The City of New York
Executive Budget
Fiscal Year 2001

Rudolph W. Giuliani, Mayor

Office of Management and Budget
Adam L. Barsky, Director

Message of the Mayor

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The City of New York

April 18, 2000

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

Ladies and Gentlemen:

New Yorkers are entitled to feel safe in their homes and on the street. They are entitled to live in a safe and healthy environment. They are entitled to opportunities to make a living and move ahead in life. They are entitled to have the government take as little as possible from their paychecks, and they are entitled to a helping hand that offers them a way out of their difficulties instead of encouraging dependency.

To a great extent we have succeeded in providing this for New Yorkers.

Providing Security

Total crime has decreased 50 percent from 1993 to 1999. Murder, in the same period, has declined by more than 66 percent from 1,946 to 671. In fact, the total crime reduction in New York City, during the period for which there is complete data, 1993 through 1998, amounts to almost 17 percent of the national reduction. The New York City Police Department's record for restraint is even better than its record for crime reduction. It is clearly one of the most restrained police departments in the country in its use of force. Total arrests are up by 37 percent since 1993, but the number of rounds intentionally fired by police has declined 51 percent, and the number of intentional shooting incidents by police has dropped 67 percent, despite a 38 percent increase in the number of police. The Executive Budget builds upon our successes in increasing public safety with several important initiatives including funding for heightened enforcement and prosecution of hate crimes, an increase in the number of school safety agents, funding to provide a state-of-the-art DNA testing facility and an increase in the number of uniformed police officers.

Providing a Safe and Healthy Environment

Over the past six years the City has preserved and protected our environment. The centerpiece of our efforts is protecting the most valuable of the City's natural resources--our drinking water. Commencing with the ambitious watershed land acquisition program in January 1997 and continuing with the implementation of drinking water conservation and enforcement measures, New Yorkers are ensured that the City's system of providing and delivering quality water will continue for many years. Here within the City limits our efforts are also notable, with 1,824 additional acres of greenspace added to our parkland since 1993. With this Executive Budget we are furthering our efforts to provide for a safe and healthy environment by providing for the closure of the Fresh Kills Landfill which proceeds on target. This four year plan also provides funding to convert almost 50 percent of the bus fleet run by the City subsidized franchise bus companies to vehicles that run on compressed natural gas (CNG) by 2004; virtually all new bus purchases over the last two years have been CNG fueled vehicles.

Protecting Children and Families

In 1996 I created a new agency--the Administration of Children's Services--signaling my commitment to protecting our children. Our support for the agency continues unabated. Tax levy funding for the agency has grown every year since the agency's creation, even as the number of children in foster care continues to decline. Adoptions are up 64 percent since 1994. We have implemented best practices in every aspect of child welfare to ensure that children in our care are well protected and served. This Executive Budget continues this work by adding $26 million to maintain caseload ratios, increase preventive services, reward caseworkers and managers through a merit program and enhance computer applications to assist our caseworkers in their work.

Providing Opportunity

Private sector employment is up 380,000 since the end of 1993. Today there are more visitors to this City than ever, up almost 15 percent since 1996 and as a result there are 8,000 more jobs in hotels--an industry which provides employment opportunity at all wage levels. The cut in the hotel tax certainly assisted in bringing back to the City additional convention business by sending a powerful signal. There are also 73,000 more jobs in retail trade in part due to the favorable business conditions brought about by our $2.3 billion annual reduction in the tax burden. These opportunities should expand further with the elimination of the sales tax on clothing costing less than $110, a program I championed and which began just last month. Finally, there are over 100,000 more jobs in new media. This industry has grown dramatically, particularly in Lower Manhattan, an area revitalized with the aid of our Commercial Revitalization Program's targeted tax abatements. This Executive Budget builds upon these actions with steps to enhance private sector job creation through proposals to eliminate the commercial rent tax and further reduce the hotel tax.

Lowering Taxes

Government is taking less money from workers' paychecks. Coop and condominium owners have seen over $400 million of tax reductions in a program to provide equity in property tax bills. One personal income tax surcharge has already been eliminated, saving taxpayers $785 million this year. This progress will be extended with affordable plans to reduce the remaining 14 percent personal income tax surcharge by 50 percent with the start of the upcoming fiscal year, saving residents another $329 million.

Replacing Dependency with Self-Sufficiency

Finally, dependency is down. By the end of this fiscal year the number of individuals on public assistance will be 580,000, lower than at any time since 1967. The goal is to have the maximum number of people able to help themselves rather than the maximum number of people dependent on government.

When we began NYC WAY our goal was to provide jobs for all public assistance clients capable of work. This budget includes funding for new performance based contracts to perform skills assessment and job placement services as well as funding to convert 28 welfare offices to job centers where clients can get assistance in moving towards self-sufficiency. Furthermore, recognizing that lack of health insurance is a significant barrier to individuals moving towards self-sufficiency, this budget also includes funding for an outreach program that will increase enrollment in the Medicaid program and funding to expand the HealthPass program which provides affordable health insurance choices for employees of small businesses.

Reforming the "Educracy"

We need to ensure that the primary mission of the New York City public school system is the education of our children, not job protection. Over the past six years, we have worked tirelessly to impose accountability on the "educracy" that surrounds education in our City. We have achieved many long sought after reforms, such as the end of principal tenure and social promotion. We have instituted school-based budgeting and improved school safety. Additionally, we have improved the quality of education offered to our 1.1 million students through specific, targeted initiatives that have equipped every middle school classroom with computers, restored arts programs to every school in the City, and provided intensive instruction to improve reading skills in the early grades. But still, far too many of the taxpayer dollars allocated to our public schools never make it to the students in the classroom. Unfortunately, it appears that our public schools will never be fully accountable to the residents of the City for educating their children until the Mayor--whoever he or she may be in the future--is given control of the school system, and the opportunity to bring about real reform.

This Executive Budget builds upon past successes and at the same time provides a sound fiscal structure for the future. City funded spending for 2001 is actually lower than this year's forecast, by 2 percent, revenue assumptions are based on a cautious outlook for the future, the capital plan is up just 2 percent over the level set last year and the budget stabilization account is maintained at $1.2 billion for 2001 and $345 million for 2002, protecting the City against economic downturns.

Together we have accomplished a great deal. I look forward to working with the City Council and all New Yorkers as we work to build on our successes in the new millennium.

Sincerely,

Rudolph W. Giuliani
Mayor

The City of New York

April 18, 2000

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

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

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

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

First, the Council has proposed for itself a budget increase of eight percent, by far the largest increase of any Elected Official. As I pointed out last year, the Council has in recent years increased its own expenditures while the budget of the Mayor's Office has been substantially reduced, and the budgets of the Public Advocate and Borough Presidents have also experienced reductions. Since 1994, the Council has increased its budget by 47.5 percent, inclusive of last year's increase of 18.6 percent. In contrast, the Mayor's Office has reduced its budget by 31.7 percent and other City Elected Officials have reduced their budgets by greater than three percent over the same period of time. The Council should exercise the same budgetary discipline as other Elected Officials and City agencies, who have learned to carry out their responsibilities with fewer resources.

