other Housing Support Investment	12,952	12,952	16,860	16,860	11,249	11,249	8,398	8,398	4,975	4,975	11,157	11,157
Total	$320,505	$438,487	$226,791	$343,147	$215,738	$349,902	$215,368	$368,599	$272,083	$372,084	$316,386	$389,732

The $1.25 billion Four Year Plan emphasizes the following goals:

- treatment and disposition of occupied and vacant City owned buildings — rehabilitation in 2004 through the privatization initiatives ($148 million total funds, including $102 million in City funds); rehabilitation in the 2004-2007 period ($636 million total funds, including $422 million in City funds).

- assistance to private owners — the Housing Preservation, PLP, 8A, 7A, SHP, HIP and SCHAP programs will allow the rehabilitation of 15,337 units in the private sector in the 2004-2007 period ($492 million total funds, including $378 million in City funds).

- construction of new units — funding for the production of almost 8,000 homeownership and rental units in the 2004-2007 period ($220.5 million total funds, including $181 million in City funds) under the new construction homeownership programs, including the large scale neighborhood projects.

- production of supportive housing — funding for the creation of 1,604 units for homeless and low income single adults and special needs populations in the 2004-2007 period ($159 million total funds, including $51 million in City funds).

DEPARTMENT OF CITYWIDE ADMINISTRATIVE SERVICES

The Department of Citywide Administrative Services (DCAS) is the principal support agency for the City of New York providing City agencies with various services, including personnel services, real estate services, facilities management, and municipal supply services. Services are provided by six programmatic divisions including the Division of Citywide Personnel Services (DCPS), the Division of Municipal Supply Services (DMSS), the Division of Facilities Management and Construction (DFMC), the Division of Real Estate Services (DRES), the Division of Fiscal Management and Operations (DFMO), and the Division of Administration and Security (DAS).

Financial Review

The 2004 Executive Budget for the Department of Citywide Administrative Services provides $729.5 million, an increase of $33.7 million above the amount forecasted for 2003. This increase is primarily attributed to increases and adjustments in intra-city sales. The $102.7 million DCAS Capital Commitment Plan for 2004 includes $100.6 million for the Public Buildings program and $2.1 million for the Real Property program.

Revenue Forecast

In 2004, DCAS will collect $69.2 million in revenue, $18.7 million less than the amount forecasted for 2003. The decrease is attributable mainly to one-time revenue collected from property sales, commercial rents, and sales of relinquished vehicles in 2003. The Division of Real Estate Services (DRES), the largest revenue generating component of DCAS, will collect $50.2 million from land sales and rents from commercial properties.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- The 2004 Executive Budget provides total funds of $729.5 million for the Department, of which $492.4 million is for goods and services that agencies purchase from DCAS through intra-city agreements including the following: utilities ($422.8 million), leases ($42.5 million), storehouse supplies ($18.8 million), maintenance and repair of facilities and vehicles ($4.2 million), and personnel training ($4.1 million).

- The 2004 Executive Budget provides a total of $618.8 million for the Division of Facilities Management and Construction (DFMC). DFMC maintains and operates 53 public buildings, including court facilities, and provides citywide energy management services. Included in the $618.8 million are intra-city agreements for utilities ($422.8 million), leases ($42.5 million), and building maintenance ($2.2 million). Also included in the $618.8 million is $23.2 million in State funding, a decrease of $4.4 million from 2003, to provide cleaning services for court facilities.

- The 2004 Executive Budget provides a total of $13.8 million for the Division of Real Estate Services (DRES).

- The 2004 Executive Budget provides a total of $8.2 million for security services in DCAS managed buildings.

Service Reductions

- a reduction of 50 percent in custodial services in non-court facilities resulting in a savings of $1.1 million and a reduction of 45 custodial positions. The service reduction will double the cleaning area per custodian from 49,000 to 98,000 square feet.

- a reduction of $221,000 and five positions (three full-time, two per diem) in the Department's City Graphics office, reducing the City's ability to produce materials for special events.

- a reduction of $192,000 and five positions (two full-time, three per diem) in Telecommunications Training, thereby eliminating the City's ability to provide various training and skills development programs via teleconferencing.

- a reduction of $483,000 and nine full-time positions in the Office of Fleet Administration (OFA).

Streamlining

- a reduction of $805,000 and 23 vacant positions in various divisions while maintaining current service levels.

- a savings of $750,000 in the security guard services appropriation without reducing safety levels.

- a reduction of $400,000 and six full-time positions through the consolidation of administrative functions.

- a reduction of $194,000 and three full-time positions in the Appraisal and Land Use Planning Units in the Division of Real Estate Services due to various efficiencies.

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$92,068	$97,007	$100,851	$96,334	($673)	($4,517)
Other Than Personal Service	551,811	598,812	616,766	633,213	34,401	16,447
Total	$643,879	$695,819	$717,617	$729,547	$33,728	$11,930
Funding						
City	$162,283	$152,901	$148,930	$145,162	($7,739)	($3,768)
Other Categorical Grants	46,270	54,633	56,973	58,100	3,467	1,127
Capital IFA	7,642	8,726	6,649	8,635	(91)	1,986
State	25,492	27,589	22,529	23,216	(4,373)	687
Federal						
• CD	47	405	—	—	(405)	—
• Other	16,140	2,083	2,000	2,000	(83)	—
Intra-City Other	386,006	449,482	480,536	492,434	42,952	11,898
Total	$643,879	$695,819	$717,617	$729,547	$33,728	$11,930
Personnel (includes FTEs at fiscal year-end)						
City	1,406	1,455	1,587	1,468	13	(119)
Non-City						
• IFA	130	154	124	154	—	30
• CD	—	—	—	—	—	—
• Other	493	488	488	488	—	—
Total	2,029	2,097	2,199	2,110	13	(89)

Programmatic Review

DCAS provides an array of support services to City agencies through the six divisions described below.

Division of Citywide Personnel Services

The Division of Citywide Personnel Services (DCPS) is responsible for civil service administration including the classification of positions and salaries, personnel development and training, citywide redeployment, and other special programs such as the Employee Blood Program, the Urban Fellows, Public Service Corps, and Leadership Institute programs. DCPS also offers training in office and clerical skills for Work Experience Program (WEP) participants.

In order to simplify civil service job titles and streamline exam administration, DCPS is continuing to consolidate, reclassify, and broadband titles with overlapping functions as well as eliminate vacant job titles that are no longer needed. The Division also continues its efforts to reduce, eliminate or combine civil service examinations for titles that require similar knowledge and skills. DCPS has eliminated 7 exams and 11 competitive civil service titles thus far in 2003. Examinations are administrated by DCPS for City and non-City entities such as the Metropolitan Transportation Authority and the New York City Housing Authority. The preliminary plan for examinations in 2004 includes 107 civil service and 25 license examinations. As of March, 60 civil service and 23 license exams were administered in 2003.

The Department is continuing the development of the Citywide Automated Personnel System (NYCAPS). The system will permit oversight agencies and agency personnel divisions, citywide, to share and access data easily. It will standardize and simplify workflow and system management resulting in more accurate personnel-related information. The Department has implemented the Personal Data Module that provides basic tracking data regarding city employees. Currently, DCAS is conducting reviews of the system with both Mayoral and non-Mayoral entities. NYCAPS will provide the integrated functionality required by line agencies, the Comptroller's Office, Office of Payroll Administration, District Attorney's Offices, Department of Education, Community Colleges of the City University of New York, and New York City Housing Authority.

Division of Real Estate Services

The Division of Real Estate Services (DRES) offers real property services including broker services, site searches, lease services, and property acquisition for client agencies. This division also provides architectural design and project management services for client agencies in both DCAS managed and privately owned space. The Division manages and oversees approximately 34 City leases as well as the leasing of City owned commercial properties. DRES manages and disposes of City owned commercial properties acquired through tax foreclosure, condemnation, and the transfer or surrender of City surplus properties.

The Division also audits leases to ensure proper lease billing and management. The Lease Audit Program realizes annual savings averaging $700,000 in recoveries and credits.

Division of Facilities Management and Construction

The Division of Facilities Management and Construction (DFMC) is responsible for maintaining and operating 53 City owned public buildings. This division performs technical engineering along with architectural and construction management services to maintain and operate its facilities. This division also coordinates with the State Office of Court Administration to ensure proper maintenance of court facilities within the City.

The Office of Energy Conservation (OEC), an office within DFMC, is the City's primary energy management entity. This office develops and reports on the City's annual energy budget. OEC coordinates with utility companies and processes payments for the City's electric, gas and steam usage. In addition, OEC establishes, coordinates, and oversees energy conservation guidelines and programs. The Office participates in and administers the High Efficiency Lighting Program (HELP), the Energy Cost Reduction Program (ENCORE), and the Cafeteria Lighting Program (CLP).

Division of Municipal Supply Services

The Division of Municipal Supply Services (DMSS) is the City's chief procurement entity. DMSS procures, warehouses, and distributes supplies necessary for City agencies to fulfill their missions. Centralized contracting enables the City to utilize economies of scale to purchase various commodities at the most favorable market price. This division ensures the quality of goods purchased through inspections and operates the Central Storehouse which warehouses over 2,000 different items. DMSS manages the Direct Delivery Program for office supplies for various client agencies. This program delivers office supplies from the vendor directly to City agencies, thereby reducing the waiting period for the receipt of goods and associated overhead costs. This division is also responsible for the salvaging of surplus property through redistribution to other City agencies and auction.

The Division is working to enhance the procurement process through the use of technology and will continue the development of an internet enabled procurement and inventory management application in 2004. In 2004 the Division expects to implement on-line advertisement submission and advertisement e-mail notification for the City Record as well as the ability to download bid documents.

Division of Fiscal Management and Operations

The Division of Fiscal Management and Operations is responsible for providing the Department with the fiscal management and coordination needed to carry out its mandate. This division includes the Office of Operations and Strategic Planning, the Capital Budget Office, the Office of Program Evaluation and Support, and Office of Financial Services including: budget control, audit and accounts, and State Court reimbursement.

Division of Administration and Security

The Division of Administration and Security (DAS) is responsible for internal administrative support for DCAS including human resources, payroll and timekeeping, disciplinary proceedings, labor relations, printing services, communication services and records management. DAS also coordinates security within the Department, including all DCAS managed facilities and some leased facilities. Security responsibilities include risk assessment, security analysis, implementation and continued evaluation of DCAS facilities.

Office of Citywide Equal Employment Opportunity

The Office of Citywide Equal Employment Opportunity (OCEEO) monitors compliance with EEO policy. The EEO policy requires agencies to conduct specialized training programs and document workforce composition. City agencies are required to report annually to OCEEO on policy compliance. OCEEO carries out its monitoring function through training initiatives, agency site visits, and personnel interviews.

The Department also houses the Citywide Occupational Safety and Health program (COSH), the City Publishing Center and the CityStore. The City Publishing Center produces and publishes The City Record, The Green Book and other official City publications. CityStore is the City's book and gift shop. The CityStore operates booths in both the Manhattan Municipal Building and the Times Square Visitor Center, as well as having an on-line store accessible through the City's website. The Department continues development of internet applications for City publications. The City Record is currently available on-line.

Capital Review

The 2004-2013 Ten-Year Capital Strategy for the Department is $1,012.8 million, with $102.7 million provided in 2004.

The Department is responsible for capital improvements to all DCAS managed and client agencies' buildings including office space, warehouses and courts; oversight and improvements to City leased properties; and the sale, lease and acquisition of City owned non-residential waterfront and non-waterfront properties. The capital program includes compliance work for public safety and legal mandates; renovation, rehabilitation, construction, design and outfitting of various sites, including the purchase of furniture. The Department also purchases vehicles and various communications and technological equipment.

The table below shows capital commitments by program area over the 2002-2007 period.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Legal Mandates and Correction of Unsafe Conditions	$63,748	$63,748	$21,387	$21,387	$9,977	$9,977	$16,826	$16,826	$12,072	$12,072	$575	$575
Renovation of Other City-Owned Facilities	20,383	20,383	17,027	20,227	22,128	22,128	279	279	500	500	0	0
Renovation of Leased Space	8,445	8,445	35,831	35,890	15,529	15,529	2,915	2,915	29,025	29,025	20,000	20,000
Board of Elections	0	0	0	0	8,896	8,896	480	480	0	0	0	0
Communications Equipment	702	702	2,650	2,650	1,650	1,650	700	700	0	0	0	0
Rehabilitation of Court Facility System	13	106	79	2,242	0	0	286	286	0	0	0	0
Rehabilitation of City-Owned Facilities	67,895	67,895	51,335	51,335	36,427	36,527	31,893	31,893	57,696	57,696	64,597	64,597
Equipment and Interagency Services	5,629	5,629	8,664	8,664	2,573	2,573	350	350	2,890	2,890	1,800	1,800
Miscellaneous Construction	2	2	645	645	3,321	3,321	0	0	0	0	0	0
Rehabilitation of Waterfront & Non-Waterfront Properties	14,023	14,023	16,637	16,637	2,057	2,057	2,333	2,333	4,806	4,806	5,712	5,712
TOTAL	$180,840	$180,933	$154,255	$159,677	$102,558	$102,658	$56,062	$56,062	$106,989	$106,989	$92,684	$92,684

The Ten-Year Capital Strategy provides a total of $1,012.8 million, including $965.5 million for the renovation, reconstruction and outfitting of Public Buildings and $47.3 million for Real Property.

Highlights of the Ten-Year Capital Strategy include:

- reconstruction and rehabilitation of public buildings and City-owned facilities with the focus on the replacement of mechanical, electrical, plumbing and structural systems ($807.7 million, including $213.6 million in 2004-2007); including the interior rehabilitation and renovation of the Brooklyn Municipal Building ($21.6 million) and the Manhattan Municipal Building ($20.3 million), exterior reconstruction at 346 Broadway, Manhattan ($9.5 million), and rehabilitation of heating and air-conditioning systems at 100 Gold Street, Manhattan ($8.7 million).

- renovation of leased space ($67.5 million, all in 2004-2007); including the renovation of the Department of Finance offices at 59 Maiden Lane, Manhattan ($10.2 million), and the construction of the Department of Finance Bronx Business Center ($7.0 million).

- legal mandates ($62.1 million, including $39.5 million in 2004-2007); including repair and replacement of petroleum underground storage tanks ($9.8 million), compliance with the Americans with Disabilities Act ($3.7 million), and fire safety improvements ($2.2 million).

- equipment and interagency services ($12.9 million, including $7.6 million in 2004-2007); including DCAS Management Information Systems infrastructure ($4.2 million).

- elections modernization ($9.4 million, all in 2004-2007); including office and warehouse space in Manhattan ($6.5 million), Brooklyn ($2.4 million), and Queens ($0.5 million).

- reconstruction of waterfront properties ($45.6 million, including $13.6 million in 2004-2007); including various pier improvements.

- reconstruction of non-waterfront properties ($1.7 million, including $1.3 million in 2004-2007).

The 2004 Plan provides $102.7 million and includes:

- reconstruction of public buildings and City owned facilities ($58.7 million); including heating and air-conditioning systems at 100 Gold Street, Manhattan ($8.0 million), the reconstruction of the electrical and air-conditioning systems at City Hall ($4.6 million), exterior reconstruction at 209 Joralemon Street, Brooklyn ($3.1 million), and exterior reconstruction at 346 Broadway, Manhattan ($1.2 million).

- renovation of leased space ($15.5 million); including the Department of Finance offices at 59 Maiden Lane, Manhattan ($10.2 million).

- legal mandates ($10.0 million); including the repair and replacement of petroleum underground storage tanks ($3.0 million).

- elections modernization ($8.9 million); including office and warehouse space in Manhattan ($6.5 million) and Brooklyn ($2.4 million).

- reconstruction of waterfront properties ($1.9 million) and non-waterfront properties ($0.2 million).

DEPARTMENT OF INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS

The Department of Information Technology and Telecommunications (DoITT) provides Citywide coordination and technical expertise in the development and use of voice, video and data technologies in City services and operations. DoITT's Commissioner directs the development of information technology (IT) strategies as the City's Chief Information Officer and the chair of the Technology Steering Committee. DoITT also provides infrastructure support for data processing and communications services to numerous City agencies, researches and manages IT projects, and administers the City's cable television, public pay telephone and high capacity telecommunications franchises. In addition, DoITT is the managing agency of the City's newly launched 3-1-1 Citizen Service Center.

Financial Review

DoITT's 2004 Executive Budget provides for an operating budget of $189.1 million, a decrease of $6.1 million below the amount forecasted for 2003. This decrease is primarily attributable to a reduction in planned intra-city services in 2004 as compared to 2003.

Revenue Forecast

The Department collects revenue from cable television and high capacity telecommunications franchises, public pay telephone franchises, recovery of overpayments of City telephone billings, and international programming fees for use of the City's Crosswalks cable television network. The Department will generate $116.8 million in revenue for 2004, $1.6 million less than the amount forecast for 2003. The decrease is attributable to higher than expected telephone audit revenue in 2003.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- the Department's 2004 Executive Budget includes $100.8 million for services that DoITT purchases on behalf of client agencies, including telecommunications, data and consultant services.

- the Department's 2004 Executive Budget provides $27.4 million for the 3-1-1 Citizen Service Center. The newly developed Center, which began operation in 2003, gives the public access to non-emergency City services through one phone number 24 hours a day, seven days a week.

- the Department's 2004 Executive Budget provides $22.6 million for the Information Utility Division. This Division is responsible for the Data Center operations and fiber optic network that provide data processing and networking services to over 60 City agencies, 24 hours a day, seven days a week.

- the Department's 2004 Executive Budget provides $1.3 million for the administration of the City's five cable channels on the Crosswalks television network. The City produces programming designed to inform the public on City affairs.

Summary of Agency Financial Data

The following table compares the 2004 Executive Budget with the 2004 Preliminary Budget, the 2003 forecast and actual expenditures for 2002.

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$25,514	$34,712	$34,479	$33,520	($1,192)	($959)
Other Than Personal Service	145,436	160,521	155,340	155,620	(4,901)	280
Total	$170,950	$195,233	$189,819	$189,140	($6,093)	($679)
Funding						
City	$53,505	$77,963	$86,589	$86,527	$8,564	($62)
Other Categorical Grants	886	427	400	400	(27)	—
Capital IFA	—	158	315	315	157	—
State	—	—	—	—	—	—
Federal						
• CD	—	632	1,064	1,064	432	—
• Other	1,175	3,616	30	30	(3,586)	—
Intra-City Other	115,384	112,437	101,421	100,804	(11,633)	(617)
Total	$170,950	$195,233	$189,819	$189,140	($6,093)	($679)
Personnel (includes FTEs at fiscal year-end)						
City	392	706	541	609	(97)	68
Non-City						
• IFA	—	6	6	6	—	—
• CD	—	38	6	38	—	32
• Other	—	—	—	—	—	—
Total	392	750	553	653	(97)	100

Programmatic Review

DoITT takes a lead role advancing technology projects and programs designed to enhance service delivery to the public and facilitate efficient intra-city operations. These components include the 3-1-1 Citizen Service Center, NYC.gov, the Geographic Information Systems Utility, the Channel 16 radio network, and various initiatives to help streamline agency operations.

3-1-1 Citizen Service Center

DoITT operates the City's new 3-1-1 Citizen Service Center, which was launched in March, 2003. The 3-1-1 Center provides the public with access to non-emergency City services via one central phone center. The Service Center is staffed by trained customer service representatives 24 hours a day, seven days a week. Prior to implementation of the 3-1-1 Citizen Service Center, calls were answered by over 40 separate agency-operated help lines. In 2004, DoITT will continue to phase in implementation of the 3-1-1 Citizen Service Initiative by incorporating additional agencies, providing public access to information contained in the Center's databases via the City's website, and expanding and monitoring the management tools utilized.

NYC.gov

DoITT continues to expand and upgrade NYC.gov, the City's official website, to allow for an improved interactive relationship between the public and the City through the Internet. NYC.gov currently provides My Neighborhood Statistics, which is a geographic-based agency performance management system, an online store for selling City photographs that includes a photo gallery, and a digital newsletter that provides subscribers with weekly e-mails from the Mayor. In 2004, DoITT will release an improved NYC.gov website that will provide New Yorkers with enhanced dynamic content including direct information and resources leveraged from the 3-1-1 system. DoITT will also continue to work with agencies to create new applications and functionality for NYC.gov.