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

Finally, the supporting documentation to the Council's budget submission indicates that the Council proposes an increase of $93,375 in the budget of its Office of General Counsel, bringing its total to almost $900,000. In addition, the Council proposes an increase of $100,000 in its budget for outside counsel, bringing its total to $650,000. If the primary purpose of these substantial increases to already inflated legal budgets is to maintain an ongoing capacity for litigation, then the increases would be in violation of Section 394 (a) and (c) of the Charter, which confer upon the Corporation Counsel the function of litigating attorney for the City, including the City Council. Since the Mayor appoints the Corporation Counsel and is ultimately responsible for the law business of the City, the Council's proposal would also diminish the power of the Mayor pursuant to Section 3 of the Charter as the City's chief executive officer. Thus, the Council seeks to fundamentally change the role of the Corporation Counsel and the Mayor without Charter amendment. In addition, the Council has not expressed any rationale for an increase in its litigation capacity and, to date, has spent only one-quarter of the $550,000 budgeted for outside counsel in FY 2000. The Council has not justified increasing its outside counsel budget, and fails to account for nearly three-quarters of its current year appropriation for this function. Furthermore, the Council may commence or defend litigation only in rare instances where the Corporation Counsel is prevented from representing the Council. The Council appears to justify its action by anticipating conflict between the Mayor and the Council concerning their respective powers. However, by increasing its capacity to litigate, the Council virtually assures that disputes between the legislative and executive branches will not be settled amicably but will end up in court. For the above reasons, the addition of stand-by litigators and an additional budget for outside legal services of $650,000 is unnecessary and inappropriate.

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

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

The City of New York

April 18, 2000

Statement Pursuant to Section 1052(c) of the City Charter regarding the Operating Budget of the Campaign Finance Board

Section 1052(c) of the City Charter, as proposed by the 1998 Charter Revision Commission and approved by the voters at the 1998 general election, provides that the Campaign Finance Board:

> shall, not later than March tenth of each year, approve and submit to the mayor detailed itemized estimates of the financial needs of the campaign finance board for the ensuing fiscal year. Such estimates shall be comprised of at least one personal service unit of appropriation and at least one other than personal service unit of appropriation. The mayor shall include such estimates in the executive budget without revision, but with such recommendations as the mayor may deem proper. Upon inclusion in the executive budget, the budget submitted by the campaign finance board shall be adopted pursuant to such provisions of chapter ten of this charter as are applicable to the operating budget of the council.

The Campaign Finance Board submitted its operating budget, and pursuant to the City Charter, it has been included in the executive budget. Set forth herein are my recommendations regarding the Campaign Finance Board's operating budget.

The Campaign Finance Board has proposed increases of 30 percent for personal services (representing a headcount increase of 10 positions) and 23 percent for OTPS (not including moneys allocated to the Campaign Finance Fund), as well as an increase of $1.4 million in the moneys allocated to the Campaign Finance Fund, despite currently having sufficient resources to prepare for the upcoming Citywide elections in FY 2002. The Board unfortunately appears to have utilized the autonomy afforded by the new Charter provisions to seek to obtain these increases, rather than to exercise the same budgetary discipline as other independent officials, such as the Public Advocate, Comptroller and Borough Presidents, whose budgets have remained stable. The supporting materials supplied by the Board simply do not justify or necessitate these increases for a fiscal year that will not include Citywide elections.

The OTPS budget continues to include $500,000 for professional legal services, which would presumably be in addition to the new in-house personnel resources that the Board seeks. The Board initially increased its allotment for professional legal services from $28,000 in FY 1999 to the current funding level of $500,000 in FY 2000. In light of the limited jurisdiction of the Board and the absence of Citywide elections in FY 2001, the purpose of such a budget is unclear. In addition, the Board has yet to contract for any legal services in FY 2000, further proving that such a large allocation serves no purpose. Moreover, if the Board intends to initiate new litigation beyond its current delegation from the Corporation Counsel, such litigation could impinge upon the Charter-conferred role of the Corporation Counsel as the litigating attorney for the City, including the Campaign Finance Board.

Finally, a review of the account balance of the Campaign Finance Fund reveals an existing balance of over $3 million. By no estimate would the cost of upcoming Council elections in FY 2001 exceed this amount, even if the Board were to match contributions at the four-to-one rate that it claims to be applicable. Therefore, the Board's request for an additional $2,000,000 in matching funds, as well as the substantial increases described above, is not necessary at this time.

Accordingly, pursuant to Section 1052(c) of the City Charter I recommend to the Council that the Campaign Finance Fund receive no additional funding for FY 2001 and that the Board's other recommended expenditure changes be substantially reduced to levels comparable to those of other independent City officers.

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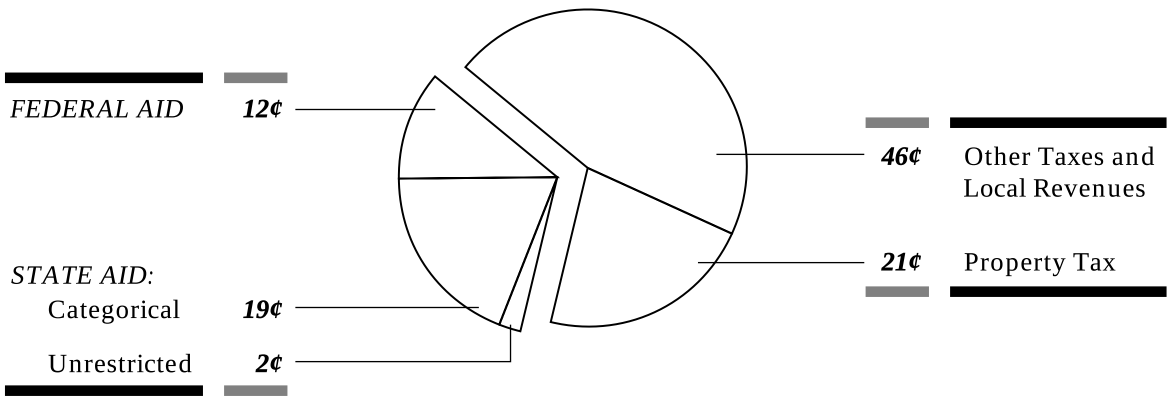
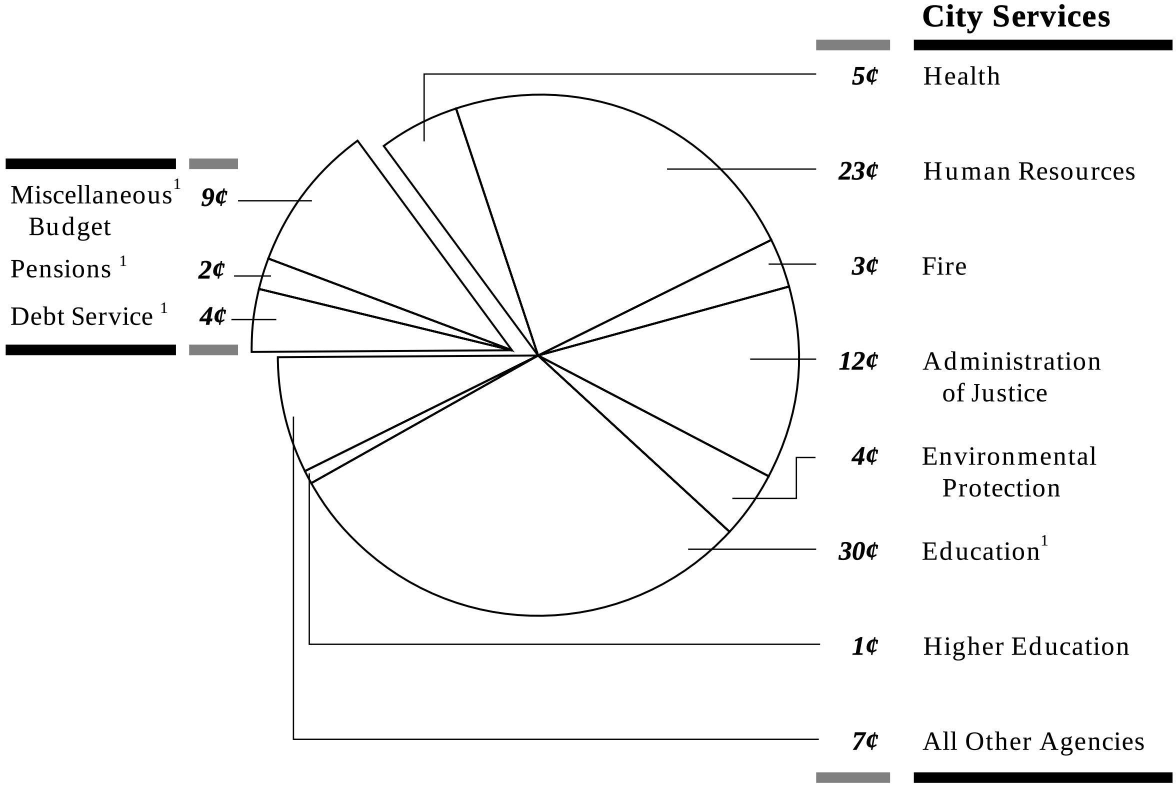