Geographic Information Systems Utility

Citywide data resource integration is being advanced by DoITT through the Geographic Information Systems (GIS) Utility. The GIS Utility coordinates geographically-oriented data, produced by several City agencies, to improve service delivery and enhance public safety. GIS also offers useful information the public can access over the Internet. In 2004, the Department will continue to update existing maps and coordinate planning for new data layers, including information on public transportation services, landmark districts, and real estate tax maps.

Channel 16 Radio Network

Channel 16 will be a Citywide radio frequency network infrastructure that will operate in the 482-488MHz spectrum. The purpose of the project is to implement new radio systems and services that will relieve congestion on other channels. The project will also address the critical need of public safety agencies in the New York Metropolitan Area to communicate during emergencies. The Department plans to complete the design of the network in 2004.

Streamlining Agency Operations

DoITT will continue to leverage its data center, fiber optic and other resources in order to provide cost savings to City agencies when securing Internet access or housing data center facilities at alternate locations. Agencies will utilize DoITT's high performance Internet proxy environment to obtain Internet access and others will use DoITT's Virtual Private Network facility so that individual users can access their desktop e-mail from a remote location.

ECONOMIC DEVELOPMENT

Since 1992, two organizations, the Department of Small Business Services (SBS) and the Economic Development Corporation (EDC), have administered the City's economic development programs. SBS also provides administrative support to the Mayor's Office of Film, Theatre and Broadcasting (Film Office). City funds for EDC and the Film Office flow through the budget of SBS. In order to facilitate comprehensive service delivery to businesses, SBS and EDC are both located at 110 William Street, while the Film Office is located in the Midtown Entertainment District.

SBS provides services primarily to small businesses in New York City through technical assistance in procurement, contracting and local commercial development. SBS also assists small businesses in their interactions with other City agencies to facilitate the delivery of City services and utilities. EDC serves as the City's corporate attraction and retention arm. In addition, EDC undertakes financing initiatives and develops commercial and industrial projects. Waterfront, maritime and intermodal transportation development are also under EDC's purview.

Financial Review

The 2004 Executive Budget for Economic Development provides $23 million in operating expenses at SBS and $4 million in operating expenses at EDC, with Federal funds of $5 million and City funds of $22 million. This represents a decrease of $14 million for SBS and $17 million for EDC below the amount forecasted in 2003. The SBS operating budget includes allocations for NYC & Co. (formerly known as the New York Convention and Visitors Bureau), the NYC Empowerment Zone, the Film Office, and other SBS programs such as the Commercial Revitalization program and the Vendor/Micro-enterprise Division. EDC funds the majority of its operating budget through the management of its real estate portfolio.

City funded capital commitments of $423 million are forecast in the 2004-2007 capital plan. Of this amount, $391 million reflect Mayoral commitments. The remaining $32 million reflect Elected Officials commitments. The amount of total City funded capital commitments for the 2004-2007 plan represents a decrease of $180 million over the amount of commitments forecast in the 2003-2006 plan.

Revenue Forecast

The Department of Small Business Services collects revenue from the rental and sale of commercial, industrial, maritime and market properties administered by EDC, and other miscellaneous fees. The 2004 revenue estimate for Economic Development is $23.5 million.

Expense Budget Highlights

- the Neighborhood Development Division develops and promotes Business Improvement Districts (BIDs) and Local Development Corporations (LDCs). The Business Services Division coordinates the small business assistance, incentives, vendor and microenterprise programs. The Economic and Financial Opportunity Division focuses on outreach and technological assistance to certify minority and women owned businesses for government contracts. The Executive Budget for 2004 provides $5 million in City and Federal funds to run these programs, a reduction of $326,000 in City funds and eight staff from the 2003 forecast. To work within the City's financial constraints, SBS has consolidated its neighborhood development programs and reduced personnel by an additional four staff and $225,000 in other divisions.

- through a contract with SBS, NYC & Co. will receive $6 million in City funding in 2004 for its work to promote the City as the country's premier convention center and tourist destination. This amount represents a reduction of $780,000 from the 2003 forecast.

- in 1995, portions of Upper Manhattan and the South Bronx were designated an Empowerment Zone (EZ), entitling the City to an additional $100 million in Federal aid over ten years. Both the City and New York State have committed funds matching the Federal investment. These funds facilitate economic development initiatives by local businesses and community-based organizations. In 2002, program funding was extended through 2009. This allowed the City to reduce its annual contribution to $7 million in 2004, a reduction from the 2003 forecast of $9 million.

Summary of Agency Financial Data

($000's)

			2004		Increase/(Decrease)	
					2003	2004
	2002 Actual	2003 Forecast	Preliminary Budget	Executive Budget	Forecast	Preliminary Budget
Expenditures						
Personal Service	$7,039	$6,246	$6,010	$5,541	($705)	($469)
Other Than Personal Service	90,190	47,456	21,716	21,276	(26,180)	(440)
Total	$97,229	$53,702	$27,726	$26,817	($26,885)	($909)
Funding						
City	$89,664	$39,866	$22,494	$21,585	($18,281)	($909)
Other Categorical Grants	104	102	—	—	(102)	—
Capital IFA	—	—	—	—	—	—
State	—	—	—	—	—	—
Federal						
• CD	6,392	9,591	5,222	5,222	(4,369)	—
• Other	1,070	3,693	—	—	(3,693)	—
Intra-City Other	—	450	10	10	(440)	—
Total	$97,229	$53,702	$27,726	$26,817	($26,885)	($909)
Personnel (includes FTEs at fiscal year-end)						
City	148	115	107	95	(20)	(12)
Non-City						
• IFA	—	—	—	—	—	—
• CD	12	14	14	14	—	—
• Other	3	3	—	—	(3)	—
Total	163	132	121	109	(23)	(12)

Programmatic Review

Department of Small Business Services

The Department of Small Business Services, through the programmatic divisions detailed below, carries out its mission by providing direct services to New York City's business community.

Neighborhood Development

- the BID unit and the Commercial Revitalization unit were merged under the Neighborhood Development division. This division assists business communities in establishing and operating BIDs, provides fiscal oversight and technical assistance for the City's 44 BIDs, as well as contracts with 80 LDCs to revitalize business strips throughout the five boroughs, using a combination of Federal and City funds.

Business Services

- through outreach and technical assistance services, the City Business Assistance Program (CBAP) helps businesses interact with other City agencies. CBAP agents also advise businesses about local stoopline, sanitation and vending regulations. The unit coordinates graffiti removal projects and helped merchants conform to the Zero Visibility Rule, which prohibits sidewalk merchandise display. CBAP agents have assisted over 1,010 businesses in the past year.

- the Emergency Response Unit (ERU) works directly with the Mayor's Office of Emergency Management to respond to businesses affected by disasters in the five boroughs. The ERU provides updates on building re-openings, facilitates the resolution of matters affecting day-to-day business operations, and compiles evidence to support business claims for assistance. Thus far, ERU has provided critical aid for over 60 major disasters (17 in 2003), including the ongoing work of Lower Manhattan recovery, the Pitkin Avenue fire in Brooklyn, and building collapses.

- the Business Incentives Unit coordinates the Lower Manhattan Energy Program (LMEP), which offers benefits in the form of utility credits for up to 12 years. To date, 31 office towers have applied for and received benefits on behalf of their tenants. The Energy Cost Savings Program, which also helps businesses in other NYC areas, approved 57 projects affecting 2,466 jobs to date in 2003.

- the Vendor/Microenterprise Unit has conducted Business Basics courses for 661 microentrepreneurs, computer classes for 1,393 clients, and technical assistance classes for 452 clients in 2003. Classes are given in seven locations around the City.

- SBS is in the process of opening small business assistance satellite centers in each borough, in partnership with local economic development organizations. The Manhattan center opened in March, 2003, the Bronx center will open in late April, and the Brooklyn center is scheduled to open in June, 2003. Queens and Staten Island offices will open in Fiscal Year 2004. The centers will offer consultations on many aspects of opening and running a small business, referrals to financial and government agencies, and business classes.

Economic and Financial Opportunity

- the Economic and Financial Opportunity Division enables small, minority and women owned businesses to grow and actively participate in the City's procurement process. It provides personal outreach, registration, and technological assistance to connect businesses with new opportunities.

New York City Economic Development Corporation

EDC works with the private and public sectors to revitalize businesses, create jobs and generate revenue for the City. EDC also manages and develops City owned commercial, industrial, and waterfront properties, including marine terminals, public markets, rail yards and industrial parks.

The financing arm of EDC includes several small business lending, guarantee and bond issuance programs. The purpose of these programs is to create jobs and retain businesses through financial assistance offered at market or below market rates. EDC also contracts with the New York City Industrial Development Agency (IDA) to provide financing for larger industrial and marketing projects. Since mid September 2001, EDC resources have focused on the redevelopment of Lower Manhattan by providing loans and grants to businesses affected by the World Trade Center disaster.

- in conjunction with and administered by the Empire State Development Corporation, EDC has awarded grants totaling $10 million to 1,679 small and medium-sized businesses in lower Manhattan to date.

- in partnership with the State, EDC established a $50 million loan guarantee fund to support a $250 million bridge loan program for small businesses, most of which qualify for Small Business Administration (SBA) relief. Participating banks approve bridge loans within three days of application while SBA processes the loan applications. To date, a total of 610 businesses have received an aggregate sum of $2.3 million in loans.

- during the first three quarters of 2003, EDC (through IDA) financed over $1 billion to secure business commitments representing 10,113 jobs retained, 2,173 jobs to be created, and $51 million in estimated tax revenue.

SBS contracts with EDC to administer the City's waterfront properties. Since the World Trade Center disaster, EDC worked with the Department of Transportation (DOT) to expand ferry service into Manhattan. Additional ferry service is active at piers 11 and 16 in lower Manhattan, and improvements were made to Pier 4 at the Brooklyn Army Terminal. EDC also constructed an emergency ferry landing at Pier 79, located at 39th Street on the Hudson River.

Under its contract with DBS, EDC acts as managing agent for City sponsored projects. Projects are divided into two main categories: economic development and port development. These projects are funded primarily through the capital budget, as described below.

Capital Review

The primary goal of the Four Year Capital Plan is to encourage development in order to create and retain jobs in New York City and bolster the City's tax base. The 2004-2007 Four-Year Plan totals $422.7 million.

The following chart shows Capital plan commitments by major function over the 2002-2007 period. Actual commitments are provided for 2002.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Commercial Development	$96,244	$ 96,804	$122,993	$143,800	$78,470	$78,470	$35,348	$35,348	$42,183	$42,183	$10,298	$10,298
Industrial Development . . .	23,422	23,422	66,700	67,382	24,522	24,522	7,901	7,901	37,305	37,305	8,174	8,174
Market Development	9,049	9,049	12,170	13,170	5,097	5,097	1,418	1,418	8,566	8,566	3,797	3,797
Neighborhood Revitaliz'n .	3,466	3,466	2,827	3,227	2,093	2,093	0	0	10,024	10,024	3,799	3,799
Port Development	26,053	26,181	99,564	141,699	31,774	31,774	3,019	3,019	9,166	9,166	6,768	6,768
Rail Development	3,601	6,419	7,637	35,961	5,000	5,000	0	0	6,000	6,000	0	0
Waterfront Development . .	21,631	21,830	87,835	97,804	21,410	21,410	6,275	6,275	6,762	6,762	6,169	6,169
Aviation	0	0	0	7,175	0	0	0	0	0	0	0	0
Miscellaneous	6,129	6,129	31,084	51,994	2,350	2,350	4,000	4,000	28,000	28,000	7,000	7,000
Total	$ 189,595	$193,300	$430,810	$562,212	$170,716	$170,716	$57,961	$57,961	$148,006	$148,006	$46,005	$46,005

Highlights of the 2004-2007 Four Year Capital Plan are:

Economic and Port Development

- reconstruction of the Whitehall Ferry Terminal ($26.8M)
- reconstruction of the St. George Ferry Terminal ($19M)
- development of the BAM (Brooklyn Academy of Music) Cultural District ($28 M)
- reconstruction of the Battery Maritime Building ($27.7M)
- infrastructure improvements of the Brooklyn Navy Yard (BNY) ($19.4M)
- extension of utilities for a new post-production movie studio at the BNY ($7M)
- construction of a new wholesale fish market at Hunts Point in the Bronx ($56.3M)
- redevelopment of Governor's Island ($15M)
- reconstruction of Farley Post Office ($13M)
- development of Queens West ($15M)
- waterfront improvements ($52M)

LIBRARIES

The City of New York funds three independently operated public library systems, each administered by a distinct and separate board of trustees. The New York Public Library manages a three-borough library system: the Bronx with 34 branches, Manhattan with 39 branches and Staten Island with 12 branches. In addition, the New York Public Library oversees four Research Libraries: the Humanities and Social Sciences Library, the Library for the Performing Arts at Lincoln Center, the Schomburg Center for Research in Black Culture, and the Science, Industry, and Business Library. The Brooklyn Public Library oversees the operation of 58 branches, a Business Library and a Central Library and the Queens Borough Public Library encompasses 62 branches and a Central Library.

Financial Review

The 2004 Executive Budget for Libraries provides total operating funds, including energy costs, of $107.4 million, a decrease of $230.7 million from the 2003 forecast of $338.0 million. However, this decrease is mainly due to the prepayment in 2003 of $107.3 million of the 2004 subsidy to all three library systems. Excluding the affect of the subsidy prepayments, the programmatic budget in 2004 for all three library systems is $214.6 million. The Executive Budget also provides for City funded capital commitments of $77.5 million in 2004.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

The partial prepayment in 2003 of the 2004 subsidy to all three library systems generates an increase in the 2003 forecast by $107.3 million and a commensurate $107.3 million decrease in 2004. The prepayment will not affect library services.

In 2004, there will be an actual operating subsidy of $7.8 million to New York Research Libraries, $40.8 million to The New York Public Library, $30.1 million to Brooklyn Public Library and $28.7 for Queens Borough Public Library. Excluding the effect of the subsidy prepayment in 2003, the City's programmatic operating subsidy for 2004 is $15.5 million to New York Research Libraries, $81.7 million to The New York Public Library, $60.2 million to Brooklyn Public Library and $57.3 for Queens Borough Public Library.

Service Reductions

- excluding the effect of the subsidy prepayment in 2003, the City's 2004 subsidy to New York Research Libraries will be reduced by $1.2 million from the 2003 forecast of $16.7 million. This is in addition to the $1.8 million reduced in the 2003 forecast.

- excluding the effect of the subsidy prepayment in 2003, the City's 2004 subsidy to The New York Public Library will be reduced by $5.9 million from the 2003 forecast of $87.7 million. This is in addition to the $9.1 million reduced in the 2003 forecast.

- excluding the effect of the subsidy prepayment in 2003, the City's 2004 subsidy to Brooklyn Public Library will be reduced by $4.5 million from the 2003 forecast of $64.7 million. This is in addition to the $6.7 million reduced in the 2003 forecast.

- excluding the effect of the subsidy prepayment in 2003, the City's 2004 subsidy to Queens Borough Public Library will be reduced by $4.2 million from the 2003 forecast of $61.6 million. This is in addition to the $6.4 million reduced in the 2003 forecast.

- due to unprecedented levels of attendance and circulation, the three library systems are trying to mitigate the impact of subsidy reductions by making days and hours of branch service a priority. However, the libraries began to scale back branch library days of service in 2003, reducing the number of days of service at many branches from six to five days per week. Service reductions will continue into 2004 as days of service for all three library systems is reduced to an average of 4.5 days per week per branch.

- in 2003, library spending on books, periodicals, videos, music and other library materials was reduced by a minimum of 25%. These reductions will continue into 2004.

- the libraries encourage reading and learning through programs like Connecting Libraries And Students Program (CLASP) and Summer Reading. CLASP helps make reading and books an integral part of schoolchildren's lives by creating new links among teachers, librarians, and parents. The Summer Reading Program promotes reading among children by combining reading with storytelling and the creative arts. These programs have been significantly scaled back in 2003, and will be scaled back further or eliminated in 2004 as City funding allocated to personnel, supplies and programming expenses is reduced.

Summary of Agency Financial Data

($000's)

			2004		Increase/(Decrease)	
	2002 Actual	2003 Forecast	Preliminary Budget	Executive Budget	2003 Forecast	2004 Preliminary Budget
Expenditures						
Personal Service	$—	$—	$—	$—	$—	$—
Other Than Personal Service	123,807	337,967	222,359	107,384	(230,583)	(114,975)
Total	$123,807	$337,967	$222,359	$107,384	($230,583)	($114,975)
Funding						
City	$123,807	$337,967	$222,359	$107,384	($230,583)	($114,975)
Other Categorical Grants	—	—	—	—	—	—
Capital IFA	—	—	—	—	—	—
State	—	—	—	—	—	—
Federal						
• CD	—	—	—	—	—	—
• Other	—	—	—	—	—	—
Intra-City Other	—	—	—	—	—	—
Total	$123,807	$337,967	$222,359	$107,384	($230,583)	($114,975)
Personnel (includes FTEs at fiscal year-end)						
City	—	—	—	—	—	—
Non-City						
• IFA	—	—	—	—	—	—
• CD	—	—	—	—	—	—
• Other	—	—	—	—	—	—
Total	—	—	—	—	—	—

* *The 2004 Executive Budget provides an estimated 3,738 full-time and full-time equivalent positions, which are funded with City subsidies.*

Programmatic Review

The three library systems will continue to provide services throughout the five boroughs at existing branches and the following recently reopened libraries:

- the Crown Heights branch library in Brooklyn will reopen after major rehabilitation and construction of an addition.
- the Jamaica Bay branch library in Queens was reopened following extensive renovations.
- Borough Park and Spring Creek branches in Brooklyn reopened after partial renovations.

The three library systems will continue to provide community programming, though at reduced levels. These programs include:

- New York Public Library's Toddler Time, Story Hour and Picture Book Hour which provide literacy outreach to children ages 2 through 12 years.
- Brooklyn Public Library's specialized programs including resources for children with special needs, adult literacy courses, English for Speakers of Other Languages and services for the aging.
- Queens Borough Public Library's New American Program, which offers programs for multicultural/multilingual audiences on topics related to assimilation. The Library also provides online community resources, including an Immigrant Services database.
- All three library systems have well-developed computer systems that provide the public with free of charge Internet access and basic PC software applications. The libraries have also implemented interactive reference services that allow patrons to search the reference database and send reference inquiries to professional librarians.
- The three library systems offer web sites designed specifically for children and teens that provide homework help, research databases and education-related activities.

Capital Review

The Ten-Year Capital Commitment Plan totals $151 million in City funds.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
New York Research Library	28,046	28,046	24,155	24,155	5,302	5,477	875	875	1,683	1,683	1,262	1,262
New York Public Library	1,435	1,435	47,327	47,327	47,909	47,909	2,554	2,554	19,500	19,500	1,160	1,160
Brooklyn Public Library	11,840	11,840	8,899	8,899	11,366	11,366	2,706	2,706	14,760	14,760	886	886
Queens Borough Public Library	4,125	4,125	10,196	10,196	12,928	12,928	1,499	1,499	4,660	4,660	2,204	2,204
Total	45,446	45,446	90,577	90,577	77,505	77,680	7,634	7,634	40,603	40,603	5,512	5,512

While some projects have been delayed or reduced in scope due to fiscal constraints, major highlights of the 2004-2013 Plan which totals $151 million, include:

The Plan for The New York Research Library, with a total of $9.1 million, including:

- renovation of the General Research Division and the Scholar's Center at the Schomburg Center for Research in Black Culture ($6.6 million).

The Plan includes $78.8 million for renovations and upgrades at New York Public Library's Branch Libraries located in Manhattan ($23.4 million), the Bronx ($47.8 million), Staten Island ($7.2 million) and general funding for projects in all three boroughs ($0.4 million), including:

- construction of a new Bronx Borough Center which will include a Puerto Rican and Latino Cultural Center ($35.9 million).

- full renovation of the Kingsbridge library in the Bronx ($4.5 million).

- extensive renovations at the Harlem Branch Library ($3.3 million).

- extensive renovation of the 115th Street Library in Manhattan ($2.9 million).

The Plan includes $35.6 million for the Brooklyn Public Library, including:

- extensive renovations at the Brooklyn Central Library which include a new auditorium, new front plaza and major systems upgrade ($19.5 million).

- renovation of the Park Slope Library ($1.1 million).

- extensive renovation of the Kings Highway Branch Library ($2.9 million).

The Plan includes $27.5 million for the Queens Borough Public Library system, including:

- construction of a new branch in Long Island City ($5.2 million).