Where the 2001 Dollar Goes To



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

REVIEW OF REVENUE AND EXPENSE BUDGETS

The 2001 Executive Budget is $37.3 billion, a decrease of $1.1 billion from the forecasted results for 2000. This is the twenty-first consecutive budget which is balanced under generally accepted accounting principles.

Financial Summary—1995-2001

($ in Millions)

	Fiscal Years Ending June 30						
	1995*	1996*	1997*	1998*	1999*	2000**	2001***
Revenues							
Taxes:							
General Property Tax	$7,327	$6,954	$7,291	$7,239	$7,631	$7,771	$7,956
Other Taxes	9,470	10,198	11,266	12,528	13,123	13,819	13,492
Tax Audit Revenues	602	657	651	458	536	378	412
Criminal Justice Fund	314	331	90	185	-	-	-
Tax Reduction Program	-	-	-	-	-	-	(364)
Miscellaneous Revenues	3,386	3,379	3,732	3,541	3,473	4,202	4,257
Unrestricted Intergovernmental Aid	603	621	654	621	652	616	589
Other Categorical Grants	143	343	379	412	367	443	347
Less: Intra-City Revenue	(669)	(644)	(683)	(705)	(780)	(1,190)	(1,169)
Disallowances	(21)	(40)	(36)	(15)	(39)	(15)	(15)
Sub-Total City Funds	$21,155	$21,799	$23,344	$24,264	$24,963	$26,024	$25,505
Inter-Fund Revenues	233	244	245	252	249	281	290
Total City & Inter-Fund Revenues	$21,388	$22,043	$23,589	$24,516	$25,212	$26,305	$25,795
Federal Categorical Grants	4,006	4,194	4,133	4,292	4,262	4,794	4,284
State Categorical Grants	6,430	6,078	6,264	6,372	6,639	7,291	7,256
Total Revenues	$31,824	$32,315	$33,986	$35,180	$36,113	$38,390	$37,335
Expenditures							
Personal Service	$15,837	$16,176	$16,495	$17,642	$18,535	$19,347	$19,783
Other Than Personal Service	14,302	14,016	13,701	14,393	14,469	16,557	16,559
Debt Service	2,254	2,406	2,842	1,510	1,371	743	742
MAC Debt Service Funding	29	132	264	304	—	—	—
Budget Stabilization and Prepayments:							
Budget Stabilization	—	—	—	1,357	1,951	2,275	1,220
Debt Service	66	106	1,342	69	38	—	—
MAC Debt Service	—	—	—	468	386	476	—
Other	—	118	20	137	138	137	—
	66	224	1,362	2,031	2,513	2,888	1,220
General Reserve	—	—	—	—	—	45	200
	$32,488	$32,954	$34,664	$35,880	$36,888	$39,580	$38,504
Less: Intra-City Expenditures	(669)	(644)	(683)	(705)	(780)	(1,190)	(1,169)
Total Expenditures	$31,819	$32,310	$33,981	$35,175	$36,108	$38,390	$37,335
Surplus/(Deficit) GAAP Basis	$5	$5	$5	$5	$5	—	—

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

For fiscal year 2000 an operating surplus of $2.9 billion is projected. The budget stabilization account has been increased in 2000 to $2.3 billion and prepayments of $613 million of MAC Debt Service and certain Covered Organization subsidies have been provided. The 2000 forecast also provides for a general reserve of $45 million to offset any adverse changes, which may surface during the remainder of the fiscal year or during the audit of the operating results.

The following table details changes to the 2000 budget since adoption, indicating sources and uses of funds and the allocation of the operating surplus.

FY 2000 Changes Since Adoption
($ in millions)

Sources	
• Revenues	$1,579
• Pension Funding Changes	524
• Agency Programs	370
• Prior Payables	325
• General Reserve	155
Total Sources	**$2,953**
Uses	
• State and Federal Budget Actions	($178)
• Education	(108)
• Judgments and Claims	(50)
• All Other Spending	(158)
Total Uses	**($494)**
Adopted Budget Stabilization Account	$429
Operating Surplus	**$2,888**
Allocation of Operating Surplus	
• FY 2000 Budget Stabilization Account	$2,275
• Prepayments of MAC Debt Service & Covered Organization Subsidies	613
Total Operating Surplus	**$2,888**

The 2001 budget provides for a budget stabilization account of $1.2 billion and a general reserve of $200 million, which is double the $100 million that is mandated by the Financial Emergency Act at the beginning of a fiscal year. An additional tax reduction program in 2001 valued at $364 million, growing to $1 billion by 2004, has been designed to further stimulate private sector job development. The following table details changes to the 2001 budget since the 2000 budget was adopted.

FY 2001 Changes Since Adoption
($ in millions)

Additional Sources of Funds		
• FY 2000 Budget Stabilization Account		$2,888
• Revenue Forecast		688
• Agency Programs		466
• Pension Funding Changes		284
• State and Federal Actions		100
Total Additional Sources of Funds		**$4,426**
		======
Uses of Additional Funds		
• FY 2001 Gap Reduction		($ 1,928)
• Fund FY 2001 Budget Stabilization Account		(1,220)
• Targeted Spending		(914)
• Social Service and Health	(374)	
• Education	(246)	
• Fresh Kills Closure	(181)	
• Public Safety	(106)	
• All Other	(7)	
• Additional Tax Reduction Program		(364)
Total Uses of Additional Funds		**($4,426)**
		======

Summary of Financial Plan

The City's financial plan sets forth projected operations on a GAAP basis for the 2001 through 2004 fiscal years. In accordance with the City Charter a four-year financial plan is to be included in the Executive Budget submission. The financial plan will also be submitted to the Financial Control Board in accordance with the Financial Emergency Act. The assumptions, upon which the four-year plan revenue and expenditure estimates are based, are summarized in the Appendix section of this Mayor's Message.

As indicated, a budget stabilization account of $1.2 billion and $345 million is included in 2001 and 2002, respectively, and a general reserve of $200 million is included for every year of the plan. The tax reduction program is valued at $364 million in 2001, $678 million in 2002, $816 million in 2003 and $1.1 billion in 2004.