- construction of a new Queens West branch library ($1 million).
- replacement branch for Glen Oaks library ($3.6 million).
- purchase of computer equipment and infrastructure improvements at the Queens Borough Public Library ($1.5 million).
- systemwide project to ensure ADA compliance of branch libraries ($2.4 million).
- full upgrade and replacement of system wide heating and air conditioning systems ($3.8 million).

THE DEPARTMENT OF CULTURAL AFFAIRS

The Department of Cultural Affairs (DCA) is responsible for sustaining and promoting the cultural quality of life throughout the City. DCA achieves these goals by providing direct financial support to over 700 museums, performing arts institutions and groups, gardens, zoos and other cultural organizations, while also providing legal, construction, and managerial support services.

The City supports operations at 34 City-owned cultural institutions, which include world-renowned organizations such as the Metropolitan Museum of Art, the Wildlife Conservation Society, the American Museum of Natural History, the Brooklyn Academy of Music, Carnegie Hall, Lincoln Center for the Performing Arts, the Brooklyn Museum of Art, and The New York Botanical Garden. The Cultural Institutions Group (CIG) also includes preeminent regional institutions such as the American Museum of the Moving Image, Museum of the City of New York, Bronx Museum of Art, The Studio Museum in Harlem, Snug Harbor Cultural Center, New York State Theater, Wave Hill, and Brooklyn Children's Museum. DCA supports capital construction and improvement projects at other distinguished cultural institutions, such as the Pierpont Morgan Library, the Brooklyn Historical Society, Alvin Ailey Dance Foundation and Jazz at Lincoln Center.

DCA provides program grants and support services to over 700 arts-related organizations citywide, with recipients as diverse as the New Museum, Metropolitan Opera, Association of Hispanic Arts, Staten Island Symphony, Rod Rodgers Dance Company, Museum of Chinese in the Americas, Boy's Choir of Harlem, Queens County Farm Museum, Bronx River Arts Center, Billie Holiday Theater, Isamu Noguchi Garden Museum, and the Council on the Arts and Humanities for Staten Island.

Financial Review

The Department of Cultural Affairs' 2004 Executive Budget provides for operating expenses of $94.6 million, a decrease of $27.2 million from the 2003 forecast. It also provides for City funded capital commitments of $87.3 million in 2004.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- the City's 34 cultural institutions (CIGs) will receive operating support of $79.8 million, including energy subsidies.
- various cultural organizations citywide will receive program grants totaling $11.2 million.
- the Executive Budget contains $3.6 million in operating funds for the Department of Cultural Affairs' staff, rent, supplies and equipment.

Service Reductions

- the City's subsidy to the 34 cultural institutions will be reduced by $19.3 million from the 2003 forecast of $99.1 million. $2.6 million of this reduction can be attributed to one time City Council member items and other adjustments in 2003. The remaining $16.7 million reduction in 2004 is comprised of $8.5 million, reduced in the Executive Plan; $5.7 million, reduced in the January Plan; and $2.5 million, reduced in the November Plan. This is in addition to $7.8 million already reduced in the 2003 forecast.

- the City allocation to cultural programs will be reduced by $7.8 million from the 2003 forecast of $19.1 million. $5.7 million of this reduction can be attributed to one time City Council member items and other adjustments in 2003. The remaining $2.1 million reduction in 2004 is comprised of $1.2 million, reduced in the Executive Plan; $.8 million, reduced in the January Plan; and $.1 million, reduced in the November Plan. This is in addition to $2.6 million already reduced in the 2003 forecast.

- the $2 million Cultural Challenge Program, funded at $5 million in 2002, will be eliminated to protect core funding for CIGs and cultural programs. The Cultural Challenge was an annual competitive program in which matching public funds were used to encourage private contributions.

- the City's subsidies to CIGs and cultural programs generate substantial private funding. City-supported cultural organizations will now have to be more strategic in using their remaining City funds to leverage private contributions and in expanding their earned income base.

Summary of Agency Financial Data

($000's)

			2004		Increase/(Decrease)	
	2002 Actual	2003 Forecast	Preliminary Budget	Executive Budget	2003 Forecast	2004 Preliminary Budget
Expenditures						
Personal Service	$2,233	$2,436	$2,372	$2,372	($64)	$—
Other Than Personal Service	122,441	119,450	100,303	92,265	(27,185)	(8,038)
Total	$124,674	$121,886	$102,675	$94,637	($27,249)	($8,038)
Funding						
City	$123,001	$120,402	$102,203	$94,165	($26,237)	($8,038)
Other Categorical Grants	—	—	—	—	—	—
Capital IFA	37	41	41	41	—	—
State	—	—	—	—	—	—
Federal						
• CD	229	750	237	237	(513)	—
• Other	—	63	—	—	(63)	—
Intra-City Other	1,406	630	194	194	(436)	—
Total	$124,674	$121,886	$102,675	$94,637	($27,249)	($8,038)
Personnel (includes FTEs at fiscal year-end)						
City	41	44	40	40	(4)	—
Non-City						
• IFA	1	1	1	1	—	—
• CD	2	2	2	2	—	—
• Other	—	—	—	—	—	—
Total	44	47	43	43	(4)	—

* *The 2004 Executive Budget provides an estimated 1,321 full-time and full-time equivalent positions, which are funded with City subsidies.*

Programmatic Review

- through the Cultural Development Fund (CDF), program grants are awarded on a competitive basis. In 2004, $1.5 million is allocated for the CDF.

- the Materials for the Arts program, in cooperation with the Department of Sanitation and the Board of Education, provides donated used equipment and supplies to arts organizations, arts education programs in the public schools, and other City agencies. Last year, donated materials were valued at $3.6 million.

- the Community Arts Development Program awards federal grants to arts groups serving low- and moderate-income neighborhoods. In 2004 $.276 million will be available in Federal funding.

- DCA provides funding, in conjunction with the Department of Education, for Parents as Arts Partners, a program with the objective of increasing parental involvement in schools through arts education.

- DCA administers the Percent for Art program which oversees commissions for public works of art as part of City construction projects. To date, six projects have been completed for 2003. The completion of eleven projects is anticipated for 2004.

Capital Review

While some projects have been delayed or reduced in scope due to fiscal constraints, major highlights of the $402 million Plan include:

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Department of Cultural Affairs	147,642	147,642	296,576	324,083	87,250	88,550	41,466	41,466	113,303	115,168	26,005	26,005
Total	147,642	147,642	296,576	324,083	87,250	88,550	41,466	41,466	113,303	115,168	26,005	26,005

Major Highlights of the 2004-2013 Plan, which totals $402.0 million in City funds, include:

- renovations at the American Museum of Natural History ($39.5 million for 2004-2006), including a major upgrade of the museum. In 2003 the museum received an additional $34.2 million for improvements, including remodeling of the Hall of Ocean Life and the IMAX Theater.

- a major renovation of the façade at P.S. 1 Contemporary Art Center ($4.3 million for 2004-2012). The total City commitment is $11.5 million towards this $14.6 million project.

- a series of new projects at the Wildlife Conservation Society, New York Aquarium ($20.1 million for 2004-2007, plus $15.0 million in 2003), which are part of the greater revitalization of Coney Island. Projects include a new Carousel Visitor Center, a new Boardwalk Entrance, renovation of the Main Hall, plaza reconstruction, improvements to the Aquatheater, and a new animal medical facility.

- infrastructure improvements at The New York Botanical Garden ($8.5 million for 2004-2009), with additional funding in 2003 ($20.6 million). The Garden has embarked on a $300 million Master Plan, which includes the construction of the Glasshouses for the Living Collections and a new Visitors' Center.

- comprehensive reconstruction and expansion of the Metropolitan Museum of Art ($9.7 million for 2004-2006), in addition to 2003 funding ($21.8 million). Projects include the renovation of the Great Hall & the Fifth Avenue Plaza, construction of a new Education Center, expansion of the Museum's Library, reconstruction work in the Italian Sculpture, Egyptian, and Decorative Arts Galleries and improvements at The Cloisters.

- construction of a new wing for the Museum of Jewish Heritage ($2.5 million in 2006), for a total City commitment of $32 million for the project since 2001.

- expansion of the Queens Museum of Art ($16.8 million for 2004-2007), plus an additional $5.1 million in 2003.

- construction of a new building for the Alvin Ailey Dance Foundation ($5.2 million in 2004). The facility will be the largest in the country dedicated entirely to dance.

- improvements at the Staten Island Zoo ($8.1 million for 2004-2006), including reconstruction of the Reptile Wing.

- renovations and improvements at the Brooklyn Botanic Garden ($15.5 million for 2004-2006), including construction of a new science and learning center, a new visitor center at the Cherry Esplanade and garden-wide paving.

- renovations and equipment purchases for the Wildlife Conservation Society, Bronx Zoo ($23.5 million for 2004-2005), including the conversion of the Lion House into a new Madagascar Exhibit, community space and administrative offices.

- renovation of the façade and the Opera House at the Brooklyn Academy of Music ($4.1 million for 2004-2006, plus $7.9 million in 2003).

- funding to support a Master Plan renovation at Lincoln Center for the Performing Arts ($141.5 million for 2004-2013), with a total City contribution of up to $240 million towards this planned $1.5 billion project.

- restoration of the historic Hunterfly Houses and construction of a new education building at the Society for the Preservation of Weeksville and Bedford Stuyvesant History ($5.4 million in 2004, plus $3.1 million in 2003).

- renovations at the Staten Island Historical Society ($2.9 million for 2004-2011), in addition to $1.5 million in 2003 for the purchase of a new building.

- construction of an addition at the Queens Theater in the Park ($6.7 million for 2004-2006).

- renovation of the Public Theater for the New York Shakespeare Festival ($7.8 million for 2004-2012).

- expansion of the Bronx Museum of the Arts and its exhibit space ($4.7 million for 2004-2006, plus an additional $5.3 in 2003).

- restoration of the Vivian Beaumont Theater at Lincoln Center for the Performing Arts ($2.6 million in 2004).

PENSIONS AND OTHER FRINGE BENEFITS

Pension Overview

The Executive Budget for 2004 provides for $2,719 million in City pension contributions, an increase of $960 million from the amount forecast for 2003. As listed on the table below, of the total amount for 2004, $2,648 million represents contributions to the City's five actuarial retirement systems, $37 million represents contributions to actuarial systems covering certain non-City employees of the City University, the library system, day care centers, and certain cultural institutions, and $34 million represents, primarily, supplemental payments to widows and widowers of uniformed employees who were killed in the line of duty.

Pension Expenditures and Funding Sources

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) Preliminary Budget
Expenditures						
Personal Service						
• City Actuarial	$1,442,095	$1,700,429	$2,659,954	$2,647,847	$947,418	$(12,107)
• Non-City Actuarial	21,974	26,667	37,367	37,367	10,700	—
• Non Actuarial	27,832	31,833	34,106	34,106	2,273	—
Total	$1,491,901	$1,758,929	$2,731,427	$2,719,320	$960,391	$(12,107)
Funding						
City	$1,335,164	$1,541,385	$2,576,210	$2,564,103	$1,022,718	$(12,107)
State	26,361	30,414	32,687	32,687	2,273	—
• JTPA	—	—	—	—	—	—
• CD	—	—	—	—	—	—
• Other	30,371	67,125	2,525	2,525	(64,600)	—
Intra-City Other	100,005	120,005	120,005	120,005	—	—
Total	$1,491,901	$1,758,929	$2,731,427	$2,719,320	$960,391	$(12,107)

The City's five actuarial retirement systems are the New York City Employees' Retirement System, the New York City Teachers' Retirement System, the New York City Police Pension Fund, the New York City Fire Pension Fund, and the Board of Education Retirement System. As of June 2001 these systems covered approximately 588,000 employees, retirees and beneficiaries of the City, the Department of Education, and certain independent agencies. Each system is governed by a board of trustees and functions in accordance with applicable state and local laws. Required contributions are made on a statutory basis based on actuarial valuations of liabilities and assets. The funding assumptions have been approved by the trustees as recommended by the City Actuary, and the statutory interest rate assumption for all five systems is eight percent.

These systems provide "defined" retirement benefits (as well as death and disability benefits) to members based on, or defined by, final pay times years of service. Benefit formulas vary by system and by entry date of pension membership, better known as tiers. Benefit payments are financed with employee and employer contributions, as well as pension asset investment income. In defined benefit plans, employer contributions make up for shortfalls in investment income, while excess investment returns reduce employer contributions.

Starting in the mid 1970s the State legislature instituted new tiers that were expected to provide less costly benefits than provided for under Tier 1. A notable feature of Tier 1 is that it provides civilian employees at age 55 having 25 years of service, a retirement benefit of 55 percent of final pay. Commencing in 1973 with Tier 2, benefits were reduced for new members. Tier 2 members could still retire at age 55, but their benefits would be subject to statutory reductions. Following Tier 2 was Tier 3 in 1976. However, in 1983, Tier 4 virtually replaced Tier 3. Tier 4 provided unreduced pensions which would only begin at age 62, as opposed to the earlier age 55 under Tier 1. Reforms also came to uniformed police and fire pensions under Tier 2 which provided for, among other things, a 20 year service, half-pay pension based on a final three year average pay, as opposed to the Tier 1 final year salary basis.

Throughout the 1980s, the 1990s and up to the present, there have been numerous and significant benefit improvements enacted through state legislation. For example, in 1998, the vesting period for civilians was reduced from 10 years to 5 years (Chapter 389), and the service fraction was raised to two percent at 20 years of service as opposed to waiting until 25 years of service (Chapter 266). In 2000, associated with ratified labor settlements, civilian Tier 1 and 2 members will receive an additional two years of service credit (Chapter 126), and employee contributions were completely removed for basic Tier 3 and 4 members having 10 years of membership service. Also, in 2000, Tier 4 members were enabled to retire prior to age 62, but not before age 55, provided they have met the minimum service requirements. Their benefits, like in Tier 2, would be subject to statutory reductions (Chapter 553). Tier 1 police and fire members will receive additional Increased Take Home Pay (Chapter 373), while Tier 2 police and fire members will have their pensions based on a final one year average salary; an improvement from a final three year average (Chapter 372).

In addition to a number of other ad-hoc legislative efforts to increase certain retirees' benefits to be more in line with inflation, in 2000, under Chapter 125, significant upward cost of living adjustments (COLAs) were granted to the pensions of existing retirees, but also the legislation built in permanent annual automatic COLAs to be based on actual future inflation. The significant increased cost of this legislation is being phased-in over a number of years.

Other Fringe Benefits

The City provides a number of fringe benefits to its employees, retirees and eligible dependents. Contribution levels and terms of coverage are governed by various contractual, legal and collective bargaining provisions.

The City's basic Health Insurance program provides comprehensive major medical and hospitalization benefits to its members. In addition, the City makes annual contributions to union-administered Welfare Funds, which typically provide supplemental health insurance benefits to their members. Annual contributions conform to collective bargaining and labor agreements.

The City also participates in federal Social Security and makes the required employer contributions on behalf of covered employees. Under state Worker's Compensation, the City provides statutory wage-replacement and medical benefits to employees who sustain on the job injuries, and under Unemployment Benefits, provides up to 26 weeks of wage-replacement benefits, up to statutory maximum levels. The City also separately provides medical benefits to uniformed employees of the Police, Fire and Sanitation departments who are injured in the line of duty.

In general, the City's Miscellaneous Expense Budget contains the fringe benefit appropriations on behalf of employees and retirees of the mayoral agencies. Separate allocations are included in the Department of Education, the City University system, the Health and Hospitals Corporation, and the various other covered organizations, libraries and cultural institutions, for the fringe benefit costs of their active and retired employees.

The following table sets forth the fringe benefit amounts carried in the Miscellaneous Budget for 2003 and 2004.

Fringe Benefits

($ 000's)

	2003 Forecast	2004 Executive	Increase/ (Decrease)
Workers' Compensation	$ 112,896	$ 124,897	$ 12,001
Health Insurance Plans	1,394,832	1,498,022	103,190
Social Security Contributions	672,213	669,292	(2,921)
Unemployment Insurance Benefits	26,500	34,400	7,900
Supplementary Employee Welfare Benefits	399,166	416,229	17,063
Workers' Compensation - Other	36,700	40,200	3,500
Total	$2,642,307	$2,783,040	$140,733
Funding			
City	$2,411,901	$2,550,995	$139,094
Other Categorical	100,000	100,000	—
State	42,103	41,740	(363)
Interfund Agreements	2,450	2,450	—
Federal			
• CD	25,600	25,600	—
• Other	60,253	62,255	2,002
Total	$2,642,307	$2,783,040	$140,733

JUDGMENTS AND CLAIMS

The Executive Budget for 2004 provides an appropriation of $658 million for Judgments and Claims. These expenditures represent the City's costs for tort and contract liability and are projected to reach $767 million by 2007. Tort expenditures cover both personal injury and property damage claims, and account for approximately 96 percent of total costs. These projections incorporate a substantial amount of claims cost attributed to the Health and Hospitals Corporation for which the Corporation will reimburse the City. These amounts are estimated at $185 million in 2004, and reach $200 million by 2007.

The Office of Management and Budget (OMB) employs various statistical methods and financial models to estimate claims costs. In addition, OMB consults the Law Department to provide cost estimates for cases that are expected to settle for $1 million or greater. These are mainly serious personal injury cases that have been in litigation or on appeal for a considerable period of time. These cases represent a significant portion of total tort costs, but their relatively small volumes do not lend themselves to statistical analysis. Historical claim data contained on the Comptroller's Omnibus Automated Image Storage and Information System (OAISIS) are analyzed to determine annual settlement volumes and average cost per claim. Total costs are the product of the volume and average cost projections.

Analysis of Agency Budgets: Education

DEPARTMENT OF EDUCATION

The New York City Department of Education provides primary and secondary education for over one million school age children. Through a network of more than 900 elementary, junior high and intermediate schools, more than 200 high schools, and 60 special education schools, the Department provides basic instructional services and offers students special and bilingual education, and vocational training. Support services include free and subsidized transportation, breakfast and lunch services, and the operation and maintenance of over 1,200 school facilities.

Financial Review

The Department of Education's 2004 operating budget is $12,159.4 million and includes City funding equal to the 2003 amount of $4,897.9 million. While City funding remains level from 2003 to 2004, the total operating budget is $397.4 million lower due to the loss of significant one-time Other Categorical revenue sources and State and Federal decreases. In 2004 Other Categorical revenue drops by $260.3 million from its 2003 level of $286.8 million. This decrease includes reductions of $197.5 million of Municipal Bond Bank revenue, $12.7 million of Education Construction Fund revenue and a $33.5 million transfer from the School Construction Authority Trustee Account – all one-time resources provided in 2003. In 2004 State funding decreases $67.0 million to $5,794.0 million, and Federal funding decreases $68.1 million to $1,434.6 million. These appropriations are subject to change after the State and Federal budgets are finalized. The balance of the education operating budget is supported by $6.4 million in intra-city funds. In addition to operating funds, the 2004 Executive Budget includes $1,524.8 million for education-related pension and debt service costs ($968.5 million for pensions, and $556.4 million for debt service) budgeted in separate agencies. This is a total increase of $674.7 million from the 2003 level of $853.3 million.

Total Department of Education Expenses*
1999-2004
($ millions)

		2000		2001		2002		2003 Forecast		2004 Executive Budget		1999–2004
	1999 Amount	Amount	Change from 1999	Amount	Change from 2000	Amount	Change from 2001	Amount	Change from 2002	Amount	Change from 2003 Forecast	Change from 1998
Department Of Education	$9,626	$10,756	$1,130	$11,613	$857	$11,883	$270	$12,557	$674	$12,159	$(398)	$2,533
Pensions	396	102	(294)	384	282	452	68	573	121	968	395	572
Debt Service	534	537	3	422	(115)	205	(217)	280	75	560	280	26
Labor Reserve as of Previous Plan	11	10	(1)	0	(10)	0	0	0	0	0	0	(11)
Total Expenditures	$10,567	$11,405	$838	$12,419	$1,014	$12,540	$121	$13,410	$870	$13,687	$277	$3,120
Funding												
City	$5,003	$5,330	$327	$5,727	$397	$5,439	($288)	$5,748	$309	$6,422	$674	$1,419
Other Categorical	34	68	34	52	(16)	51	(1)	287	236	27	(260)	(7)
State	4,469	4,867	398	5,404	537	5,651	247	5,864	213	5,797	(67)	1,328
Federal	1,054	1,133	79	1,232	99	1,393	161	1,503	110	1,435	(68)	381
Intra-City	7	7	0	4	(3)	6	2	8	2	6	(2)	(1)

* The amounts shown for 1999 through 2002 represent actual expenditures including pensions and debt service funds budgeted in other agencies. The 2003 amounts represent the latest forecast as per the 2004 Executive Budget.

Expense Budget Highlights

Additional Resources for Children First Reforms

- an additional $13.8 million for another 272 teachers to reduce middle-school class size.

- an additional $5.7 million for New Beginnings Centers to serve disruptive students in separate settings where they receive more intensive instruction.

- an additional $19.7 million for the purchase of new instructional materials to support adoption of a unified curriculum.

- an additional 8,000 seats of instructional space worth $16.6 million through the conversion of administrative offices to classrooms.

Providing Core Services

- an additional $27.9 million for the cost of providing transportation to general and special education students.

- an additional $49.0 million for fringe benefit costs.

- an additional $4.0 million for the cost of energy and leases.

- an additional $16.0 million for charter schools.

- an additional $1.8 million for the transportation and instruction of school-age special education students attending private facilities.

City Resource Reductions

Faced with reduced resources as a result of the continued economic downturn, the City is requiring the Department to maintain City funds spending at the 2003 level as part of the program to balance the Citywide Executive Budget. In order to cap City funds spending at the 2003 level, the Executive Budget is reducing the 2004 January Plan forecast by an additional $178.8 million. In previous rounds of reductions to the 2004 plan the Department was able to avoid reductions to schools by cutting central administration, administering programs more efficiently, eliminating low priority programs and services, and maximizing its use of State and Federal funding. In this $178.8 million Executive Budget reduction, however, the Department is making cuts that impact schools and school staff directly but still avoid reductions in core instructional services. These reductions include:

- elimination of 194 of the 4,000 elementary and middle school general educational paraprofessionals.

- elimination of 670 of the 900 high school general educational paraprofessionals.

- elimination of 767 of the 8,100 school aide full-time equivalent positions.

- elimination of Teachers' and Principals' Choice, which provides up to $200 to pedagogues for purchase of their choice of instructional materials.

- elimination of non-mandated summer school services for 29,500 students who have been promoted to the next grade but are encouraged to attend summer school for additional instruction (English Language Learners program remains intact).

- a reduction in the number of sabbaticals granted.

- elimination of 327 of the 1,500 family paraprofessional full-time equivalent positions.

- elimination of 300 of the almost 5,000 school lunch worker full-time equivalent positions by decreasing cafeteria staffing ratios.

- elimination of 70 of the over 600 Substance Abuse Prevention Intervention Specialist (SAPIS) positions and 12 other positions working on the SAPIS program.

- an additional $9.0 million reduction in the central administration budget.

- a $6.0 million reduction in custodial allocations.

- a $12.0 million reduction in the budget for after school programs run by the Department of Education, which may be provided by Community Based Organizations at a lower cost.

- a $5.0 million reduction in contractual services provided by Community Based Organizations.

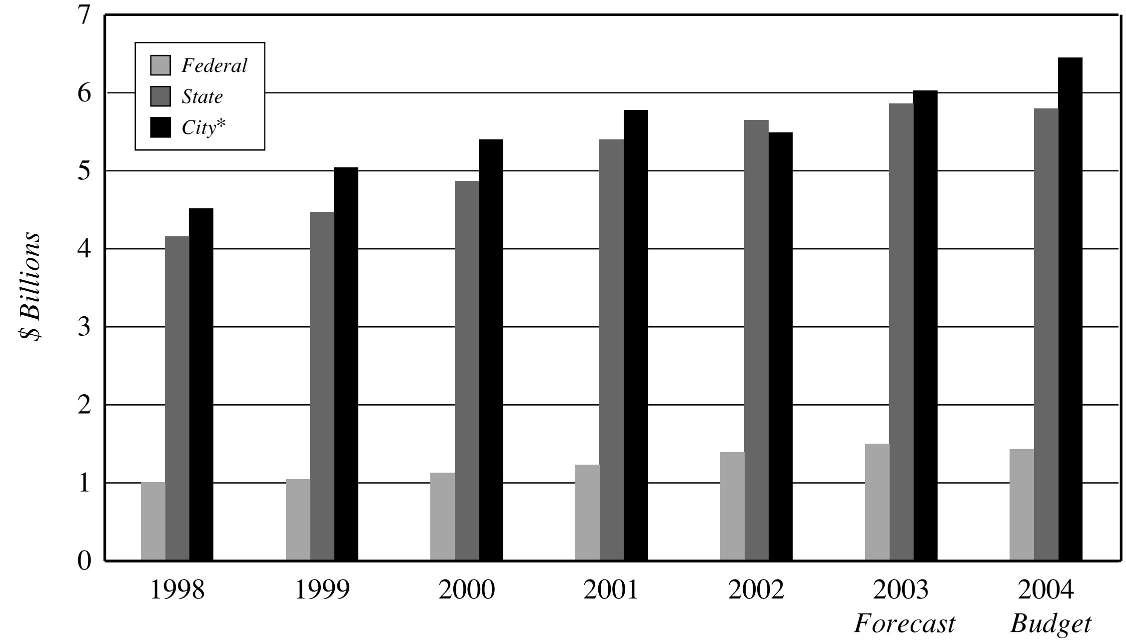
The $178.8 million City funds reduction is within the limit allowed by the maintenance of effort requirement established by the State as part of the governance changes passed in the summer of 2002. This provision of State law requires that the City funding provided in the Adopted Budget (excluding City funding for pensions and debt service) cannot be less than the amount provided for in the current year's budget. In the case of a year-to-year drop in the amount of City funds available for the total Citywide budget, the requirement permits the City to reduce Education funding by a proportional amount.

Summary of Agency Financial Data

($000's)

	2002 Actual	2003 Forecast	2004 Preliminary Budget	2004 Executive Budget	Increase/(Decrease) 2003 Forecast	Increase/(Decrease) 2004 Preliminary Budget
Expenditures						
Personal Service	$8,856,305	$9,293,012	$9,121,024	$9,071,020	($221,992)	($50,004)
Other Than Personal Service	3,025,549	3,263,731	3,058,788	3,088,358	(175,373)	29,570
Total	$11,881,854	$12,556,743	$12,179,812	$12,159,378	($397,365)	($20,434)
Funding						
City	$4,784,912	$4,897,876	$5,065,262	$4,897,876	$—	($167,386)
Other Categorical Grants	51,225	286,828	25,018	26,518	(260,310)	1,500
Capital IFA	—	—	—	—	—	—
State	5,648,065	5,860,913	5,798,913	5,793,955	(66,958)	(4,958)
Federal						
• CD	4,009	5,000	5,000	5,000	—	—
• Other	1,387,741	1,497,682	1,279,051	1,429,588	(68,094)	150,537
Intra-City Other	5,901	8,444	6,568	6,441	(2,003)	(127)
Total	$11,881,854	$12,556,743	$12,179,812	$12,159,378	($397,365)	($20,434)
Personnel (includes FTEs at fiscal year-end)						
City	112,687	112,647	112,867	110,799	(1,848)	(2,068)
Non-City						
• IFA	—	—	—	—	—	—
• CD	—	—	—	—	—	—
• Other	24,278	23,871	23,871	23,060	(811)	(811)
Total	136,965	136,518	136,738	133,859	(2,659)	(2,879)

FUNDING SOURCES 1998-2004



* *City funds include debt service, pensions, other categorical, capital IFA, but not intra-city.*

New York City Public School Enrollment

School Year 200-2004

	2000 Actual	2001 Actual	2002 Actual	2003 Projection	2004 Projection
DOE Facilities Enrollment					
General Education	965,558	959,615	957,265	951,442	945,125
Special Education*	80,568	82,465	79,234	79,310	78,846
Pre-Kindergarten**	24,008	27,323	29,073	30,007	30,007
Subtotal	1,070,134	1,069,403	1,065,572	1,060,759	1,053,978
Non-DOE Facilities Enrollment					
Charter Schools	1,308	3,274	3,267	4,712	6,149
Contract Schools	4,290	4,697	5,057	4,866	4,866
Universal Pre-Kindergarten	9,956	13,686	15,929	17,082	17,082
Special Ed Pre-Kindergarten	20,645	21,580	22,774	23,356	23,954
Subtotal	36,199	43,237	47,027	50,016	52,051
TOTAL	1,106,333	1,112,640	1,112,599	1,110,775	1,106,029

* Special Education enrollment includes: Community School Districts (CSD) and High School Full-Time Special Education, Citywide, Home and Hospital Instruction, and Integrated students.

** Pre-Kindergarten at DOE facilities includes Superstart, Superstart Plus, and Universal Pre-K.

Programmatic Review

The Student Population

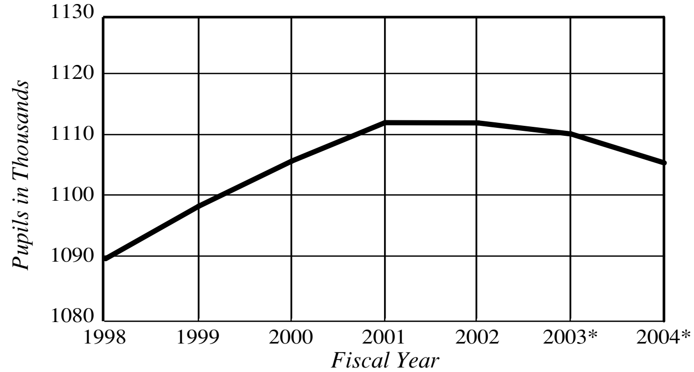
Total public school enrollment, including pre-kindergarten, charter school and contract school students, will decrease 4,746 from 1,110,775 in 2003 to a projected 1,106,029 in 2004. In the coming fiscal year, the City projects that general education public school enrollment for K-12 will be 951,274 or 4,880 less than in 2003. Of these students, 945,125 are expected to attend schools run by the Department of Education, and 6,149 are expected to attend charter schools.

In 2004 the City projects that 83,712 school-age students will be enrolled in full-time special education programs. Of these students, 78,846 are expected to attend Department of Education facilities, and 4,866 are expected to attend specialized private facilities ("contract schools") paid for through the Department's budget. Since 2002, the school-age special education population has dropped 579 students. The City's total special education population also includes approximately 24,000 pre-kindergarten students and a small group of school-age special education students placed in specialized facilities through steps taken outside the Department's regular referral process.

Staffing Levels

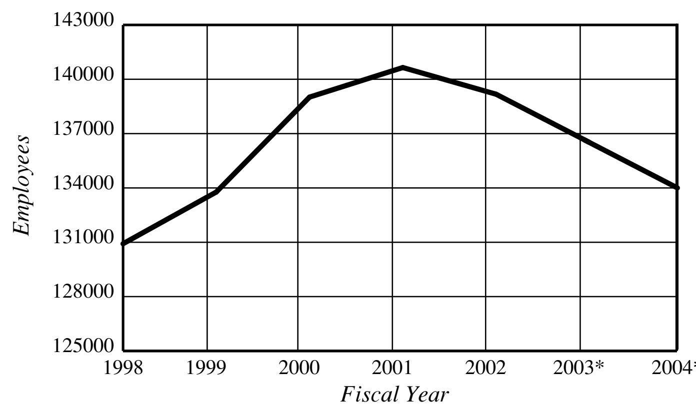
In 2004 the City projects that the Department will reduce its 2003 staffing level of 136,518 positions by 2,659 to 133,859. Of this 2004 count, 118,878 are full time and 14,981 are Full Time Equivalents (FTEs). Pedagogical employees (which include teachers, superintendents, principals, assistant principals, guidance counselors, school secretaries, educational paraprofessionals and other school support staff) make up 110,175 of full time employees and 1,263 of the FTEs. Non-pedagogical employees represent 8,703 of full time employees and 13,718 of FTEs. Of the full time pedagogical employees

NYC PUBLIC SCHOOL ENROLLMENT 1998-2004



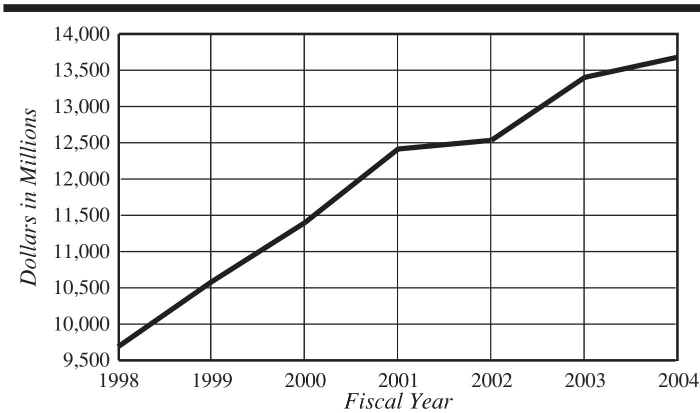
Includes Charter Schools, Special Ed Pre-K, Universal Pre-K, Superstart, Superstart Plus, and Contract schools. Excludes LTA's.
** Projected as of FY04 Executive Budget*

FULL TIME AND FULL TIME EQUIVALENT DEPARTMENT OF EDUCATION EMPLOYEES 1998-2004



** Projected as of FY04 Executive Budget*

TOTAL DEPARTMENT OF EDUCATION EXPENDITURES 1998-2004*



** Total DOE expenditures include pensions, debt service and labor reserve amounts and exclude Intra-City funds.*

approximately 80,000 are teachers, with almost 63,000 providing general education services. The remaining teaching staff is primarily for special education (almost 14,000) and bilingual education (over 2,000).

Children First Initiative

The 2004 Executive Budget re-allocates significant funds from the now eliminated district offices to school services. The Department is redirecting $125 million previously spent through the 40 community and high school district offices to major initiatives of the Mayor's Children First reform agenda. These initiatives include: streamlining administration, providing books and materials supporting the new comprehensive curriculum, providing math and literacy coaches in every school, enhancing parent services through parent coordinators, improving special education and re-focusing professional development.

While the Department is reducing ancillary services and the size of its summer school program to meet its reduction targets, it is not increasing class size as a result of City action. The State's Executive Budget would, however, force the Department to increase class size if implemented as proposed.

As part of its major effort to redirect resources and the focus of teachers and school administrators to the instructional needs of children, the Department of Education is replacing over 40 separate bureaucracies overseeing community school districts and high schools with 10 instructional leadership divisions called Learning Support Centers. These centers report directly to the Deputy Chancellor for Teaching and Learning and focus exclusively on instruction for students in kindergarten through grade 12. The Centers are physically spread throughout the City, and each is assigned instructional oversight for those schools located in its instructional leadership division.

The management structure for these Learning Support Centers and the schools they serve is designed to provide direct accountability for instructional programs. The 10 Regional Superintendents responsible for overseeing the Centers and coordinating instructional policy are located in the Tweed Building and report directly to the Deputy Chancellor for Teaching and Learning. Operating at the Centers themselves and working directly with school principals are 100 Local Instructional Supervisors, who each supervise approximately a dozen schools and who report directly to the Superintendents at Tweed.

As one of its first major policy changes this education management structure is requiring approximately two-thirds of the City's schools to adopt a unified curriculum and standard pedagogical method. This new approach provides every early grade student with a minimum of 110 minutes of literacy instruction and an hour of math each day. In the third through the eighth grade, the program increases the emphasis on math relative to reading as students achieve basic literacy. The program also establishes classroom libraries for all students in the fourth through ninth grade to keep them surrounded with books that challenge and motivate them. By standardizing math and literacy instruction across the system the Department is working to eliminate the distraction and frustration caused when students and teachers have to adapt to new methods and curricula on a yearly or even semi-yearly basis.

In this new structure, six support centers assume responsibility for budgeting, information technology, human resources and other administrative functions that have long distracted principals and other school staff whose emphasis should be on instruction. Six Regional Operations Managers reporting directly to the Deputy Chancellor for Finance and Administration will run these support centers, which will be housed at the Learning Center sites.

In its restructuring, the Department of Education is placing particular emphasis on strengthening special education instruction and increasing accountability for student achievement. To support improved classroom instruction for children with special needs, the Department is appointing 200 instructional support specialists and training 1,000 pedagogues in leading instructional strategies. Dovetailing with efforts to educate children in the "Least Restrictive Environment" this professional development includes strategies and techniques to teach groups of students with a wide range of learning needs in the same setting. The Deputy Chancellor for Teaching and Learning is monitoring the progress of each school in meeting a new series of benchmarks and improvement plans.

Central Administration Transparency and Reductions

The 2004 budget for Central Administration is $52.7M and 670 full-time and FTE positions less than planned in January 2002. Because the Department of Education has historically accounted for central positions and spending across several areas of the budget, however, it is difficult to demonstrate these savings and efficiencies over time. Beginning in 2004 the level of and changes in Central Administration spending and staffing will be readily apparent in the City's budget and spending reports. All full-time and part-time employees who work in central offices are now reported within one accounting structure.

Capital Review

The City's Four-Year Plan for 2004-2007 anticipates spending $3.1 billion on school construction projects and includes the last year of the Department of Education's Five-Year Plan for 2000-2004. The capital program's primary objectives are to provide additional capacity and arrest deterioration of the physical plant. The School Construction Authority (SCA) is responsible for acquiring new school sites and for the design and construction of capital projects that will meet these objectives. Since 1997 the Department of Design and Construction (DDC) has also participated in the rehabilitation of school buildings. Each year the Department allocates funding to both SCA and DDC.

To address the seating shortage, the City's Four-Year Plan provides $1.3 billion for the construction of new schools. An additional $359.4 million is allocated for system expansion associated with new leases, building additions, transportables, modular classrooms, athletic fields and playgrounds. The Plan provides $310.3 million to rehabilitate, replace and upgrade building components. In order to meet high standards for entire school buildings, $282.6 million is designated for existing buildings to undergo major modernizations. Additionally, $199.7 million funds capital improvements associated with programmatic needs, including computers and science labs. Other miscellaneous capital improvements make up the balance of funding. These include emergency projects, research and development, and prior plan completion costs ($647.3 million); and security systems, emergency lighting and code compliance ($3.1 million). In 2004 the Department of Education is allocating 41.3 percent of its $664.4 million appropriation to new schools and additions.

The table below shows the capital commitments by program area over the 2002-2007 period.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
System Expansion New Schools	$753,706	$753,706	$167,377	$167,377	$274,374	$274,374	$253,680	$253,680	$327,994	$327,994	$415,791	$415,791
System Expansion Other	241,568	241,568	56,067	56,067	77,540	77,540	71,692	71,692	92,694	92,694	117,506	117,506
School Modernizations	48,654	48,654	68,435	68,435	60,972	60,972	56,373	56,373	72,887	72,887	92,398	92,398
Rehabilitation of School Components	118,373	118,373	93,065	93,787	66,937	66,937	61,889	61,889	80,017	80,017	101,438	101,438
Educational Enhancements	34,579	34,579	80,803	117,803	43,078	43,078	39,829	39,829	51,497	51,497	65,281	65,281
Emergency, Unspecified and Miscellaneous	115,913	118,913	348,053	347,838	140,885	140,885	129,178	129,178	166,374	166,374	210,908	210,908
Safety and Security	24,191	24,191	10,719	10,719	663	663	613	613	792	792	1,004	1,004
Total	$1,336,984	$1,339,984	$824,519	$862,026	$664,449	$664,449	$613,254	$613,254	$792,255	$792,255	$1,004,326	$1,004,326

Table includes all budget lines

Capital Highlights

The City's 2004-2007 Plan features the following initiatives:

- create 21,142 new classroom seats (14,994 in 2004 and 6,148 in 2005) through new schools, additions and leased facilities. New seats total 3,015 in Brooklyn; 3,600 in the Bronx; 1,533 in Manhattan; 11,841 in Queens; and 1,153 in Staten Island.

- provide an additional 7,953 new classroom seats (5,094 in 2004 and 2,859 in 2005) through a system-wide reorganization that converts administrative, non-instructional space into classrooms. The borough distribution of converted seats is 2,019 in the Bronx; 2,094 in Brooklyn; 3,000 in Manhattan; 480 in Queens; and 360 in Staten Island.

- $17.8 million of City funds in 2004 for the Take the Field public/private initiative to repair ball fields throughout the City.

- $18.0 of City funds for renovations to Lehman, York and LaGuardia Colleges to house the City University of New York/Department of Education collaborative programs.