Four-Year Financial Plan
($ in Millions)

	2001	2002	2003	2004
Revenues				
Taxes:				
General Property Tax	$7,956	$8,467	$8,916	$9,365
Other Taxes	13,492	13,675	14,438	15,163
Tax Audit Revenues	412	425	425	425
Tax Reduction Program	(364)	(678)	(816)	(1,073)
Miscellaneous Revenues	4,257	4,169	3,930	3,791
Unrestricted Intergovernmental Aid	589	589	589	589
Other Categorical Grants	347	364	357	347
Less: Intra-City Revenues	(1,169)	(1,197)	(1,152)	(1,108)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Sub-Total City Funds	$25,505	$25,799	$26,672	$27,484
Inter-Fund Revenues	290	285	285	285
Total City & Inter-Fund Revenues	$25,795	$26,084	$26,957	$27,769
Federal Categorical Grants	4,284	3,943	3,888	3,875
State Categorical Grants	7,256	7,338	7,389	7,410
Total Revenues	$37,335	$37,365	$38,234	$39,054
Expenditures				
Personal Service	$19,783	$20,273	$20,400	$20,451
Other Than Personal Service	16,559	16,892	17,227	17,243
Debt Service	742	2,043	3,019	3,623
Budget Stabilization Account	1,220	345	—	—
MAC Debt Service	—	488	490	489
General Reserve	200	200	200	200
	$38,504	$40,241	$41,336	$42,006
Less: Intra-City Expenses	(1,169)	(1,197)	(1,152)	(1,108)
Total Expenditures	$37,335	$39,044	$40,184	$40,898
Gap To Be Closed	**$ —**	**($1,679)**	**($1,950)**	**($1,844)**

A comparison of the gaps in this financial plan to the gaps that existed when the 2000 budget was adopted and a revised out-year gap closing program for 2002 through 2004 follow.

FINANCIAL PLAN UPDATE

($ in MILLIONS)

	2000	2001	2002	2003	2004
FY 2000 Adopted Budget (Gap)/Surplus	**$429**	**$(1,928)**	**$(2,033)**	**$(1,613)**	**$(1,391)**
Revenue Changes					
Tax Revenue Forecast	$1,618	$1,179	$1,097	$1,348	$1,611
Delay Airport Arbitration	—	(350)	180	65	70
State and Federal Aid	22	(57)	(57)	(57)	(57)
Other Revenues	(39)	(84)	(153)	(36)	(135)
Total Revenue Changes	$1,601	$688	$1,067	$1,320	$1,489
Merit Pay Plan	$(30)	$(325)	$(750)	$(800)	$(800)
Expenditure Changes					
State and Federal Budget Actions	$(200)	$(209)	$(211)	$(211)	$(211)
Education Initiatives	(107)	(246)	(144)	(148)	(201)
Other Agency Spending	(112)	(437)	(563)	(674)	(418)
Judgment and Claims	(50)	—	—	—	—
Pension Funding Changes	524	284	49	(69)	(7)
Debt Service	(17)	53	71	63	95
Prior Payables	325	—	—	—	—
General Reserve	155	—	—	—	—
Total Expenditure Changes	$518	$(555)	$(798)	$(1,039)	$(742)
Budget Stabilization Account					
FY 2000	**$(2,888)**	**$2,888**	**$ —**	**$ —**	**$ —**
FY 2001	**—**	**(1,220)**	**1,220**	**—**	**—**
FY 2002	**—**	**—**	**(345)**	**345**	**—**
Total Budget Stabilization	**$(2,888)**	**$1,668**	**$875**	**$345**	**$ —**
Gap to Be Closed - Executive Budget	**$(370)**	**$(452)**	**$(1,639)**	**$(1,787)**	**$(1,444)**
Gap Closing Program					
Agency Programs	$370	$466	$273	$273	$273
Labor Productivity Plan	—	250	265	280	300
Federal and State Actions	—	100	100	100	100
Total Gap Closing Program	$370	$ 816	$638	$653	$673
Surplus/(Gap) Prior to New Tax Reduction Plan	**$ —**	$364	$(1,001)	$(1,134)	$(771)
New Tax Reduction Program	—	(364)	(678)	(816)	(1,073)
Remaining (Gap)	**$ —**	**$ —**	**$(1,679)**	**$(1,950)**	**$(1,844)**
Out-Year Gap Closing Actions					
Agency Programs	$—	$ —	$879	$950	$844
State Actions	—	—	400	500	500
Federal Actions	—	—	300	400	400
Roll General Reserve	—	—	100	100	100
Total Out-Year Gap Closing Plan	$ —	$ —	$1,679	$1,950	$1,844
Remaining Surplus Out-Year (Gap)\Surplus	$ —	$ —	$ —	$ —	$ —

Employment Levels

Between 1993 and 2000 City funded staffing levels have been significantly reduced, while during the same time City resources were redirected to significantly increase staffing in vital areas. Through February 2000 over 10,000 new City funded employees were added to Education and Police, while City funded staff levels were reduced by over 20,000 in other areas, for a net Citywide reduction of over 10,000 employees.

The 2001 Executive Budget provides for increased staffing in Education and Police, as well as additional uniformed Sanitation workers required for operational needs related to the Waste Export Plan. These areas will add another 3,355 employees over the current February actual levels (Sanitation-uniformed 1,449, Education-pedagogical 981, Police-uniformed 925). Collectively, staffing levels in the other City agencies are projected to remain relatively constant. Exhibits 5 and 5A in the Appendix provide additional agency-by-agency detail.

The following table reflects accomplishments to date (February 2000) and projected staffing levels at June 2001.

Changes in City Funded Staffing Levels

	Education (ped). Sanitation (unif.) & Police (unif.)	All Other Employees	Total
December 31, 1993 Actual (Restated*)	113,098	109,738	222,836
February 28, 2000 Actual	123,246	89,174	212,420
Change December 1993 to February 2000	10,148	(20,564)	(10,416)
Projected Staffing June 30, 2001	126,601	89,159	215,760
Projected Change December 1993 to June 2001	13,503	(20,579)	(7,076)
% Change	11.9%	(18.8)%	(3.2)%

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

FEDERAL AND STATE AGENDA

OVERVIEW

The Federal and State agenda for 2001-04 is designed to control the growth of costly mandated programs and produce savings for the City and State Government. In total, this program saves the City $100 million annually for 2001-04. These savings can be achieved through a menu of approximately $75 million in State actions and $150 million in Federal actions per year.

FEDERAL OVERVIEW

The Federal budget surplus is expected to grow to almost $500 billion by Federal Fiscal Year 2010. New York City and the nation's other major cities should be recognized by Washington as leaders in critical areas such as crime reduction and welfare reform. But despite these achievements, the major urban areas continue to send more tax dollars to Washington than they receive in Federal spending. According to "The Federal Budget and the States", a report released annually by the John F. Kennedy School of Government at Harvard University, in 1998 New York State's Balance of Payment deficit with Washington was estimated to be approximately $15 billion, with New York City the source of half of that deficit.

The City's request for Federal assistance focuses on five main proposals: Public Health Initiatives, the Social Services Block Grant (Title XX), DNA Backlog Elimination Assistance, the Low Income Home Energy Assistance Program (LIHEAP) and the Federal Medical Assistance Percentage (FMAP).