- $10.0 of City funds to restructure high schools as part of the ongoing reform requiring smaller schools.

- coordinate functions of the Department of Education's Division of School Facilities and the School Construction Authority, clarifying authority and accountability in the City's school construction process.

- lower administrative overhead on school construction projects by reducing 2002 staffing levels by 50 percent at the School Construction Authority and 15 percent at the Department of School Facilities.

CITY UNIVERSITY OF NEW YORK

The City University of New York (CUNY) includes ten senior colleges, six community colleges, one technical school, the Graduate Center, a law school, and an affiliated medical school. CUNY also sponsors Hunter Campus Schools. The CUNY colleges, some of which date back to the nineteenth century, were federated in 1961. The University is governed by a 17-member Board of Trustees. Ten members are appointed by the Governor with the advice and consent of the New York State Senate, five are appointed by the Mayor, and two, the chairpersons of the Faculty and Student Senates, serve as ex-officio members.

CUNY is the largest municipal university system in the United States and ranks third in number of students among the public university systems in the nation. In 2003 CUNY will serve approximately 209,000 students in degree programs with approximately 141,000 in the senior colleges and 68,000 in the community colleges. In addition, CUNY will serve approximately 208,000 non-degree students. Similar levels of enrollment are anticipated in 2004.

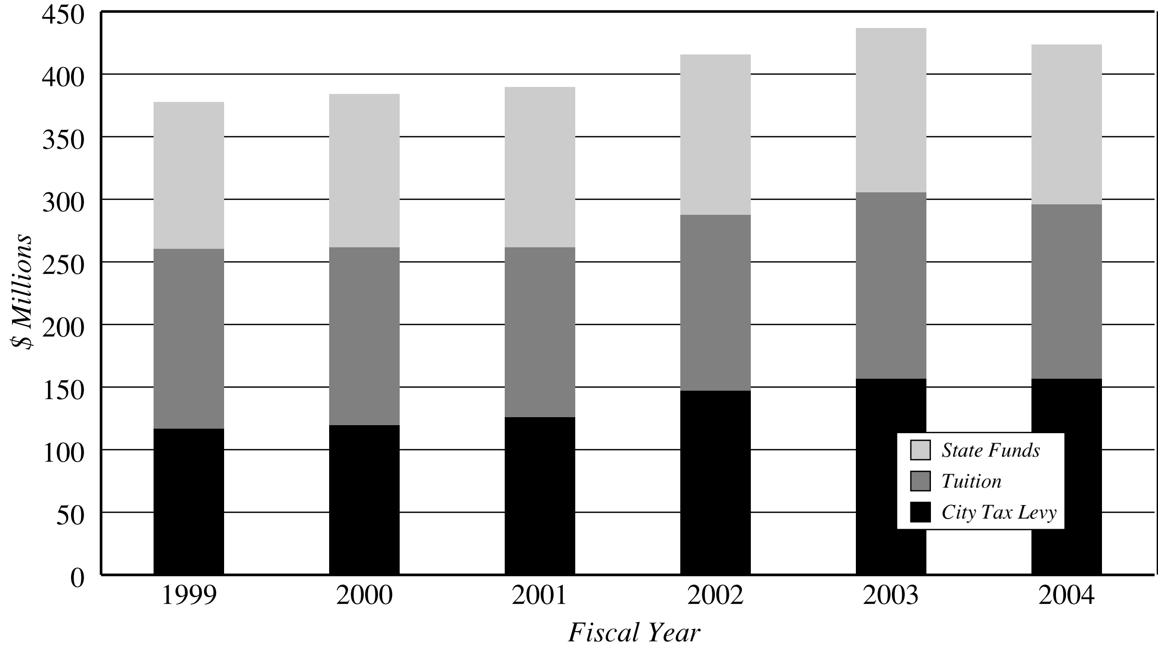
Financial Review

The City University of New York's 2004 Executive Budget is $464.4 million, a net decrease of $31.5 million from the 2003 forecast of $495.9 million. Most of this year to year decrease ($20.6 million) is due to one-time recognition of tuition and fees and other revenues in 2003. The change includes a decrease of $18.4 million in City funds, $7.7 million in Intra-City funds, $3.3 million in State aid, and approximately $2.1 million in Federal - Other funds. The community college budget decreased by $25.8 million, from $444.4 million to $418.6 million. The funding for the Senior and Community College Merit Scholarship program at $5.5 million has been eliminated for 2004. The Hunter Campus Schools budget decreased by approximately $200,000, dropping from $11 million to $10.8 million. Senior college prefunding remains unchanged at $35 million. Due to delays in finalizing the State budget, all State allocations for the 2003-2004 school year contained in these figures are estimates based on State aid adopted levels for 2003.

Revenue Forecast

Four major sources of revenue fund the CUNY expense budget: State aid; tuition, fees and miscellaneous income; City tax levy funds; and other categorical grants. The 2004 Executive Budget appropriates $128 million in State aid for the community colleges. This is a $3.3 million decrease from the 2003 forecast of $131.3 million but is the same as the 2003 adopted amount of $128 million. This funding level is subject to change when the State budget is approved. The other major source of 2004 revenue, namely tuition, fees and miscellaneous income, is projected at $139.1 million, a decrease of $9.7 million from the 2003 forecast level of $148.8 million. The 2004 estimate is subject to enrollment change and a possible tuition increase. The 2004 Executive Budget, including pension contributions budgeted separately in the Pension Agency, provides the same level of City Tax Levy funds as the 2003 Forecast of 156.6 million. Other categorical funds, which consist of non-governmental grants, remain unchanged at $5.0 million in both 2003 and 2004. These funds were previously included in City funds along with tuition and miscellaneous fees. Intra-City Other funding decreases $7.7 million from approximately $15.7 million to $8.0 million. Federal – Other funds, which consist mostly of FEMA allocations due to the September 11 events, decrease by $2.1 million from the 2003 level of $2.8 million to $700,000 in 2004.

COMMUNITY COLLEGE FUNDING 1999-2004



* *Funding which supports senior college and Hunter Campus Schools activities is not included here. City tax levy includes pension contributions which are budgeted in the Pension Agency. Tuition includes Tuition and Fees, Miscellaneous Revenues, Adult Continuing Education fees and Other Categorical funds. The 2003 amounts are as per the Executive forecast.*

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

- an increase of $1 million in tax levy funds to provide for health insurance rate adjustments.
- an increase of approximately $344,000 in tax levy funds to adjust for the energy needs of the community colleges and Hunter Campus Schools.
- a reduction of $5.5 million in tax levy funds for the Merit Scholarship program.
- a reduction of approximately $2.1 million in Federal – Other funds for FEMA related non-recurring costs.

The following table compares the 2004 Executive Budget with the 2004 Preliminary Budget.

Summary of Agency Financial Data
($000's)

			2004		Increase/(Decrease) 2003	Increase/(Decrease) 2004
	2002 Actual	2003 Forecast	Preliminary Budget	Executive Budget	Forecast	Preliminary Budget
Expenditures						
Personal Service	$323,608	$325,098	$315,691	$315,691	($9,407)	$0
Other Than Personal Service	113,268	170,777	150,075	148,686	(22,091)	(1,389)
Total	$436,876	$495,875	$465,766	$464,377	($31,498)	($1,389)
Funding						
City	$287,461	$304,798	$287,805	$286,416	($18,382)	($1,389)
Other Categorical Grants	332	5,000	5,000	5,000	—	—
Capital IFA	—	—	—	—	—	—
State	129,463	167,603	164,301	164,301	(3,302)	—
Federal						
• CD	—	—	—	—	—	—
• Other	619	2,836	703	703	(2,133)	—
Intra-City Other	19,004	15,638	7,957	7,957	(7,681)	—
Total	$436,876	$495,875	$465,766	$464,377	($31,498)	($1,389)
Personnel (includes FTEs at fiscal year-end)						
City	5,750	6,066	6,066	6,066	—	—
Non-City						
• IFA	—	—	—	—	—	—
• CD	—	—	—	—	—	—
• Other	6	5	5	5	—	—
Total	5,756	6,071	6,071	6,071	—	—

Programmatic Review

The Executive Budget contains initiatives that continue to support the City's efforts to raise standards and increase accountability at CUNY. CUNY continues its initiative to attract the City's brightest high school graduates for their college education through its CUNY-wide Honors College. This program seeks to attract students with a record of academic achievement and high SAT test scores. Selected students receive free tuition, a laptop computer and a $7,500 academic spending account. These students work with CUNY's most distinguished faculty and receive special attention and academic support throughout their college careers.

In 2002, the City provided approximately $15.5 million for the projected collective bargaining costs of CUNY's pedagogical staff to help the University maintain its full time teaching staff. This funding continues in 2004 and in future years of the plan. The City also enhanced its funding for health insurance costs by $2.3 million and $1 million in 2003 and 2004 respectively.

Program Highlights

CUNY is expected to engage in numerous independent and collaborative programs, including:

- CUNY/Department of Education Partnerships - CUNY maintains a number of successful collaborative programs with the New York City Department of Education. The College Now/College Tomorrow program, which is expected to register in 2003 more than 30,000 students in approximately 40,000 separate activities (including college credit courses, skill development courses and workshops and various enrichment activities), will enroll at least the same number of students in 2004. This program operates in all seventeen undergraduate colleges and instructs students both at high schools and in the colleges, helping twelfth graders acquire skills necessary to graduate, pass Regents and college entrance examinations, and ultimately succeed in college. In addition, the University's campuses are home to the Middle College High School Program, which operates thirteen affiliated high schools at Brooklyn, City, Lehman, York and Medgar Evers colleges, and Hostos, Bronx, LaGuardia, and Kingsborough community colleges. The program operates alternative high schools within college settings for especially talented students as well as for students identified as being at high risk of dropping out.

- Language Immersion Program - This program provides up to 900 hours of classroom work over three or four annual cycles to immigrant students who require better knowledge of English to be more effective students. The program serves over 2,800 immigrants at eight locations.

- Workforce Development Initiative (WDI) - This program promotes and supports small businesses by retraining and upgrading employee skills, meeting qualified teacher shortages, preparing undergraduates for skill-shortage occupations, creating jobs, providing for economic development, and performing labor market research, planning and coordination.

- Adult Literacy Program - This program is budgeted at $3.0 million in 2004. It will help approximately 9,400 students meet program and employment requirements in the labor market, including English-as-a-Second-Language education.

- Child Care - This program provides child care in 17 centers throughout CUNY. The program serves approximately 2,400 children and provides early child care, infant/toddler care, training for families and early childhood education.

Capital Review

The City University of New York's Four-Year Capital Plan totals $100.6 million, including $91.3 million in City funds and $9.3 million in State funds. The table below shows capital commitments by program area over the 2002-2007 period.

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
New School Construction	$3,097	$3,194	$15,564	$17,514	$311	$ 311	$39,888	$39,888	$14,171	$14,171	$5,644	$5,738
Renovation/Rehabilitation of Roofs, Classrooms, etc	1,258	1,327	17,166	20,747	5,024	5,024	3,637	3,637	2,563	4,682	3,614	7,086
Purchase & Installation of EDP and Other Equipment	3,198	3,819	24,548	37,974	5,253	5,253	23	23	2,603	2,642	1,834	1,846
Federal, State and Local Mandates	161	322	172	344	-	-	25	25	514	718	10	20
Other Projects	798	1,422	1,188	1,622	-	-	3,917	4,842	1,621	2,992	675	1,724
Total	$8,512	$10,084	$58,638	$78,201	$10,588	$10,588	$47,490	$48,415	$21,472	$25,205	$11,777	$16,414

The 2004-2007 Plan includes $100.6 million to upgrade and maintain the community college physical plant. The major elements of the program include:

- construction of new buildings ($60.1 million).
- rehabilitation of roofs, windows, doors and structural elements ($20.4 million).
- purchase and installation of electronic data processing and other equipment ($9.8 million).
- other projects and Federal, State and local mandates ($10.3 million).

In addition, the City can approve funding for major community college projects which are financed through the sale of bonds by the New York State Dormitory Authority in conjunction with the City University Construction Fund. The City and State fund these community college projects equally. Recent 2003 funded projects include: a $20.0 million bond for new and on-going projects. The new projects include $5.0 million for the swing space and design of the new Academic Building at Medgar Evers College, and $1.0 million each for the design of new buildings at Bronx Community College (North Instructional Building) and at Queensborough Community College (New Classroom/Lab Building). The on-going projects include stand alone subprojects of: $5.0 for the Borough of Manhattan Community College (Design, Escalators, HVAC and Roof), $4.0 million for the on-going renovation of Center III at LaGuardia Community College, $2.0 million for Hostos Community College for the Clinical Science Facility (Design, Construction), and$2.0 million was allocated for on-going CUNY-Wide Health and Safety/Facility Preservation projects. In addition, funded in the past and scheduled for completion by the end of 2003, is the Academic Village Building at Kingsborough Community College ($17.0 million). The new Plan assumes that only the State's share will be funded through the Dormitory Authority, the City's match of $58.9 million for the completion of the new Academic Building at Medgar Evers College is included in the Four-Year Capital Plan under construction of new buildings.

Analysis of Agency Budgets: Covered Organizations

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

The New York City Health and Hospitals Corporation (HHC) provides comprehensive medical, mental health, and substance abuse services to New York City residents, regardless of their insurance status. Through its seven regional health care networks, HHC operates eleven acute care hospitals, four long-term care facilities, six Diagnostic and Treatment Centers, a certified home health program, and a number of community-based primary care, dental, and child health clinics throughout the five boroughs. HHC also provides services in the City's correctional facilities and conducts mental health evaluations for the Family Courts in the Bronx, Brooklyn, Queens, and Manhattan. HHC facilities also serve as the primary provider network for the MetroPlus Health Plan, one of the largest health maintenance organizations in New York City and a wholly-owned HHC subsidiary.

In 2002, HHC's acute care hospitals operated 4,629 beds and generated 210,400 hospital discharges and 1,072,100 emergency room visits. The hospitals, diagnostic and treatment centers, and community-based clinics provided 4,914,800 clinic visits, of which 1,891,000 were primary care visits and 372,643 were methadone maintenance visits. In 2002, HHC facilities served more than one million people and 487,727 uninsured patients.

Financial Review

The Corporation reported a loss of $259 million in 2002. The 2002 ending cash balance was $340 million as reported in the City's Financial Plan. HHC continues to maintain the competitive bond ratings necessary to modernize its hospitals.

HHC's expenses in the projected 2004 Executive Budget total $4.372 billion. The revenue derived from third party payors is $3.43 billion. HHC will receive $337.1 million through intra-city payments and other contractual agreements with the City. The City will provide $52.6 million for treatment of prisoners and uniformed services personnel at HHC facilities and $43.5 million for other City services and debt service costs associated with HHC bonds. The City's total payment of $842.8 million in 2004 also includes $746.7 million to cover the City's share of HHC's projected Medicaid collections and bad debt and charity care pool contributions.

In lieu of a general support payment, the City has established a Purchase of Services Agreement with HHC, which covers the costs of providing care to the City's inmates and uniformed services personnel, as well as expenses associated with other City services. Moreover, the City pays debt service on currently outstanding HHC parity debt and general obligation (GO) bonds, Housing Finance Authority (HFA) leases, and Dormitory Authority of the State of New York (DASNY) bonds related to HHC facilities. HHC is scheduled to pay the City $184.8 million for malpractice settlements in 2004.

Expense Budget Highlights

Budgetary Priorities: Providing Core Services

HHC will take several actions during 2003 – 2004 to mitigate the impact of declining revenues. To stem increases in the cost of purchasing pharmaceuticals while ensuring access to quality pharmaceutical therapies, HHC is participating in the Minnesota Multi-State Group Purchasing Organization (MMGPO). This group combines the purchasing power of 40 states and more than 2,500 entities and enables HHC to purchase the majority of its pharmaceuticals at deeply discounted prices. In 2002, HHC spent approximately $120 million on pharmaceutical purchases, an increase of 4.7 percent over 2001, while the industry's average cost increase was 17.5 percent during the same period.

HHC has also contracted with a prime vendor that purchases pharmaceuticals through MMGPO and other HHC contracts, stores them in bulk, and processes electronic orders from each HHC pharmacy once a day. This process has resulted in significant economies of scale, such as a reduction in pharmaceutical stock to just-in-time levels and a reduction in administrative costs, for combined annual savings of $2 million.

HHC also established a system-wide formulary workgroup to examine the most prescribed drug classes used. This workgroup identified one or two clinically-effective brands within each drug class. As a result, a market-share competitive contracting process was implemented which guarantees 80 to 90 percent of the Corporation's purchase volume within a drug class to the lowest-bidding drug manufacturer. To date, market-share contracts have been implemented for four of the top 20 drug classes used by HHC hospitals. It is anticipated that the Corporation will save approximately $4.5 million annually as a result of these contracts.

As a public hospital system, HHC also benefits from deep discount prices for outpatient pharmaceuticals through the Federal government's Public Health Services (PHS) pricing structure. HHC is pursuing Federal legislation that would also allow public hospitals to obtain PHS pricing for inpatient pharmaceuticals. It is anticipated that this legislative change would yield an estimated $7 million to $8 million in additional discounts for HHC each year.

HHC facilities are collaborating with the Human Resources Administration (HRA) to increase the enrollment of uninsured patients into the Medicaid, Child Health Plus, and Family Health Plus programs.

HHC is pursuing additional cost reduction strategies through use of the Kings County Hospital Center cook chill facility for other HHC facilities. Savings are also anticipated through the continued outsourcing of laundry services. Reductions in other than personal services (OTPS) expenditures will be realized through centralized purchasing caps.

HHC will continue to pursue aggressively additional State and Federal aid to offset funding shortfalls. At the State level, HHC will advocate for the restoration of proposed State funding reductions and for the simplification of enrollment and application processes for the Medicaid, Child Health Plus, and Family Health Plus insurance programs. At the Federal level, HHC's legislative strategies will focus on reversing Medicare reductions that took effect in October 2002; obtaining first responder/disaster readiness funding; mitigating the impact of proposed Medicaid program changes; reversing scheduled reductions in disproportionate share hospital (DSH) Medicaid funding; and expanding the 340B pharmaceutical discount program to include inpatient drugs.

HHC is committed to expanding uninsured patients' enrollment onto the public health insurance programs for which they are eligible. One of the primary vehicles is the execution and implementation of effective contracts with managed care plans, including HHC's subsidiary, the MetroPlus Health Plan. As of January 2003, HHC served as the provider network for 241,199 enrollees of managed care plans, a 54 percent increase in enrollment from the January 2002 level of 156,846.

Over the same period, enrollment in the MetroPlus Health Plan increased by 75 percent from a level of 137,238 enrollees in January 2003 compared to 78,253 enrollees in January 2002. MetroPlus' total enrollment includes 101,278 Medicaid enrollees, 22,862 Child Health Plus enrollees, and 13,098 Family Health Plus enrollees. HHC facilities have also executed 186 Medicaid managed care contracts with 15 other managed care plans. Enrollees in these plans total 103,961, including 76,495 Medicaid enrollees, 23,943 Child Health Plus enrollees, and 3,523 Family Health Plus enrollees.

HHC facilities and MetroPlus will continue to engage in extensive efforts to enroll as many of the currently uninsured but eligible patients and prospective patients onto the public insurance programs. Success in this area will not only provide a means to address revenue shortfalls but will also give uninsured New Yorkers access to important health services.

Streamlining & Service Improvements: Ambulatory Care Restructuring

Access to care and wait times at hospital clinics and Diagnostic and Treatment Centers are significant factors in determining patient satisfaction and loyalty, as well as treatment outcomes. As HHC facilities strive to succeed in New York's increasingly competitive health care marketplace, facilities are finding improved access to care to be a critical factor not only in building capacity to serve new patients, but also in retaining existing ones. High no-show rates, bottlenecks, and delays are also some of the primary sources of frustration and dissatisfaction among physicians, nurses, and other staff. In its report, "Crossing the Quality Chasm: A New Health System for the 21st Century," the Institute of Medicine's Committee on Quality Health Care in America describes advanced access as "an important vehicle for achieving timely, efficient and patient-centered care."