Public Health Funding Initiatives

Immunization: The City has received continual reductions to Federal immunization funding since 1997. A portion of the funding loss is attributable to a decline in carryover funds. Two years ago however, the Centers for Disease Control (CDC) imposed an across-the-board cut to immunization grants and reprogrammed certain funds. As a result, the Federal funding of immunization programs in New York City has declined from $10 million in 1997 to little more than $5 million in 2000. New York City seeks the restoration of immunization funding to the 1997 level.

Increased Federal support is needed for the New York City Department of Health to continue its aggressive work in immunization service delivery, education, and outreach, which has greatly increased the number of children who are up-to-date in their immunizations.

Tuberculosis: In 2001, New York City seeks a restoration of the level of funding for tuberculosis programs commensurate with the level awarded to the City in 1999, $26 million. Since last year, the City has lost $8 million in CDC funding for tuberculosis programs. The grant awarded to the New York City Department of Health in 2000 was $18 million, $8 million less than the 1999 award. While the funding of tuberculosis programs in New York City has declined, the national appropriation has risen by more than $9 million. According to the CDC, the available funds are being reprogrammed to other areas, even though the need for maintaining the current level of service has not diminished in the City.

Since the TB epidemic's height in 1992, when the case rate was five times the national average, the City has reduced TB deaths by 59.1 percent. The current case rate of 23.6 per 100,000 people, however, is still more than three times the national average. Completion of treatment is the key to both the successful control of TB, and to the prevention of drug-resistant TB. The City's program of Directly Observed Therapy (DOT), which provides medication under the direct observation and supervision of a trained health care worker, has been largely responsible for a 91 percent reduction in drug-resistant cases since 1992. The restoration of the 1999 level of TB funding to New York City remains critical in order to provide adequate support for the City's TB programs.

Asthma Funding: Currently, the New York City Department of Health is receiving little Federal aid to support asthma-control activities. Current CDC funding consists of only one small grant, less than $90,000, that supports surveillance studies which enable the Department of Health to evaluate the prevalence of asthma in school-aged children. While no other Federal aid is made available to the City directly, the CDC has reported that the death rates from asthma among 25 to 45 year old adults are much higher in New York City than in other major urban areas of the nation, and the nation as a whole.

National statistics on childhood asthma parallel the experience in New York City:

- 4.8 million children – or 1 in 15 – under 18 years of age have asthma.

- Asthma rates have increased 160 percent in the past 15 years in children under 5 years of age.

- Asthma is the leading chronic illness in children in the United States and the leading cause of school absenteeism.

- Asthma-related hospitalizations are on the rise for inner-city children, particularly from low-income populations.

In New York City, the most dramatic increases in asthma hospitalization rates are seen in children from low-income populations. The rate of asthma hospitalizations for children under age 5 from low-income areas rose by 63 percent during the ten-year period from 1988 to 1997.

New York City is requesting that Congress appropriate adequate funds for asthma detection and prevention and that the CDC allocate the resources to areas, such as New York City, where the need is greatest.

Mosquito-Borne Disease Control Program: Last August, the City mounted a rapid emergency response to the sudden outbreak of the West Nile virus, a mosquito-borne disease that had never previously been recognized in the Western Hemisphere. In order to prevent future infectious disease outbreaks, the New York City Department of Health has developed a comprehensive surveillance and control plan that will detect and combat mosquito-borne diseases before they spread to humans. The President's proposed budget for FFY 2001 includes a substantial increase in funding to combat the spread of emerging infectious diseases. The City is requesting $5 million of this Federal allocation to fund the Department of Health's program.

Social Services Block Grant (Title XX)

Title XX (Social Services Block Grant) provides critical Federal funding to serve low-income children in New York City for the purpose of preventing, reducing and eliminating welfare dependency. The City primarily uses Title XX funds for daycare slots and preventive care services through the Administration for Children's Services. In FFY 1999, the President drastically reduced requested funding from $2.3 billion to $1.9 billion, which resulted in a loss of approximately $17.9 million to the City. For FFY 2000, Congress further decreased the funding level to $1.8 billion with a loss to the City of $5.9 million. The City requests a reinstatement of 1998 funding levels for Title XX in order to recoup the $24 million loss due to reductions in Title XX over the past two years.

Low Income Home Energy Assistance Program (LIHEAP)

The Low Income Home Energy Assistance Program provides assistance to low-income households for home energy costs. LIHEAP grants are targeted to areas and households with the greatest need, including large urban areas like New York City. In FFY 1999, Congress provided $1.1 billion for LIHEAP and an additional $300 million for emergency funding.

Prior to FFY 1995, New York State automatically granted funding to all eligible renters and homeowners. In 1995, Federal funding was cut and New York was unable to provide grants automatically to the entire eligible population. The State of New York created a disincentive to accessing HEAP grants by requiring that certain less vulnerable individuals, eligible for LIHEAP, complete applications in order to receive the grants. The City would like to restore automatic HEAP grants to all eligible recipients, and this can only happen if Federal funding levels are increased to at least $1.3 billion.

In the past several years, LIHEAP contingency funds have arrived to states too late to respond in a timely fashion to an energy crisis. By the time the contingency funding is released and the states develop and implement an expenditure plan, the critical need in individual households may have diminished. The City believes that a policy that allocates a portion of the $300 million LIHEAP contingency fund at the beginning of the program year would be more efficient.

Federal Medical Assistance Percentage (FMAP)

The current Federal Medical Assistance Percentage (FMAP) funding level for New York State is 50 percent, which is the lowest share that states are eligible to receive. The formula used to determine the share is inequitable to certain states, such as New York, because it fails to consider the total taxable resources (TTR) available to a state proportionate to the state's per capita income. Recent studies by the General Accounting Office (GAO) conclude that the TTR factor yields a more equitable distribution formula by capturing a more accurate measure of statewide poverty than is captured in state per capita income. Utilization of the TTR would increase the FMAP percentage for New York City and, as a result the City would receive an additional $80 million.

DNA Backlog Elimination

Currently, Congress is considering legislation concerning DNA funding. One proposal specifically addresses the potential for DNA backlog elimination and proposes to spend $60 million over the next two years. This legislation would require that the Federal Bureau of Investigation work in conjunction with the Justice Department to develop state plans to eliminate forensic evidence backlogs. This Federal aid is critical to remedy the high backlog in DNA processing. The New York City Police Department has over 16,000 DNA cases awaiting analysis. The City requests that DNA backlog elimination legislation be enacted and that the City receive an appropriate level of funding for this program.

STATE OVERVIEW

In 1998, the State Legislature took an historic step by establishing a conference committee structure designed to openly debate the parameters of a budget agreement. The Legislature and Executive are currently in the process of negotiating a budget agreement.

The State agenda for 2001 is centered around a number of cost containment initiatives that save the City $75 million annually without requiring increases in State spending. Additionally, the City is requesting the full repeal of the Wicks Law which would result in significant capital savings for the City.

Extend Court of Claims Jurisdiction to Covered Organizations

The City proposes that the State extend Court of Claims jurisdiction to certain covered organizations. Tort liability costs have increased dramatically in recent years. In 1997 the City's costs for personal injury lawsuits was $288 million and in 1999 this amount was $375 million. Specifically, the City's liability from public benefit corporations, such as the Board of Education and the New York City Health and Hospitals Corporation, totaled more than $125 million in 1999, greater than one-third of the total City payout.

Due to the tremendous increase in tort liability in recent years, the City urges the passage of State legislation that will provide the Court of Claims exclusive jurisdiction over personal injury and wrongful death lawsuits against public benefit corporations. This treatment will be similar to what the State of New York receives. Permitting claims against the State and State-created entities, but entrusting them to a specialized bench, strikes a balance between the rights of the injured persons and the need to protect the public treasury.