In June 2002, HHC began a Corporate-wide effort to improve ambulatory care operations. This work – the Ambulatory Care Restructuring Initiative (ACRI) – is slated to take place over three years and will affect all ambulatory care sites in the Corporation. Building upon initial work conducted at Bellevue Hospital Center, Gouverneur Diagnostic and Treatment Center, Harlem Hospital Center, and Lincoln Medical and Mental Health Center, 20 teams from 13 HHC facilities have begun work to restructure their ambulatory care clinic operations. To date, outcomes include a reduction in visit cycle time - the amount of time a patient spends from arrival to departure - from an average of 139 minutes to 61 minutes. The goal of the Corporation is to reduce cycle time to less than 60 minutes and to provide all patients with appointment availability within three working days. A second set of teams will begin restructuring work in the fall of 2003.

Programmatic Review

Major Corporate Initiatives

Service Enhancements Targeted to Health Disparities

HHC has undertaken several initiatives that have resulted in significant progress in improving the health outcomes of its patients and reducing the daunting array of health problems faced by some of the City's communities. The extensive service provision of HHC facilities in the areas of primary care expansion, comprehensive HIV services, asthma treatment, outreach and education, prenatal care and mammogram screenings, immunizations, and smoking cessation are examples of successful Corporate-wide initiatives. These initiatives reflect the range of community-oriented health approaches, partnerships, and investments that can create and sustain healthier communities.

The management of asthma continues to be one of HHC's top priorities. Using the New York City Department of Health and Mental Hygiene (DHMH) asthma action care plan, patients are instructed on how to monitor their breathing with the regular use of a peak flow meter, how to anticipate asthma flare-ups, and how to communicate their condition to their providers. Moreover, asthma best practice guidelines have been incorporated into HHC's computerized patient record. This coordinated disease management strategy has resulted in reduced emergency room use and inpatient admissions. Pediatric asthma patients' emergency room revisit rate dropped from 4.6 percent in calendar year 1998 to 4.0 percent in calendar year 2002, and the comparable rate for adults declined from 9.1 percent to 7.9 percent over the same period.

Women's Health Quality Indicators

HHC seeks to increase the percentage of women entering its facilities for prenatal care during their first trimester of pregnancy. In 2002, HHC succeeded in serving 66 percent of women in prenatal care during their first trimester, exceeding its goal of 60 percent. Access to family planning services is another quality indicator monitored by HHC. Family planning visits were provided within four days in 2002, compared to seven days in

1997. Patients' access to breast cancer screening services is also assessed. In 2002, the Corporate-wide average waiting time for mammography screening appointments was three days, compared to a five day waiting time in 1998.

Behavioral Health Service Enhancements

HHC facilities provide a significant amount of the behavioral health services available to New Yorkers. HHC is revamping its mental health and substance abuse programs to provide greater emphasis on rehabilitation and recovery, as well as vocational skills development. Critical to the success of these efforts will be the availability of a more extensive continuum of residential treatment and housing options. HHC will continue to seek partnerships with housing, human services, and mental health organizations to develop a more comprehensive array of residential treatment resources for the patients who use its mental health and substance abuse services.

Using evidenced-based treatment and recovery program models, HHC facilities will implement a new consumer case management approach in their outpatient mental health clinics to improve patient care and outcomes. In 2003 - 2004, HHC plans to initiate three or four such programs. In addition, HHC continues to expand the capacity of its Assertive Community Outreach Teams. Five teams will be added in 2003 - 2004.

Building upon HHC's current efforts to integrate the provision of behavioral health services and primary care, HHC's leading psychiatrists are working closely with the MetroPlus Health Plan to implement clinical guidelines for the treatment of depression in primary care settings. In addition, Gouverneur Diagnostic and Treatment Center was awarded a Federal grant to pilot an integrated mental health/primary care service delivery approach for children and adolescents. Lessons learned from this pilot program will serve as the foundation for implementing integrated programs at other HHC facilities and on behalf of additional patient populations.

HHC facilities continue to play an important role in the City's efforts to respond to the mental health needs of New Yorkers resulting from the September 11th attacks. Throughout most of the five boroughs, HHC facilities serve as Project Liberty providers.

Information Systems/Technology Enhancements

In order to improve the quality and efficiency of clinical and administrative operations, HHC continues to develop and implement a computerized patient record (CPR) across all networks and facilities. At the core of the HHC CPR, the patient clinical information system provides access to a patient's clinical record at all acute care hospitals, Diagnostic and Treatment Centers, and community-based extension clinics 24 hours per day, 7 days per week. The CPR enables physicians to order medications, diagnostic tests, and therapeutic interventions on-line – a nationally recognized best practice to improve patient safety and the quality of clinical care. Clinical documentation can also be retrieved and reviewed by clinicians whenever and wherever necessary, enabling better informed clinical decisions and treatments. Patient care protocols are being created within the CPR to promote best practices in primary and preventive care for adults and children, women's health, diabetes management, and smoking cessation. The CPR also improves the recording of information for billing purposes and charges, which will facilitate improvements in revenue collection and billing compliance and assist in productivity reporting for the affiliation contracts.

The Community Health Partnership Initiative

In July 1998, the New York State Department of Health (SDOH) began the Community Health Care Conversion Demonstration Project (CHCCDP) to assist hospitals in the transition to mandatory Medicaid managed care. Through its Community Health Partnership (CHP) program, HHC has used CHCCDP funds for workforce retraining, investments in technology to improve productivity and enhance patient safety, and expansion of primary care capacity in underserved neighborhoods. CHCCDP funds are currently being used for the Ambulatory Care

Restructuring Initiative. As of March 2003, SDOH CHCCDP funding totaled $277 million. HHC expects to receive approximately $175 million in 2004 – 2005.

Quality Improvements

Full Accreditation

In an increasingly competitive marketplace, a healthcare facility's viability depends on the quality of care that it provides. HHC's commitment to service excellence is confirmed by the receipt of accreditation with full standards compliance from the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO). During the fall of 2002, Bellevue Hospital Center, Coler-Goldwater Specialty Hospital and Nursing Facility, Harlem Hospital Center, North Central Bronx Hospital, and Woodhull Medical and Mental Health Center all received full JCAHO accreditation. These facilities' high degree of service excellence was confirmed with an average survey score of 98, with 100 being the highest attainable score.

Affiliation Contracts

In 2002, HHC spent approximately $532 million on contracts with its affiliates, including medical schools and professional corporations, for the provision of all or some medical staff and services at 16 facilities. HHC anticipates that it will spend $548 million on affiliation contracts in 2003 and $564 million in 2004. The projected increase in costs is due to cost of living adjustments, reimbursement for improved provider activity, and expansion of services.

In 1995, the Corporation spent approximately $534 million on affiliation contracts. Expenses associated with these contracts decreased by $100 million between 1995 and 1998 as a result of the implementation of a performance-based productivity contract model that more closely links provider payment to performance. Had the Corporation's affiliation expenses continued to increase at the previous 7.4 percent annual rate, costs in 2003 would have totaled $945 million. Based on this estimate, HHC has achieved almost $2 billion in cost avoidance between 1996 and 2003 with the implementation of performance-based contracts. These agreements include provisions for the measurement of quantifiable indicators of service quality and provider performance.

Capital Review

The HHC Capital Plan focuses on rehabilitating its network of acute care, long-term care, and ambulatory care facilities. HHC's capital strategy is driven by the changes that have occurred in health care delivery and financing. In particular, the advent of managed care, new technology, and new treatment approaches for certain diseases such as AIDS have significantly affected inpatient utilization. Moreover, patient demands and competition for clients have created the need for greater privacy, more convenient and efficient patient flow, and different configurations of hospital and clinic space.

HHC's Five-Year Capital Plan includes four major modernization projects. The first project is Phase II of the reconstruction of Kings County Hospital Center. At an estimated cost of $145 million, this City-funded project includes the construction of a new diagnostic, treatment, and emergency/trauma services facility scheduled to open in the summer of 2005. This structure will also house the hospital's operating rooms, comprehensive radiology unit, and labor and delivery suite. Structural steel and concrete deck work is complete, and exterior pre-cast panel installation is currently underway. Phase II also includes the renovation of the ground floor of an existing, adjacent building to accommodate medical walk-in clinics.

At an estimated cost of $178 million, the second major project is the modernization of Bellevue Hospital Center. The primary component of this City-funded project is the construction of a new 207,000 square-foot ambulatory care building to provide primary care, specialty care, cancer care, substance abuse, ambulatory surgery, dental, and dialysis services. Structural steel framing and concrete deck work are complete, and curtainwall installation is currently underway. This project also includes the consolidation of six intensive care units onto one floor, the conversion of four-bedded inpatient hospital rooms in the medical/surgical units to one- or two-bedded rooms, and the upgrading of the 30-year-old heating, ventilation, and air conditioning (HVAC) system. The project is scheduled for completion in November 2005.

The third major project is the modernization of Jacobi Medical Center, which is estimated to cost $173 million. This project involves the construction of a replacement acute care facility of 339 beds. This 390,000 square-foot facility will also house the hospital's operating rooms, radiology units, labor and delivery suite, critical care units, and emergency department services. Masonry and curtainwall installation are substantially complete, and interior partitions are currently in progress.

The fourth major project is the modernization of Coney Island Hospital, which is estimated to cost $91 million. This project involves the construction and renovation of ambulatory care and acute care facilities. The first phase of the project, to renovate existing space for relocated ambulatory services, was completed in September 2002. Foundation work is currently in progress for a new 124,000 square-foot, 212-bed inpatient tower, which represents the main component of the project. The entire project is scheduled for completion in May 2006.

NEW YORK CITY TRANSIT

New York City Transit (NYCT) operates the most extensive public transportation system in the nation, serving over 2.1 billion subway and bus passengers in calendar year 2002 with over 1.3 billion passengers riding the subway system. Despite the lingering effects of the World Trade Center (WTC) disaster and a weakened economy, NYCT ridership increased by 1.4% in CY 2002 and has risen by more than 30% overall since January 1997. More than 73% of NYCT riders currently take advantage of unlimited ride and MetroCard bonus discounts, and that number is expected to increase as NYCT expands and simplifies its menu of discount options.

The subway system operates on 685 miles of track extending over 238 directional route-miles, serving 468 stations throughout the Bronx, Brooklyn, Manhattan, and Queens. The bus system consists of a fleet of 4,465 buses on 245 local and express routes in all five boroughs. In September 2002, NYCT re-opened three of the four stations and all two and a half miles of track in Lower Manhattan damaged by the September 11, 2001 terrorist attack on the World Trade Center.

New York City Transit has been an affiliate of the Metropolitan Transportation Authority (MTA) since the Authority's inception in 1968. The MTA is a New York State public authority responsible for coordinating and implementing a mass transportation program for New York City and the seven adjacent counties. The MTA Board also oversees the development of NYCT's operating budget and coordinates its capital expenditures. NYCT is divided into several operating departments, most notably the Department of Subways and the Department of Buses.

The Staten Island Railway (SIR) is also a subsidiary of the MTA. SIR operates a 14-mile rapid transit line which links 22 communities on Staten Island and provides a vital and convenient connection to the Staten Island Ferry. SIR serves approximately 3.6 million passengers per year.

Financial Review

The City's financial plan includes $246.8 million for NYCT in fiscal year 2004. As NYCT operates on a calendar year (CY) basis, the financial plan below is presented in that format. New York City Transit's Financial Plan for CY 2003 through 2007 will be submitted to the Financial Control Board following the presentation of the 2004 Executive Budget. The plan for CY 2003 incorporates the following key elements:

- CY 2003 fare revenue is projected to be $2,398.4 million, a 13.0 percent increase over recent CY 2002 estimates. This change is driven by the recent NYCT subway/bus fare increase (from $1.50 to $2.00), though its effects are partially offset by increased use of fare discounts. CY 2003 ridership is expected to remain relatively flat.

- tax revenues dedicated for NYCT's use are projected to total $1,091.4 million; $461.7 million from the regional Metropolitan Mass Transportation Operating Assistance Account (MMTOA), $407.6 million from the State "Lock Box" Petroleum Business Tax, $132.7 million from the Urban Mass Transportation Operating Assistance Account (Urban Account), and $89.4 million from Mortgage Recording Tax transfers.

- the City's contribution to NYCT's operating budget for CY 2003 totals $242.1 million, including $158.1 million in operating assistance, $45.0 million for student fare discounts, $20.6 million for the Paratransit program, $13.8 million for elderly and disabled fare discounts and $4.6 million for Transit Police.

Based on recent financial projections, NYCT is expected to close CY 2002 with a cash surplus of $13.7 million. Despite this, NYCT has projected substantial budget shortfalls over the next five years and has enacted an across-the-board fare increase as a gap-closing measure to bring the financial plan into balance.

New York City Transit Financial Plan

($ in millions)

	Calendar Years				
	2003	2004	2005	2006	2007
REVENUES					
Subway / Bus Fare Revenue	$2,398.4	$2,575.6	$2,601.4	$2,627.4	$2,653.6
Other Operating Revenue	74.8	79.0	98.8	99.5	100.4
Transit Tax Revenue	1,091.4	1,271.7	1,150.4	1,150.4	1,150.4
City Subsidies	242.1	245.9	251.1	257.1	264.3
State Subsidies	203.2	203.2	203.2	203.2	203.2
TBTA Surplus Transfer	114.6	73.9	73.9	73.9	73.9
Capital Reimbursement	759.6	683.5	688.6	693.8	699.0
TOTAL REVENUE	$4,884.1	$5,132.8	$5,067.4	$5,105.3	$5,144.8
EXPENSES					
Salaries & Wages	$2,479.3	$2,501.2	$2,501.2	$2,501.2	$2,501.2
Fringes	914.7	987.4	998.1	1,009.4	1,021.4
OTPS	593.6	549.5	628.6	641.6	654.9
Contingency Reserve	0.0	25.0	25.0	25.0	25.0
Paratransit Expenses	153.9	193.2	204.8	210.9	217.3
Transit Police	4.6	4.3	4.6	4.6	4.6
Capital Expenses	759.6	683.5	688.6	693.8	699.0
Debt Service	311.1	454.0	454.0	454.0	454.0
TOTAL EXPENSES	$5,216.8	$5,398.1	$5,504.8	$5,540.4	$5,577.4
OTHER ACTIONS					
Balance before Adjustments	$(332.7)	$(265.3)	$(437.4)	$(435.2)	$(432.7)
Gap-Closing Actions[1]	304.8	20.8	183.6	198.7	196.2
Cash Flow Adjustments	39.5	236.5	236.5	236.5	236.5
Net Cash from Prior Year	13.7	25.3	17.3	0.0	0.0
SURPLUS/(DEFICIT)	$25.3	$17.3	$0.0	$0.0	$0.0

[1] Includes actions available to offset outyear budget gaps, including increased State subsidies, use of cash reserve and expenditure reductions

In addition, the City is currently negotiating with the MTA with the goal of transferring the franchise bus service to the MTA.

City Subsidies

The City's contribution to New York City Transit's operating budget for CY 2003 will total $242.1 million. The City continues to provide a $45.0 million subsidy to transport school children (one-third of the total estimated program costs), while also subsidizing the elderly and disabled reduced-fare program ($13.8 million) and the paratransit program ($20.6 million). In addition, the City match of State "18b" operating assistance, in the amount of $158.1 million, supports a portion of NYCT's overall operating costs and another $4.6 million is used to fund costs associated with the Transit Police. In CY 2003, the City is providing approximately $71.8 million directly to the MTA to maintain Long Island Railroad and Metro-North Commuter Railroad stations in the five boroughs and for operating assistance for the commuter railroads as part of the local match of State "18b" aid.

The following chart summarizes the City's subsidies to NYCT for CY 2003:

City Payments to the NYCT, CY 2003
($ in millions)

• Elderly and Disabled Subsidy	$13.8
• School Fare Subsidy	45.0
• Operating Assistance	158.1
• Police Reimbursement	4.6
• Paratransit	20.6
TOTAL	$242.1

Capital Review

The City's four-year Capital Plan totals $299.4 million: $297.4 million for NYCT and an additional $2.0 million for Staten Island Railway. The ten-year Capital Plan totals $748.1 million: $743.1 million for NYCT and an additional $5.0 million for Staten Island Railway. These funds will be used to support NYCT's most essential work: to help bring the entire mass transit system to a state of good repair, to maintain that level on a normal replacement cycle, and to help expand the transit system. City capital funds are used in conjunction with other sources (Federal, State, and Private) towards NYCT's Capital Program.

The City's ten-year Plan for NYCT and SIR includes the following key elements:

- funds to help provide for various NYCT infrastructure improvements, system enhancements, and bus and subway car upgrades, $343.1 million (includes $137.4 million in FY04-07).

- funds for NYCT trackwork, $350.0 million (includes $140.0 million in FY04-07).

- funds for the NYCT rapid and surface transit revolving funds, $50.0 million (includes $20.0 million in FY04-07).

- funds for SIR's track replacement and infrastructure programs, including improvements at the St. George Station and Ferry Terminal, $5.0 million (includes $2.0 million in FY04-07).

The table below outlines the City's Capital Commitments to NYCT and SIR for the 2002-2007 period:

Capital Commitments

($000's)

	2002 Actual		2003 Plan		2004 Plan		2005 Plan		2006 Plan		2007 Plan	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Coliseum Funds	0	0	345,000	345,000	0	0	0	0	0	0	0	0
Infrastructure	0	0	171,900	171,900	34,289	34,289	34,289	34,289	34,289	34,289	34,289	34,289
Trackwork	-1	-1	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000
Revolving Fund	1,000	1,000	9,000	9,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
SIRTOA	0	0	2,600	2,600	500	500	500	500	500	500	500	500
Miscellaneous	5,250	5,250	875	875	250	250	0	0	0	0	0	0
Total	$6,249	$6,249	$564,375	$564,375	$75,039	$75,039	$74,789	$74,789	$74,789	$74,789	$74,789	$74,789

Appendix

EXHIBIT 1
EXPENDITURE ASSUMPTIONS

Personal Service

The expenditures for personal services in the Executive Budget for 2004 and the three-year projections are as follows:

($ in millions)

	2004	2005	2006	2007
Salaries and Wages	$15,874	$15,877	$15,876	$15,880
Pensions	2,719	3,443	4,398	4,986
Other Fringe Benefits	4,797	5,057	5,354	5,651
Reserve for Collective Bargaining				
Department of Education	57	57	57	57
Other	164	165	169	169
Reserve Subtotal	221	222	226	226
Total	$23,611	$24,599	$25,854	$26,743

Salaries and Wages

The baseline projections for salaries and wages reflect all personnel costs associated with current and projected headcount levels. Excluded from these projections is a small portion of the cost of collective bargaining associated with the 2000-2002 round of bargaining which is contained in the Reserve for Collective Bargaining.

Pensions and Other Fringe Benefits

The City's pension expenses on behalf of the five major retirement systems for 2004 through 2007 reflect the draft valuation projections prepared by the Chief Actuary. The valuation funding assumptions have been approved by the trustees of the pension systems and the statutory interest rate assumption is eight percent. The financial plan also incorporates planned payroll adjustments and the impact of pension fund investment losses that occurred in 2001 and 2002, and a reserve for investment losses expected for 2003. The costs of annual investment losses are phased-in over five year periods. These projections also incorporate the costs of significant benefit improvements that were granted by the State legislature in 2000. Investment losses, combined with the statutory phase-in of the funding of certain benefit improvements, account for the growth in annual costs over the financial plan period.

Total pension expenses for the four years are as follows:

($ in millions)

	2004	2005	2006	2007
City Actuarial Systems	$2,648	$3,363	$4,310	$4,892
Non-City Actuarial	37	45	51	57
Non-Actuarial	34	35	37	37
Total	$2,719	$3,443	$4,398	$4,986

Social Security cost estimates reflect the projected tax rates and wage ceilings issued by the Social Security Administration as well as planned payroll adjustments. Unemployment Insurance costs are consistent with the statutory maximum weekly benefit levels and planned payroll adjustments. Workers' Compensation costs are consistent with 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 health insurance providers. Out-year projections reflect anticipated increases in hospital and medical trends.

Reserve for Collective Bargaining

The reserve for collective bargaining contains funding for the cost of wage increases for unsettled civilian employees who are covered by Section 220 of the labor law (prevailing wage employees) equal to those agreed to in the District Council 37 collective bargaining agreement and the subsequent pattern conforming labor agreements. The reserve also includes funding for the Detectives Endowment Association at levels sufficient to match those agreed to in the uniformed forces coalition agreement and a small unallocated portion of the recent Sergeants Benevolent Association Agreement. Further, the reserve contains some of the unallocated portion (the Additional Compensation Fund) of the civilian labor agreements. The value of this ACF is approximately equal to a 1 percent wage increase. Finally, the reserve contains smaller amounts for unions who remain unsettled for the 1995 through 2000 round. These funds are excluded in the baseline salaries and wages. Funds for Department of Education collective bargaining have been transferred to the Department of Education and those remaining are held in a discrete collective bargaining Unit of Appropriation.

Other Than Personal Service

The following items are included in this category:

($ in millions)

	2004	2005	2006	2007
Administrative OTPS	$9,731	$9,828	$9,975	$10,117
Public Assistance	2,092	2,099	2,101	2,103
Medical Assistance	4,238	4,387	4,531	4,535
Health & Hospitals Corporation	175	173	171	171
Covered Agency Support & Other Subsidies	1,735	1,971	2,038	2,105
City and MAC Debt Service	3,717	4,004	4,147	4,362
General Reserve	300	300	300	300
Total	$21,988	$22,762	$23,263	$23,693

Administrative OTPS

Administrative OTPS costs in each agency's baseline four-year financial plan include the ongoing cost of existing programs, planned increases or decreases from PEG initiatives and other adjustments. For 2005 through 2007 the financial plan includes a Citywide appropriation to provide for an increase in OTPS costs resulting from inflation. The inflation adjustment represents a yearly 2.9 percent increase from 2005 through 2007.

Energy

The cost of energy is budgeted at a constant level in each agency's budget for 2004 through 2007, with the exception of HPD. For 2005 through 2007 the financial plan includes a Citywide appropriation to provide for the changing cost of energy. Price and usage changes for HPD's In-Rem Program are budgeted in HPD's four-year plan. The In-Rem Program is expected to incur no energy cost in 2006 and 2007. As reflected in the following table, energy costs have slightly increased in the last year, mainly due to colder temperatures and an increase in oil and natural gas prices.

Energy Cost Comparison
($ in millions)

Estimate as of:	2003	2004	2005	2006
2003 Adopted Budget	$571	$592	$595	$600
2004 Executive Budget	580	622	603	593
Difference	$9	$30	$8	($7)

The cost of gasoline, fuel oil and heat, light and power will decrease by $22 million from 2004 through 2007. The annual cost projections are as follows:

Energy Costs

($ in millions)

	2003	2004	2005	2006	2007
Gasoline	$36	$38	$37	$36	$37
Fuel Oil	50	53	52	51	52
HPD-In Rem	15	8	3	-	-
HPD-Emergency Repair	2	2	2	-	-
Heat, Light and Power	477	521	509	506	511
Total	$580	$622	$603	$593	$600

Leases

In each agency the cost of leases is budgeted at a constant level from 2004 through 2007. A citywide adjustment for 2005 through 2007 provides for the increasing cost of leases based on a three percent annual inflator and the annualization of 2004 adjustments, as well as known future leases, where applicable.

In total the four-year plan includes $499 million for leases in 2004, $519 million in 2005, $535 million in 2006 and $551 million in 2007. Of these amounts the citywide adjustment is $20 million, $36 million, and $52 million respectively in 2005 through 2007.

Public Assistance

In 2004, an average of 420,764 persons are projected to receive public assistance, a decline of 2,356 from the 2003 average through March.

Medical Assistance

The financial plan for Medical Assistance assumes growth of 9.0 percent for 2004 (costs exclude expenditures from the Health and Hospitals Corporation, the Department of Health, and administration). In addition, growth of 4.0 percent is expected for 2005.

Health and Hospitals Corporation

Revenue and expenditure projections for 2004 through 2007 include assumptions related to actual collections experience, the impact of rates by third party payors, and collections performance through a variety of revenue enhancement efforts. Total collections for fiscal years 2004 through 2007, excluding Medicaid rate appeals, reflect no change for non-Medicaid payors. Medicaid receipts (which includes fee-for-service as well as managed care) is estimated to increase by 10.3 percent over the four years of the plan. A growth in expenditures of 9.2 percent is projected for fiscal years 2004 through 2007.

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 $300 million for 2004 through 2007 to provide for uncontrollable increases in expenditures as well as shortfalls in revenues. To allow for any further uncertainties which may occur in the future, the general reserve has been increased above the mandated amount of $100 million.

Debt Service

Debt Service projections cover payments of debt service on currently outstanding City and MAC debt and future issuances in accordance with the 2003-2007 financing program (See Financing Program). Actual debt service payments in these years will be affected by the timing of City public sales and by market conditions. Estimates of City debt service costs in debt to be issued are based on estimates of the periods of probable usefulness of the capital expenditures for which the debt will be issued.

City debt service estimates also include payments to MAC for amortization and interest on City obligations held by MAC. During 2003-2007, the City estimates that the payments to MAC will be $214 million, $531 million, $490 million, $492 million, and $494 million, respectively. MAC debt service funding is shown net of such payments. 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 requirement from certain State revenues otherwise available to the City for budgetary purposes.

Below are the detailed estimates for debt service for 2003-2007:

($ in millions)

	2003	2004	2005	2006	2007
Long-Term Funded Debt	$1,718	$2,984	$3,221	$3,308	$3,496
Short-Term Debt	12	71	75	75	75
Lease Purchase/City Guaranteed Debt	227	131	218	272	297
Total City Debt Service	$1,957	$3,186	$3,514	$3,655	$3,868
MAC Debt Service Funding	214	531	490	492	494
Total Debt Service	$2,171	$3,717	$4,004	$4,147	$4,362

EXHIBIT 2

FISCAL YEAR 2004 EXECUTIVE BUDGET AND PROJECTIONS, FISCAL YEAR 2004 THROUGH FISCAL YEAR 2007

($ in thousands)

			Fiscal Year 2003						
Dept. No.	Agency	FY 2002 Actual Expenditures	Executive Budget	8 Month Actuals July-Feb.	Forecast	FY 2004 Executive Budget	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate
002	Mayoralty	$109,674	$78,927	$71,220	$109,960	$70,676	$70,676	$70,676	$70,676
003	Board of Elections	67,483	46,040	43,532	58,152	76,728	67,982	68,117	68,117
004	Campaign Finance Board	48,500	10,556	7,203	9,697	31,577	17,731	17,731	17,731
008	Office of the Actuary	3,149	3,733	2,404	3,579	3,613	3,614	3,614	3,614
010	President,Borough of Manhattan	5,027	4,171	2,668	4,019	3,160	3,012	3,004	3,004
011	President,Borough of the Bronx	6,944	5,907	3,671	5,546	4,663	4,354	4,290	4,290
012	President,Borough of Brooklyn	6,090	5,039	3,442	5,360	4,288	3,986	3,933	3,933
013	President,Borough of Queens	6,290	4,824	3,316	4,846	4,090	3,810	3,630	3,630
014	President,Borough of S.I.	4,787	4,128	2,313	3,851	3,127	3,035	3,035	3,035
015	Office of the Comptroller	57,602	46,541	35,683	55,369	47,612	47,120	47,120	47,120
017	Dept. of Emergency Management	—	2,236	2,772	11,505	3,603	3,603	3,603	3,603
021	Tax Commission	1,992	2,118	1,243	1,893	1,885	1,885	1,885	1,885
025	Law Department	96,253	96,082	69,248	102,284	104,444	101,996	101,911	101,910
030	Department of City Planning	18,754	19,853	12,335	22,827	17,187	17,015	17,015	17,015
032	Department of Investigation	23,138	22,128	14,732	21,395	18,613	18,373	18,373	18,317
035	NY Public Library - Research	9,198	16,348	11,539	24,411	7,780	15,480	15,480	15,480
037	New York Public Library	46,905	85,233	60,942	128,564	40,824	81,724	81,724	81,724
038	Brooklyn Public Library	34,764	62,265	43,435	94,832	30,092	60,192	60,192	60,192
039	Queens Borough Public Library	32,940	59,643	48,283	90,160	28,688	57,288	57,288	57,288
040	Department of Education	11,881,853	11,766,704	7,335,672	12,556,743	12,159,378	12,244,382	12,402,989	12,546,928
042	City University	436,877	458,328	267,759	495,875	464,377	464,304	462,975	462,107
054	Civilian Complaint Review Bd.	9,329	11,160	5,992	9,280	9,287	9,122	9,122	9,122
056	Police Department	3,706,693	3,361,353	2,275,787	3,586,125	3,357,190	3,389,740	3,387,200	3,387,201
057	Fire Department	1,266,240	1,069,087	871,869	1,228,548	1,108,041	1,106,055	1,104,404	1,103,659
068	Admin. for Children Services	2,375,003	2,335,317	1,967,040	2,362,269	2,091,709	2,061,871	2,057,230	2,057,230
069	Department of Social Services	5,967,574	5,759,119	4,512,594	6,041,369	6,118,439	6,256,826	6,395,669	6,411,762
071	Dept. of Homeless Services	540,213	563,590	505,329	641,540	636,264	635,280	635,088	635,587
072	Department of Correction	886,595	924,355	580,532	876,683	830,800	839,329	832,624	830,691
073	Board of Correction	906	873	532	839	791	791	791	791
094	Department of Employment	135,865	96,349	146,855	166,081	—	—	—	—
095	Citywide Pension Contributions	1,491,901	1,770,759	1,288,085	1,758,929	2,719,320	3,443,110	4,398,296	4,986,055
098	Miscellaneous	4,043,818	4,221,161	2,399,417	4,343,941	4,333,424	4,639,067	4,916,178	5,189,751
099	Debt Service	1,371,059	2,435,845	825,280	1,957,210	3,185,652	3,513,988	3,654,703	3,867,802
100	M.A.C. Debt Service	5,000	255,300	—	214,000	530,500	490,400	491,900	494,100
101	Public Advocate	2,821	2,062	1,245	1,873	1,561	1,561	1,561	1,561
102	City Council	47,283	46,296	30,523	47,287	45,831	45,831	45,831	45,831
103	City Clerk	2,728	2,618	1,673	2,701	2,980	2,860	2,860	2,860
125	Department for the Aging	231,227	209,134	211,872	239,055	169,887	169,915	169,915	169,915
126	Department of Cultural Affairs	124,673	110,416	84,932	121,886	94,637	94,637	94,637	94,637
127	Financial Info. Serv. Agency	30,777	33,186	27,709	33,944	35,411	35,536	35,426	35,426
130	Department of Juvenile Justice	108,943	108,825	49,491	107,589	98,994	97,760	102,035	102,035
131	Office of Payroll Admin.	6,129	8,784	5,017	7,683	9,786	10,008	9,901	9,854
132	Independent Budget Office	2,551	2,764	1,591	2,711	2,732	2,732	2,732	2,732
133	Equal Employment Practices Com	343	617	304	481	503	503	503	503
134	Civil Service Commission	471	593	310	457	540	540	540	540
136	Landmarks Preservation Comm.	3,170	3,186	2,183	3,573	3,195	3,195	3,195	3,195
138	Districting Commission	—	2,253	1,035	2,039	902	—	—	—
156	Taxi & Limousine Commission	22,977	22,393	14,777	22,297	24,068	23,389	23,389	23,071
226	Commission on Human Rights	7,463	7,799	5,669	7,772	6,858	6,858	6,858	6,858
260	Youth & Community Development	153,013	142,135	132,025	160,904	186,432	186,432	186,432	186,432
312	Conflicts of Interest Board	1,623	1,701	1,037	1,603	1,357	1,357	1,357	1,357

EXHIBIT 2

FISCAL YEAR 2004 EXECUTIVE BUDGET AND PROJECTIONS, FISCAL YEAR 2004 THROUGH FISCAL YEAR 2007

($ in thousands)

Dept. No.	Agency	FY 2002 Actual Expenditures	Fiscal Year 2003 Executive Budget	Fiscal Year 2003 8 Month Actuals July-Feb.	Fiscal Year 2003 Forecast	FY 2004 Executive Budget	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate
313	Office of Collective Barg.	1,482	1,552	1,138	1,557	1,553	1,553	1,553	1,553
499	Community Boards (All)	11,405	11,942	7,603	11,996	12,039	12,039	12,039	12,039
781	Department of Probation	89,660	82,130	57,502	82,426	71,416	70,912	68,029	68,029
801	Dept. Small Business Services	97,229	34,140	36,386	53,702	26,817	31,686	32,061	28,453
806	Housing Preservation & Dev.	407,783	371,369	301,300	448,876	401,989	399,011	404,324	401,813
810	Department of Buildings	56,360	52,023	41,176	58,905	54,143	51,151	50,937	50,497
816	Dept Health & Mental Hygiene	1,063,732	1,297,329	1,168,917	1,467,345	1,290,996	1,344,733	1,372,766	1,401,159
817	Dept of Mental Health	648,463	—	—	—	—	—	—	—
819	Health and Hospitals Corp.	909,465	920,994	697,734	936,452	921,864	936,709	953,868	953,868
826	Dept of Environmental Prot.	668,206	725,015	523,430	776,827	725,984	706,610	704,020	704,020
827	Department of Sanitation	1,005,028	966,541	739,595	1,006,616	962,103	1,002,236	1,003,995	1,005,754
829	Business Integrity Commission	2,779	4,081	2,664	4,985	5,227	5,227	5,227	5,227
836	Department of Finance	183,815	186,351	129,939	187,034	188,944	188,332	188,332	188,332
841	Department of Transportation	515,087	488,802	391,879	540,934	475,697	478,902	477,922	479,803
846	Dept of Parks and Recreation	270,741	191,794	174,484	262,017	183,039	185,762	185,762	185,762
850	Dept. of Design & Construction	621,330	86,001	89,337	148,025	86,143	86,143	86,143	86,143
856	Dept of Citywide Admin Srvces	643,879	722,266	637,821	695,819	729,547	734,667	733,902	733,900
858	D.O.I.T.T.	170,950	174,111	141,523	195,233	189,140	186,698	189,547	187,896
860	Dept of Records & Info Serv.	4,220	4,035	3,030	4,246	3,734	3,735	3,735	3,735
866	Department of Consumer Affairs	14,302	14,196	9,362	15,111	14,232	13,538	13,512	13,624
901	District Attorney - N.Y.	83,125	68,767	53,208	78,698	63,577	63,577	63,577	63,577
902	District Attorney - Bronx	45,352	41,218	26,575	42,893	37,808	37,808	37,808	37,808
903	District Attorney - Kings	80,626	66,703	49,266	69,822	63,961	63,961	63,961	63,961
904	District Attorney - Queens	39,448	35,240	26,399	39,238	33,068	33,068	33,068	33,068
905	District Attorney - Richmond	7,069	5,901	4,037	6,295	5,380	5,380	5,380	5,380
906	Off. of Prosec. & Spec. Narc.	16,013	14,741	9,876	15,013	13,430	13,430	13,430	13,430
941	Public Administrator - N.Y.	915	1,027	764	1,023	988	988	988	988
942	Public Administrator - Bronx	328	347	217	346	329	329	329	329
943	Public Administrator- Brooklyn	439	470	273	449	454	454	454	454
944	Public Administrator - Queens	343	363	224	364	353	353	353	353
945	Public Administrator -Richmond	237	247	157	237	252	252	252	252
	Prior Payable Adjustment	—	—	—	(200,000)	—	—	—	—
	General Reserve	—	—	—	40,000	300,000	300,000	300,000	300,000
	Energy Adjustment	—	—	—	—	—	(14,795)	(18,412)	(11,048)
	Lease Adjustment	—	—	—	—	—	20,303	36,324	52,760
	OTPS Inflation Adjustment	—	—	—	—	—	35,948	72,938	110,970
	TOTAL EXPENDITURES	$43,104,419	$42,879,530	$29,319,933	$44,754,021	$45,597,703	$47,360,955	$49,117,086	$50,436,046
	LESS: INTRA-CITY EXPENDITURES	1,390,353	1,012,105	437,029	1,118,832	1,074,507	1,071,546	1,070,010	1,070,327
	NET TOTAL EXPENDITURES	$41,714,066	$41,867,425	$28,882,904	$43,635,189	$44,523,196	$46,289,409	$48,047,076	$49,365,719

EXHIBIT 3
ACTUAL REVENUE

	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
Taxes:				
Real Property	$7,631	$7,850	$8,245	$8,761
Personal Income	5,378	5,353	5,746	4,539
General Corporation	1,423	1,779	1,735	1,330
Banking Corporation	388	347	424	320
Unincorporated Business	657	805	820	790
Sales and Use	3,192	3,509	3662	3,360
Commercial Rent	333	344	377	380
Real Property Transfer	424	403	473	425
Mortgage Recording	408	483	407	477
Utility	222	247	300	258
Stock Transfer	114	114	0	0
All Other	584	609	620	593
Tax Audit Revenue	536	416	401	485
Total Taxes	21,290	22,259	23,210	21,718
Miscellaneous Revenues:				
Licenses, Franchises, Etc.	291	329	338	356
Interest Income	182	195	245	81
Charges for Services	440	439	439	461
Water and Sewer Charges	778	801	843	858
Rental Income	114	139	154	115
Fines and Forfeitures	479	468	495	485
Miscellaneous	408	718	1,109	1,383
Intra-City Revenue	780	1,150	1,330	1,390
Total Miscellaneous	3,472	4,239	4,953	5,129
Unrestricted Intergovernmental Aid:				
Federal Revenue Sharing	-	-	-	-
N.Y. State Per Capita Aid	328	405	327	328
Other Federal and State Aid	324	226	307	338
Total Unrestricted Intergovernmental Aid	652	631	634	666
Other Categorical Grants	367	432	492	615
Transfers from Capital Fund:				
Inter Fund Agreements	249	239	284	305
Provision for Disallowance of Categorical Grants	(39)	(5)	(46)	0
Less Intra-City Revenue	(780)	(1,150)	(1,330)	(1,390)
Total City Funds	25,211	26,645	28,197	27,043
Federal Categorical Grants:				
Community Development	239	264	250	281
Welfare	2,183	2,335	2,339	2,541
Education	1,053	1,127	1,227	1,364
Other	787	691	734	1,911
Total Federal Grants	4,262	4,417	4,550	6,097
State Categorical Grants:				
Welfare	1,442	1,382	1,581	1,585
Education	4,413	4,829	5,388	5,592
Higher Education	128	124	129	129
Health and Mental Health	323	348	349	434
Other	333	379	321	290
Total State Grants	6,639	7,062	7,768	8,030
Total Revenues	$36,112	$38,124	$40,515	$41,170

EXHIBIT 4

REVENUE ESTIMATES

($ in Millions)

	Fiscal Year 2003 8 Months Actual	Fiscal Year 2003 Forecast	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
Taxes:						
Real Property	9,335	9,966	11,176	11,579	12,002	12,446
Personal Income	3,157	3,220	4,328	3,834	4,124	4,508
General Corporation	532	1,173	1,225	1,384	1,502	1,565
Banking Corporation	62	181	259	352	409	442
Unincorporated Business	408	779	827	902	951	1,006
Sale and Use	2,257	3,509	3,554	3,745	3,943	4,150
Commercial Rent	192	398	407	417	427	442
Real Property Transfer	335	509	406	427	455	494
Mortgage Recording	336	482	393	386	408	441
Utility	156	291	274	278	278	284
All Other	361	707	717	740	762	774
Tax Audit Revenue	243	502	525	505	505	505
Tax Initiatives Program	0	0	1,400	1,483	1,575	1,686
State Tax Relief Program	472	659	648	671	708	731
Total Taxes	17,846	22,376	26,139	26,703	28,049	29,474
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	245	357	352	355	349	349
Interest Income	32	36	56	91	116	126
Charges for Services	262	479	488	492	491	486
Water and Sewer Charges	660	860	910	916	934	947
Rental Income	61	109	288	662	175	178
Fines and Forfeitures	345	534	667	666	666	666
Miscellaneous	517	485	631	304	251	255
Intra-City Revenue	347	1,119	1,075	1,072	1,070	1,070
Total Miscellaneous	2,469	3,979	4,467	4,558	4,052	4,077
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capita Aid	0	327	327	327	327	327
Other Federal and State Aid	82	1,077	228	228	228	228
Total Unrestricted Intergovernmental Aid:	82	1,404	555	555	555	555
Transitional Finance Authority 9/11	1,500	1,500	0	0	0	0
Anticipated State and Federal Aid:						
Anticipated State Aid	0	0	400	800	1,000	1,000
Anticipated Federal Aid	0	0	200	250	250	250
Total Anticipated Aid	0	0	600	1,050	1,250	1,250
Other Categorical	321	1,095	816	739	759	774
Inter Fund Agreements	74	324	317	310	310	310
Reserve for Disallowance of Categorical Grants	0	(15)	(15)	(15)	(15)	(15)
Less: Intra-City Revenue	(347)	(1,119)	(1,075)	(1,072)	(1,070)	(1,070)
Total City Funds	21,945	29,544	31,804	32,828	33,890	35,355