The City strongly supports the passage of a tort reform proposal that includes the transfer of these specified cases to the Court of Claims. This proposal would yield $35 million in savings in 2001 for the City.

Medicaid Fraud Prevention Initiatives

Pharmacy Services: The State's Medicaid costs related to pharmacy services have grown rapidly over the past five years, roughly 20 percent a year since 1995. While a portion of the spiraling costs is attributable to the introduction of more efficacious drugs to combat AIDS, a portion of the growth is due to pharmaceutical fraud.

The City proposes to work with the State to implement several measures to reduce pharmaceutical fraud. These initiatives include redesigned prescription forms printed on non-reproducible paper, as well as the imposition of more stringent criminal penalties for Medicaid recipients who allow others to use their cards. In addition, the City supports tougher criminal penalties for pharmacists who commit prescription fraud, where such fraud typically results in multiple billings for a single prescription. The City could recognize well over $30 million in Medicaid savings from these reforms.

The City also proposes the elimination of the dispensing fee for brand name drugs that is paid currently to pharmacists in addition to the Medicaid reimbursement for the prescription. Dispensing fees were given to pharmacists as an incentive to accept Medicaid. Medicaid reimbursement rates for pharmaceuticals, however, remain competitive with other insurance reimbursement plans, particularly with respect to the new class of drugs available to treat AIDS. The City could save nearly $15 million if the dispensing fee for brand name drugs were repealed.

Transportation: Currently the lack of adequate oversight of the utilization of transportation services in the Medicaid program results in overutilization and billing fraud. More rigorous use of the prior approval program and closer auditing of transportation bills submitted by ambulette services are likely to generate approximately $22 million in City tax levy savings.
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Restricted Recipient Program for Drug Users: This proposal increases utilization of the restricted recipient program for drug users. Currently, there are approximately 2,500 drug users receiving Medicaid who are required to participate in the restricted recipient program. Recent statistics reveal spiraling pharmaceutical costs in the State's Medicaid program, in part attributable to recipient overutilization. More stringent oversight is necessary to target Medicaid participants who are current high utilizers of Medicaid. An aggressive increase in restricted recipient program participation could yield savings to the City of approximately $7 million.

Early Intervention Initiatives

The Early Intervention program provides physical therapy and speech therapy, as well as other related services, free of charge to infants and children up to two years of age who qualify based on a developmental disability. Such services are instrumental in helping the very young and most vulnerable children achieve significant developmental milestones, and in so doing, prevent the expenditure of expensive health care at a future time.
Last year the City spent more than $68 million to fund its share of Early Intervention costs. This year the City contribution is anticipated to rise to nearly $90 million, while spending over the next four years is projected to grow by at least 15 percent each year. In light of the spiraling costs, New York City recommends the

implementation of two reforms in the Early Intervention program in order to contain spending by the State and localities, yet keep programmatic features intact.

Currently, third party insurance billing of Early Intervention services is not permitted by law. The City supports the removal of such restriction in order to allow the billing of third party health insurance. Such billing would potentially defray costs, currently a government responsibility, which are reimbursable expenditures by health insurance companies.

The City also recommends imposing co-payments for Early Intervention Services based on income criteria. These proposals combine to provide annual savings to the City of approximately $10 million.

Wicks Law Reform

The Wicks law requires the City to hire four separate contractors for many public construction projects when only one is needed. Specifically, State law mandates that for construction projects over $50,000 the City must issue separate contracts for electric, plumbing, HVAC and other services. While Wicks was originally designed to increase competition, the outcome has been duplication and delay at tremendous cost to the City and State taxpayers. The outdated rule adds approximately 14 percent to the costs of projects subject to Wicks, and projects take 16 months longer to complete. In fact, Wicks will cost City taxpayers more than $209 million in 2000. Over ten years of the 2001 capital plan, the City will save $1.7 billion from the repeal of the Wicks law.

The City strongly supports the full repeal of the Wicks law and commits that 50 percent of the savings be spent on school construction.

CONTRACT BUDGET

The Contract Budget is presented as part of the 2001 Executive Budget submission. The Contract Budget includes all projected expenditures for contracts as defined in Section 104 of the City Charter, including those of small dollar value that do not require registration by the Comptroller's Office. These include purchase orders and open market orders as well as contracts.

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

The 2001 Executive Contract Budget contains approximately 20,000 contracts totaling over $5.6 billion. Approximately two-thirds of the total contract budget dollars will be entered into by the Department of Social Services, the Administration for Children's Services, the Department of Homeless Services and the Board of Education. The Administration for Children's Services has over $1.3 billion in contracts, 80 percent of which represents contracts allocated for Children's Charitable Institutions ($667 million) and Day Care ($406 million). Of the over $1.2 billion in Board of Education contracts, approximately 40 percent are allocated for pupil transportation contracts ($482 million).

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

	Est. # of Contracts	Dollars (Millions)	% Total Dollars
Social Service Related and Health Services • Home Care, Child Welfare, Employment Services, Public Assistance, Day Care, Family Services, Homeless Programs, AIDS, Senior Citizen Programs, Health, Mental Hygiene, & Prison Health, etc.	4,567	$3,157	55.9%
Youth and Student Related Services (including Transportation of Pupils and Payments to Contract Schools)	1,832	1,000	17.7
Other Services • Custodial, Security Services, Secretarial, Cultural Related, Employee Related, Economic Development, Transportation, etc.	3,853	856	15.1
Professional Services/Consultant • Accounting, Auditing, Actuarial, Education, Investment Analysis, Legal, Engineering & Architectural, System Development & Management Analysis, etc.	4,668	331	5.9
Maintenance & Operation of Infrastructure • Lighting, Streets, Buildings, Parks, Water Supply, Sewage and Waste Disposal, etc.	2,411	211	3.8
Maintenance of Equipment • Data Processing, Office Equipment, Telecommunications & Motorized Equipment, etc.	2,573	89	1.6
TOTAL	19,904	$5,644	100.0%

Borough Presidents' Proposed Reallocations

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

The Queens Borough President submitted a reallocation proposal of $58.845 million. Among the suggested restorations are $13 million to the Queens Public Library, $20.2 million to Cultural Affairs, $17 million for Youth programs, $3 million to deal with domestic violence, $1 million to Sanitation, $1.42 million to Parks and $1 million to increase Buildings Department inspections. The proposed funding sources come from a projected increase in the 2000 budget surplus and the Cultural Challenge Initiative. A specific response to each reallocation proposal is provided in a separate document, FY 2001 Executive Budget Responses to the Queens Borough President's Proposed Reallocations to the FY 2001 Preliminary Expense Budget.

In summary, the 2001 Executive Budget provides the following:

Cultural Affairs

The budget restores $11.5 million for Cultural Institutions Citywide. This amount fully restores funding to the Cultural Institutions.

The budget includes $5 million in City funds as a match for the Cultural Challenge Program. This program will provide New York City's cultural institutions and program groups with significant challenge funding in 2001 to encourage new programming and greater economic viability from increased private support. The $5 million City funds increase to the Challenge combined with the matching additional private "Challenge" funding will help offset the reduction to cultural programs by selectively adding City funds for the better proposals by giving grant recipients strong leveraging power.

Libraries

The 2001 budget restores $11.6 million to the City's libraries. This amount fully restores funding to the Queens Borough Public Library. In 1998 and 1999 baseline funding for materials increased by $4.95 million.

Parks

Council member items added in the 2000 Adopted Budget are not in the baseline budget for 2001. As part of the Adopted Budget process for 2001, Council members may continue to fund their programs. The Parks Department will try to minimize the impact of the reductions if the Council chooses not to fund their programs.

Sanitation

The Department of Sanitation's 2001 Executive Budget provides resources for refuse and recycling collection, street cleaning, snow removal, and various recycling and waste prevention programs. The budget funds approximately 175 sanitation workers for basket collection services.

Housing

With regards to Code Enforcement, in 2000 the Department of Housing, Preservation and Development had the highest number of code inspectors since 1991 when New York State eliminated funding for code inspectors.

Additional construction inspectors and associated clerical personnel were added to the budget of the Building's Department.

Commercial Revitalization

Community Development Block Grant funds for the commercial revitalization program are sustained in order to maintain revitalization services in the City's neediest areas.

Youth Programs

The Department of Youth and Community Development operates approximately 390 contracts for Youth Development Delinquency Prevention programs that provide recreational activities, educational assistance and drug prevention information to youth Citywide. Beacons are after school based centers located throughout the City which are open evenings and weekends on a year round basis. Programs provide a wide variety of recreational, educational and vocational activities for youth and families. The Beacon Program has grown from 42 to 81 programs Citywide.

The Street Outreach programs will continue to operate.

Domestic Violence

With regards to establishing a Queens-based Batterer's program, a City contractor that currently operates a Batterer's program in three other boroughs is considering expanding its operations to Queens.

The range of services available to victims of domestic violence continues to expand but no proposals exist to create a domestic violence crisis unit in Queens at this time. In 2001 Citywide emergency shelter capacity for victims of domestic violence will expand by 122 beds.

COMMUNITY BOARD PARTICIPATION IN THE BUDGET PROCESS

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

Each community board receives an annual budget to pay for a district manager, support staff and other operating expenses. In 2001 the uniform base budget for each community board is $163,358. This excludes the cost of office rent and heat, light and power which are in a separate unit of appropriation. To help defray the relocation costs for those community boards planning to move offices in 2001, funds for the cost of the move and the one-time cost of telephone installation are also included in the rent unit of appropriation. To help community boards insure the contents of their offices, community boards are insured by the Citywide Central Insurance Program.

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

Each year agencies that deliver local services, prior to preparing their departmental estimates, consult with community boards about budget issues and the needs of the districts. The boards then develop and prioritize up to 40 capital budget requests and 25 expense budget requests. For 2001 community boards submitted 2,026 capital requests to 28 agencies and 1,857 expense requests to 40 agencies. Almost two-thirds of the community board capital budget requests seek improvements to streets, sewers and parks. Community board expense budget requests concentrate on Citywide programs and personnel increases such as added police officers, park workers and other service employees.

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

District specific budget information is available in the following geographic budget reports, which accompany the release of the 2001 budget.

Register of Community Board Budget Requests for the Executive Budget, Fiscal Year 2001 - lists the funding status for all community board proposals in priority order within community district. Also available in Council district and agency sorts.

Geographic Report for the Executive Expense Budget for Fiscal Year 2001 - details the expense budgets of fourteen agencies that deliver local services by borough and service district. Includes 2001 Executive Budget information as well as 2000 current modified budget and headcount data (as of January 31, 2000).

Executive Capital Budget for Fiscal Year 2001 - details the Mayor's Capital Budget by project within agency including two geographic sorts of the Capital Budget. One presents budget data by community district and borough. The other presents the budget by borough within project type.

Geographic Fiscal Year 2001 Executive Budget Commitment Plan - presents information on capital appropriations and commitments by community board, including implementation schedules projected for each month of 2000, and the succeeding four years for all active project identifications by budget line.

Tax Reduction Program

The tax reductions enacted over the last six years have played an important part in the City's revival. Business tax reform has made the City more competitive and helped in the creation of 89,000 private sector jobs in 1999, while sales tax reductions and property tax relief have benefited consumers and property owners. This budget expands on these reductions with substantial relief, including a 50 percent cut in the 14 percent personal income tax surcharge and the complete elimination of the commercial rent tax. In addition, the current co-op/condo property tax abatement is extended and the hotel tax $2 flat fee per room is repealed. In 2001, the tax reductions in this budget total $364 million, increasing to $1,073 million in 2004.

Tax Reduction Program
($ Millions)

	2000	2001	2002	2003	2004
Already Enacted					
• Hotel Tax Cut	($25)	($26)	($27)	($28)	($29)
• Commercial Rent Tax Reductions	(400)	(405)	(410)	(415)	(420)
• Unincorporated Business Tax Reforms & Credits	(53)	(54)	(56)	(57)	(58)
• Commercial Revitalization Program	(25)	(29)	(31)	(32)	(32)
• SCRIE/SCHE Enhancements	(6)	(6)	(6)	(6)	(6)
• Co-op/Condo Property Tax Relief	(158)	(167)	—	—	—
• Business Tax Reform	(110)	(130)	(133)	(136)	(142)
• Sales Tax - Miscellaneous Exemptions	(44)	(45)	(47)	(47)	(47)
• Sales Tax - Clothing Exemptions					
- One week Exemptions	(20)	—	—	—	—
- Full year on clothing & footwear under $110 (effective 3/1/00)	(80)	(241)	(247)	(253)	(260)
• Resident UBT/PIT Credit	(37)	(43)	(49)	(55)	(55)
• Real Property Transfer Tax Exemption for Assumable Mortgages	(2)	(2)	(2)	(2)	(2)
• Elimination of the Vault Charge and the Tax on Coin Operated Amusement Devices	(8)	(8)	(8)	(8)	(8)
• Expiration of PIT 12.5% Surcharge	(785)	(765)	(787)	(833)	(877)
• Commuter Tax Repeal	(588)	(475)	(492)	(524)	(556)
Subtotal	**($2,341)**	**($2,396)**	**($2,295)**	**($2,396)**	**($2,492)**
Proposed					
• Elimination of the Commercial Rent Tax	—	($16)	($97)	($204)	($430)
• 50% Cut in the 14% PIT Surcharge	—	(329)	(361)	(382)	(403)
• Extension of Co-op/Condo Property Tax Relief	—	—	(181)	(191)	(200)
• Repeal of Hotel Tax $2 Flat Fee	—	(19)	(39)	(39)	(40)
Subtotal	**—**	**($364)**	**($678)**	**($816)**	**($1,073)**
Total Tax Reduction Program	**($2,341)**	**($2,760)**	**($2,973)**	**($3,212)**	**($3,565)**

The 2001 Executive Budget tax reduction proposals are as follows:

- **Elimination of the commercial rent tax**: Effective June 1, 2000, tenants paying up to $150,000 in rent annually will be completely exempt from taxation and tenants paying up to $190,000 will receive a partial credit that lowers their liability. This measure will drop 5,700 taxpayers from the commercial rent tax roll. Effective June 1, 2001, tenants will be allowed to exclude additional rent from taxation, reducing the effective tax rate from the current 3.9 percent to 3.0 percent. Effective June 1, 2002, tenants will be allowed an additional reduction in the base rent subject to tax, further reducing the effective tax rate to 2.0 percent. The commercial rent tax will be completely eliminated on June 1, 2003. These actions will save taxpayers $16 million in 2001, $97 million in 2002, $204 million in 2003, and $430 million in 2004 when fully effective.