REVENUE ESTIMATES

($ in Millions)

	Fiscal Year 2003 8 Months Actual	Fiscal Year 2003 Forecast	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007
Federal Categorical Grants:						
Community Development	129	318	264	258	241	241
Welfare	1,063	2,536	2,303	2,254	2,256	2,263
Education	83	1,498	1,430	1,390	1,390	1,390
Other	476	1,230	467	461	460	463
Total Federal Grants	1,751	5,582	4,464	4,363	4,347	4,357
State Categorical Grants:						
Welfare	682	1,668	1,548	1,566	1,568	1,565
Education	2,926	5,864	5,797	5,866	5,932	5,997
Higher Education	33	168	164	164	164	164
Department of Health and Mental Hygiene	146	464	467	474	479	488
Other	121	345	279	276	266	267
Total State Grants	3,908	8,509	8,255	8,346	8,409	8,481
TOTAL REVENUE	27,604	43,635	44,523	45,537	46,646	48,193

EXHIBIT 5
FULL-TIME and PART-TIME POSITIONS (FTE's)
City Funds

	12/31/01 Actual [1]	2/28/03 Actual	6/30/04 Executive Budget
MAYORAL AGENCIES:			
Uniformed Forces:			
Police -Uniform [2]	39,297	36,693	34,774
-Civilian	14,166	13,733	14,205
Fire -Uniform	11,113	10,815	10,844
-Civilian	4,488	4,393	4,311
Sanitation -Uniform	7,810	7,444	6,744
-Civilian	2,052	1,784	1,822
Correction -Uniform	9,874	9,376	8,771
-Civilian	1,488	1,469	1,451
Health and Welfare:			
Social Services	10,919	9,110	10,366
Admin. for Children's Services	7,657	6,951	6,378
Homeless Services	2,025	2,140	1,970
Health and Mental Hygiene	4,380	4,210	3,818
Other Mayoral:			
Housing Preservation and Development	634	531	583
Environmental Protection	366	367	402
Finance	2,353	2,198	2,293
Transportation	2,422	2,004	1,992
Parks [3]	6,231	3,735	2,811
Citywide Administrative Services	1,174	1,271	1,468
All Other Mayoral	13,666	12,809	12,810
EDUCATION:			
Dept. of Education -Pedagogical	93,778	92,862	92,387
-Non-Pedagogical	21,640	20,442	18,412
City University -Pedagogical	4,273	3,574	3,972
-Non-Pedagogical	2,299	2,371	2,094
Sub-Total	264,105	250,282	244,678
COVERED ORGANIZATIONS AND NON-CITY EMPLOYEES SUBSTANTIALLY PAID BY CITY SUBSIDIES [4]:			
Health and Hospital Corp.	37,941	38,348	37,350
Housing Authority	—	—	—
Libraries	4,428	4,201	3,738
Cultural Institutions [5]	1,728	1,786	1,321
School Construction Authority	933	682	453
New York City Employees Retirement System	368	379	387
Economic Development Corporation	344	356	400
Teachers Retirement System	308	306	319
Police Pension Fund	66	96	114
All Other	155	162	171
Total	310,376	296,598	288,931

[1] Adjusted for transfers.
[2] Police Department uniform headcount will be at 37,210 with the swearing in of attrition replacement recruit classes July 1, 2003.
[3] December 2001 and February 2003 actuals include temporary positions funded by HRA's Parks Opportunity Program.
[4] Includes non-city employees substantially paid by city subsidies. For these agencies the December 2001 data reflects staffing as of February 2002.
[5] Includes only those employees of the Cultural Institutions Group paid by city fund subsidies.

EXHIBIT 5A
FULL-TIME and PART-TIME POSITIONS (FTE's)
Total Funds

	12/31/01 Actual [1]	2/28/03 Actual	6/30/04 Executive Budget
MAYORAL AGENCIES:			
Uniformed Forces:			
Police -Uniform [2]	39,297	36,693	34,774
-Civilian	14,779	14,346	14,905
Fire -Uniform	11,120	10,818	10,853
-Civilian	4,492	4,396	4,316
Sanitation -Uniform	7,957	7,584	6,906
-Civilian	2,264	1,965	2,090
Correction -Uniform	10,617	10,123	9,514
-Civilian	1,603	1,584	1,566
Health and Welfare:			
Social Services	14,462	13,395	14,255
Admin. for Children's Services	7,711	7,418	6,540
Homeless Services	2,034	2,164	1,973
Health and Mental Hygiene	5,392	5,390	4,785
Other Mayoral:			
Housing Preservation and Development	2,596	2,436	2,655
Environmental Protection	5,704	5,600	6,351
Finance	2,353	2,198	2,305
Transportation	4,339	4,051	4,192
Parks [3]	6,630	4,134	3,336
Citywide Administrative Services	1,757	1,918	2,110
All Other Mayoral	17,910	17,076	16,588
EDUCATION:			
Dept. of Education -Pedagogical	111,801	111,946	111,438
-Non-Pedagogical	24,920	24,565	22,421
City University -Pedagogical	4,273	3,579	3,977
-Non-Pedagogical	2,300	2,372	2,094
Sub-Total	306,311	295,751	289,944
COVERED ORGANIZATIONS AND NON-CITY EMPLOYEES SUBSTANTIALLY PAID BY CITY SUBSIDIES [4]:			
Health and Hospital Corp.	37,941	38,348	37,350
Housing Authority	14,863	14,846	16,000
Libraries	4,428	4,201	3,738
Cultural Institutions [5]	1,728	1,786	1,321
School Construction Authority	933	682	453
New York City Employees Retirement System	368	379	387
Economic Development Corporation	344	356	400
Teachers Retirement System	308	306	319
Police Pension Fund	66	96	114
All Other	155	162	171
Total	367,445	356,913	350,197

[1] Adjusted for transfers.
[2] Police Department uniform headcount will be at 37,210 with the swearing in of attrition replacement recruit classes July 1, 2003.
[3] December 2001 and February 2003 Actual include temporary positions funded by HRA's Parks Opportunity Program.
[4] Includes non-city employees substantially paid by city subsidies. For these agencies the December 2001 data reflects staffing as of February 2002.
[5] Includes only those employees of the Cultural Institutions Group paid by city fund subsidies.

EXHIBIT 6

FY 2004 EXECUTIVE BUDGET
CITY GAP CLOSING PROGRAM - 5 YEAR VALUE
(City $ in 000's)

	2003	2004	2005	2006	2007
MAYORAL AGENCIES:					
Uniformed Forces:					
Police	$84,236	$332,364	$291,025	$291,025	$291,025
Fire	17,899	91,012	92,540	93,548	94,293
Correction	60,338	117,030	115,544	119,668	122,169
Sanitation	21,665	103,726	79,068	79,068	79,068
Health and Welfare:					
Admin. for Children's Services	48,625	202,495	204,629	207,506	207,506
Social Services	32,529	68,138	62,211	53,787	49,236
Homeless Services	16,763	79,495	76,591	76,591	76,093
Health & Mental Hygiene	29,631	83,112	79,618	79,619	79,619
Aging	10,102	52,178	52,178	52,178	52,178
Youth & Community Dev.	6,119	(17,552)	(17,552)	(17,552)	(17,552)
Other Mayoral:					
Cultural Affairs	10,192	31,229	31,229	31,229	31,229
Libraries	22,389	38,507	38,507	38,507	38,507
Housing Preservation & Dev.	11,310	18,352	15,803	12,117	12,162
Finance	81,205	98,799	98,766	100,516	98,766
Transportation	29,229	64,698	58,673	57,489	57,419
Parks & Recreation	7,951	39,216	31,713	31,713	31,713
Citywide Admin. Services	22,742	37,268	18,558	18,558	18,558
Other	59,205	126,516	110,346	104,572	103,238
MAJOR ORGANIZATIONS:					
Department of Education	220,810	509,070	454,737	456,559	458,422
Health and Hospitals Corp.	7,960	23,568	23,477	23,507	23,507
CUNY	349	10,652	11,746	13,698	14,565
OTHER:					
Citywide Pension Contributions	28,500	33,783	54,963	55,975	(33,025)
Miscellaneous	(20,308)	16,641	27,302	28,455	119,561
Debt Service	77,653	77,354	75,579	150,164	200,054
Procurement Savings	—	33,764	33,764	33,764	33,764
Subtotal Agency Programs	**$887,094**	**$2,271,415**	**$2,121,015**	**$2,192,261**	**$2,242,075**
CITYWIDE INITIATIVES:					
Personal Income Tax Reform	—	1,400,000	1,483,000	1,575,000	1,686,000
18.49% Property Tax Increase	837,097	1,727,000	1,800,000	1,875,000	1,963,000
Phased Payment of Airport Settlement	—	200,000	583,000	96,000	99,000
State & Federal Actions	420,000	652,184	1,085,984	1,285,984	1,285,984
Sale of Tax Benefits	(100,000)	100,000	—	—	—
Total Program	**$2,044,191**	**$6,350,599**	**$7,072,999**	**$7,024,245**	**$7,276,059**

Technical Notes: 1) Gap closing program includes initiatives from the April 15, 2003 Executive Budget and the November 14, 2002 and January 28, 2003 Financial Plans.
2) Youth and Community Development numbers include consolidation of youth development and after school programs from other agencies.

EXHIBIT 6A

FY 2004 EXECUTIVE BUDGET
CITY GAP CLOSING PROGRAM - 5 YEAR VALUE
(City $ in 000's)

	2003	2004	2005	2006	2007
OTHER:					
Mayoralty	$6,913	$15,211	$13,476	$11,476	$11,476
Campaign Finance Board	860	2,106	1,042	1,042	1,042
Office of the Actuary	—	36	36	36	36
Emergency Management	231	800	800	800	800
Tax Commission	154	235	235	235	235
Law	6,257	2,962	1,462	1,462	1,462
City Planning	1,977	554	726	726	726
Investigation	2,150	4,880	5,120	5,120	5,120
Civilian Complaint Review Bd.	1,756	2,519	2,539	2,539	2,539
Board of Correction	77	205	205	205	205
Department of Employment	2,028	8,507	8,507	8,507	8,507
City Clerk	—	1,477	1,730	1,730	1,730
FISA	2,104	6,274	1,973	1,726	1,478
Juvenile Justice	2,343	6,399	6,443	6,464	6,464
Payroll Administration	1,274	1,562	808	675	542
Independent Budget	264	471	471	471	471
Equal Employment Comm.	50	114	114	114	114
Civil Service Commission	26	55	55	55	55
Districting Commission	214	—	—	—	—
Taxi & Limousine	380	226	226	226	226
Human Rights	426	889	889	889	889
Conflicts of Interest	140	387	387	387	387
Probation	6,152	11,773	11,272	10,433	10,433
Small Business Services	1,424	8,585	8,117	7,417	6,025
Buildings	—	—	—	—	—
Environmental Protection	—	—	—	—	—
Business Integrity Commission	517	1,541	1,568	1,291	1,418
DOITT	7,703	12,428	5,354	4,372	4,330
DORIS	335	423	423	423	423
Consumer Affairs	410	2,223	2,694	2,277	2,631
PA - Manhattan	47	69	69	69	69
PA - Bronx	16	33	33	33	33
PA - Brooklyn	35	30	30	30	30
PA - Queens	14	25	25	25	25
PA - Staten Island	21	5	5	5	5
Subtotal	$46,298	$93,004	$76,834	$71,260	$69,926
OTHER ELECTED:					
BP - Manhattan	$397	$1,009	$1,009	$1,009	$1,009
BP - Bronx	561	1,437	1,437	1,437	1,437
BP - Brooklyn	479	1,237	1,237	1,237	1,237
BP - Queens	452	1,159	1,159	1,159	1,159
BP - Staten Island	393	1,009	1,009	1,009	1,009
Comptroller	2,358	8,909	8,909	8,709	8,709
Public Advocate	197	513	513	513	513
DA - Manhattan	2,396	5,707	5,707	5,707	5,707
DA - Bronx	1,399	3,360	3,360	3,360	3,360
DA - Brooklyn	2,383	4,654	4,654	4,654	4,654
DA - Queens	1,175	2,802	2,802	2,802	2,802
DA - Staten Island	214	513	513	513	513
Prosec. & Spec. Narc.	503	1,203	1,203	1,203	1,203
Subtotal	$12,907	$33,512	$33,512	$33,312	$33,312
Total Other	**$59,205**	**$126,516**	**$110,346**	**$104,572**	**$103,238**

Technical Notes: 1) Gap closing program includes initiatives from the April 15, 2003 Executive Budget and the November 14, 2002 and January 28, 2003 Financial Plans.
2) Youth and Community Development numbers include consolidation of youth development and after school programs from other agencies.

EXHIBIT 6B

FY 2004 EXECUTIVE BUDGET
CITY GAP CLOSING PROGRAM - BY EXPENSE AND REVENUE

(City $ in 000's)

	Expense	Revenue	Total
MAYORAL AGENCIES:			
Uniformed Forces:			
Police	$247,364	$85,000	$332,364
Fire	81,686	9,326	91,012
Correction	116,710	320	117,030
Sanitation	80,126	23,600	103,726
Health and Welfare:			
Admin. for Children's Services	202,495	—	202,495
Social Services	68,138	—	68,138
Homeless Services	79,495	—	79,495
Health & Mental Hygiene	76,412	6,700	83,112
Aging	52,178	—	52,178
Youth & Community Dev.	(17,552)	—	(17,552)
Other Mayoral:			
Cultural Affairs	31,229	—	31,229
Libraries	38,507	—	38,507
Housing Preservation & Dev.	11,422	6,930	18,352
Finance	5,670	93,129	98,799
Transportation	38,859	25,839	64,698
Parks & Recreation	28,786	10,430	39,216
Citywide Admin. Services	21,456	15,812	37,268
Other	102,617	23,899	126,516
MAJOR ORGANIZATIONS:			
Department of Education	509,070	—	509,070
Health and Hospitals Corp.	23,568	—	23,568
CUNY	10,652	—	10,652
OTHER:			
Citywide Pension Contributions	33,783	—	33,783
Miscellaneous	16,641	—	16,641
Debt Service	77,354	—	77,354
Procurement Savings	33,764	—	33,764
Subtotal Agency Programs	**$1,970,430**	**$300,985**	**$2,271,415**
CITYWIDE INITIATIVES:			
Personal Income Tax Reform	—	1,400,000	1,400,000
18.49% Property Tax Increase	—	1,727,000	1,727,000
Phased Payment of Airport Settlement	—	200,000	200,000
State & Federal Actions	—	652,184	652,184
Sale of Tax Benefits	—	100,000	100,000
Total Program	**$1,970,430**	**$4,380,169**	**$6,350,599**

Technical Notes: 1) Gap closing program includes initiatives from the April 15, 2003 Executive Budget and the November 14, 2002 and January 28, 2003 Financial Plans.
2) Youth and Community Development numbers include consolidation of youth development and after school programs from other agencies.

EXHIBIT 7
CITY GAP CLOSING PROGRAMS SINCE JANUARY 2002
FISCAL YEAR 2003
(City $ in 000's)

	1/1/02-1/31/03			$600 Million Program		
	Expense	**Revenue**	**Total**	**Expense**	**Revenue**	**Total**
MAYORAL AGENCIES:						
Uniformed Forces:						
Police	$179,097	$43,831	$222,928	—	—	—
Fire	45,004	39,895	84,899	—	—	—
Correction	119,524	1,600	121,124	4,965	1,120	6,085
Sanitation	102,829	53,524	156,353	—	800	800
Health & Welfare:						
Admin. For Children's Services	154,885	1,828	156,713	—	—	—
Social Services	104,067	1,005	105,072	—	—	—
Homeless Services	34,472	—	34,472	—	—	—
Health & Mental Hygiene	80,268	19,844	100,112	—	—	—
Other Mayoral:						
Libraries	35,495	—	35,495	—	—	—
Aging	24,931	—	24,931	—	—	—
Cultural Affairs	16,328	—	16,328	—	—	—
Housing Preservation & Dev.	8,002	16,646	24,648	1,237	—	1,237
Environmental Protection	(511)	7,628	7,117	—	—	—
Finance	18,279	79,389	97,668	—	400	400
Transportation	32,517	21,037	53,554	5,378	375	5,753
Parks & Recreation	14,263	13,963	28,226	—	—	—
Citywide Admin. Services	14,574	21,198	35,772	1,000	2,442	3,442
Other	113,389	84,906	198,295	892	79	971
ELECTED OFFICIALS:						
Office of the Mayor	8,181	500	8,681	—	—	—
City Council	1,424	108	1,532	—	—	—
Public Advocate	712	—	712	—	—	—
Office of the Comptroller	5,193	—	5,193	—	—	—
Borough Presidents	8,014	—	8,014	—	—	—
District Attorneys	23,342	—	23,342	—	—	—
MAJOR ORGANIZATIONS:						
Health and Hospitals Corp.	13,821	—	13,821	—	—	—
Department of Education	573,261	8,152	581,413	—	—	—
CUNY	3,187	16,164	19,351	225	—	225
Subtotal Agency Programs	**$1,734,548**	**$431,218**	**$2,165,766**	**$13,697**	**$5,216**	**$18,913**
Miscellaneous	(25,308)	28,394	3,086	5,000	—	5,000
Citywide Pension Contributions	28,500	—	28,500	—	—	—
Debt Service	77,653	—	77,653	—	—	—
Total Program	**$1,815,393**	**$459,612**	**$2,275,005**	**$18,697**	**$5,216**	**$23,913**

EXHIBIT 7A
CITY GAP CLOSING PROGRAMS SINCE JANUARY 2002
FISCAL YEAR 2004
(City $ in 000's)

	1/1/02-1/31/03			$600 Million Program		
	Expense	Revenue	Total	Expense	Revenue	Total
MAYORAL AGENCIES:						
Uniformed Forces:						
Police	$245,605	$107,600	$353,205	$60,000	—	$60,000
Fire	94,148	10,287	104,435	26,523	441	26,964
Correction	160,183	1,200	161,383	13,767	120	13,887
Sanitation	102,887	10,550	113,437	20,071	15,600	35,671
Health & Welfare:						
Admin. For Children's Services	185,955	1,828	187,783	31,213	—	31,213
Social Services	92,205	—	92,205	27,878	—	27,878
Homeless Services	44,436	—	44,436	17,807	—	17,807
Health & Mental Hygiene	86,799	6,700	93,499	25,958	—	25,958
Other Mayoral:						
Libraries	43,829	—	43,829	7,783	—	7,783
Aging	49,703	—	49,703	8,211	—	8,211
Cultural Affairs	27,644	—	27,644	9,709	—	9,709
Housing Preservation & Dev.	12,450	7,730	20,180	4,814	600	5,414
Environmental Protection	(900)	7,628	6,728	—	—	—
Finance	12,523	81,179	93,702	3,533	13,750	17,283
Transportation	30,671	34,134	64,805	15,622	5,543	21,165
Parks & Recreation	16,210	20,593	36,803	12,970	1,400	14,370
Citywide Admin. Services	17,024	13,188	30,212	7,600	5,990	13,590
Other	116,254	36,773	153,027	56,785	10,375	67,160
ELECTED OFFICIALS:						
Office of the Mayor	10,551	500	11,051	1,363	1,300	2,663
City Council	1,425	—	1,425	—	—	—
Public Advocate	863	—	863	164	—	164
Office of the Comptroller	5,685	—	5,685	6,551	—	6,551
Borough Presidents	9,721	—	9,721	1,487	374	1,861
District Attorneys	29,546	—	29,546	3,967	—	3,967
MAJOR ORGANIZATIONS:						
Health and Hospitals Corp.	17,972	—	17,972	10,082	—	10,082
Department of Education	684,314	—	684,314	178,777	—	178,777
CUNY	10,921	—	10,921	2,231	—	2,231
Subtotal Agency Programs	**$2,108,624**	**$339,890**	**$2,448,514**	**$554,866**	**$55,493**	**$610,359**
Miscellaneous	(2,235)	24,500	22,265	6,876	—	6,876
Citywide Pension Contributions	30,761	—	30,761	3,021	—	3,021
Debt Service	77,354	—	77,354	—	—	—
Total Program	**$2,214,504**	**$364,390**	**$2,578,894**	**$564,763**	**$55,493**	**$620,256**