- **50 percent cut in the 14 percent personal income tax surcharge:** The personal income tax paid by City residents is subject to a 14 percent surcharge that is imposed on the base rate. The 14 percent surcharge was enacted in 1991 and has required periodic renewal since 1993. It is currently scheduled to expire on December 31, 2001. This proposal calls for a 50 percent reduction in the 14 percent surcharge on July 1, 2000 and renewal at the reduced rate in 2001. The proposal will save City resident taxpayers $329 million in 2001, $361 million in 2002, $382 million in 2003, and $403 million in 2004.

- **Co-op and condo property tax relief:** An abatement program was implemented in 1997 to reduce the disparity in property tax burden between owners of cooperatives and condominiums (Class 2) and single family homes (Class 1). This program allowed a partial abatement of Class 2 real property taxes over a three-year period starting in 1997. In 1999, the abatement was equal to 17.5 percent of the tax for residential units with an average assessed value over $15,000 and 25 percent of the tax for residential units with an average assessed value of less than $15,000. It was extended in 1999 through fiscal year 2001. This abatement program will be extended at the 2001 level, with total benefits to taxpayers of $181 million in 2002, $191 million in 2003, and $200 million in 2004.

- **Repeal of hotel tax $2 flat fee:** The hotel room occupancy tax consists of both a flat fee ranging from $0.50 to $2 on rooms priced under $40 and $2 on rooms over $40, plus a five percent tax levied on the room charge. The repeal of this flat fee will reduce taxes by $19 million in 2001, $39 million in both 2002 and 2003, and $40 million in 2004.

ECONOMIC OUTLOOK

Overview

In February the U.S. economy surpassed the 106-month record expansion set back in the 1960s. Even more remarkably, the expansion is still showing few of the usual signs of aging. While 1999 ended with a strong 7.3 percent growth, core inflation was up only 2.3 percent in the same quarter, shielded by productivity growth of six percent. Although recently oil prices and the technology driven NASDAQ are causing some jitters, the fundamentals of this economy are still sufficiently stable. Therefore the Federal Reserve should be able to cool off some of the excess heat in the economy with relative ease and the U.S. economy should move along at trend speed, now estimated at 3 1/2 - 4 percent a year, for the entire forecast period.

Some unique traits of the current expansion explain its sustainability and its ability to grow further. First, the current expansion maintained marathon speed of only three percent on average for the first five years of its life, with unemployment barely reaching five percent in 1997. In comparison, the expansion of the 1960s (the second longest in history) produced a steaming six percent growth during the first five years of its life, with the unemployment rate plummeting to below four percent by 1967.

Second, although the current expansion has picked up some momentum during the preceding three years (still averaging only barely one percentage point over the long-term trend), it has been primarily fueled by a steadily rising productivity growth (three percent on average). In comparison, in 1969, the last year of the 1960s expansion, productivity growth staggered to a complete halt. Most significantly, there is growing consensus that the steady growth in productivity embodied in the current expansion will not dissipate in the near future. One popular view is that this new-technology revolution, related in particular to the rapid advances in the telecommunications and computer industry, especially the internet, is still evolving and permeating throughout the economy.

There is increasing apprehension, however, that the heavy spending on new technology along with consumer spending propelled by the unprecedented wealth appreciation of this expansion may eventually cause the economy to overheat, raising the specter of inflation. Although the Federal Reserve has expressed its intent to slow the economy through five interest rate increases in the past nine months, there is a risk that restrictive monetary policy may not be effective in arresting asset price appreciation. The Fed may need to raise rates even higher than currently expected, possibly bringing about a downturn rather than the anticipated moderation in growth.

The City’s economy has also undergone some fundamental changes that have contributed to the general atmosphere of euphoria that has characterized the nation’s economic performance. While in some ways similar to the expansion of the mid-1980s, the latest six years of expansion in the City have had a broader base with new and smaller businesses, like the "new media" industries, sharing the spotlight with the usual securities and legal sectors. These new firms helped boost private sector employment by 83,800 jobs last year, over 2.8 percent, the best performance on record and outpacing the U.S growth rate of 2.3 percent. Private sector employment in the City is expected to continue to grow at a sustained, albeit slightly lower pace, adding 70,000 jobs in 2000, a growth rate of 2 1/2 percent. In the outyears 2001- 2004, the forecast slowdown in the nation and an anticipated moderation in financial markets will affect local employment. Gains will consequently slow to average 40,000 new jobs per year, still a respectable result. Boosted by these employment gains, commercial real estate continues to prosper with available space in the both secondary and primary continuing to shrink and asking rents escalating.

The anticipated correction in the financial markets will naturally impact the securities industry more severely. Bonus payouts are expected to drop by 15 percent in 2000 and 2001. However, this comes on the heels of 1999, an unprecedented year when overall bonus payouts on Wall Street climbed an estimated 50

Note: All economic data, unless otherwise specified, are on a calendar year basis.

percent in the wake of a 65 percent rise in New York Stock Exchange member-firm profits. Outside of FIRE, average wage rates are forecast to increase by 4 1/2 percent per year in 2000-2004, sustained by healthy productivity gains which keep local price increases contained at 2 1/2 - 3 percent. Given the outlook for employment and wages, personal income is forecast to grow by over 4 1/2 percent per year on average bringing real GCP (Gross City Product) to almost $440 billion by 2004. This bullish outlook for the City is subject to the same risks that underlie the U.S. forecast, but for now the City has good reason to revel in its achievements of the past six years.

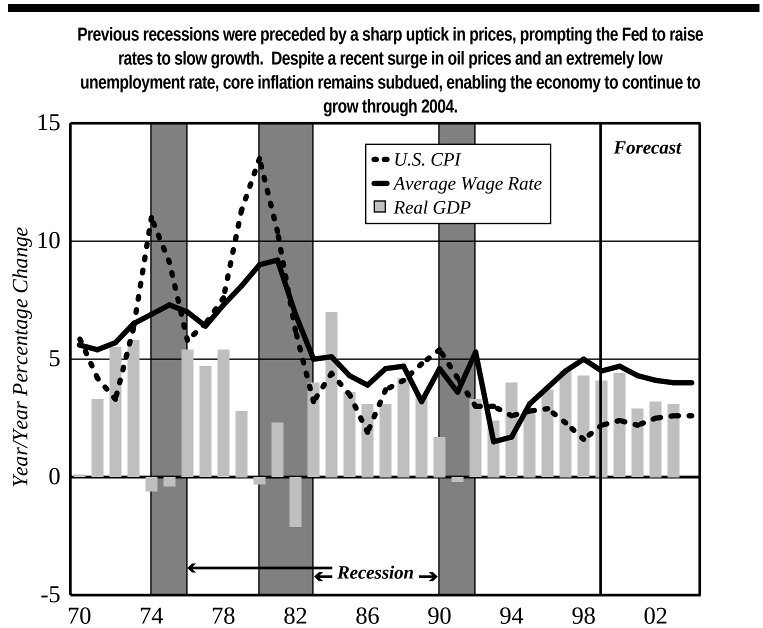
The U.S. Economy

The U.S. economy finds itself in many ways in better condition than at any time in the recent past, with few signs of strain despite a record nine consecutive years of expansion. The fruits of this expansion have included some profound structural changes that have made the economy more resilient to external shocks and prolonged the growth cycle. At the forefront of these changes are productivity gains, which have accelerated recently after years of languishing as firms continue to invest heavily in promising technology. In addition, the Federal government is running a surplus for the first time since the 1960s and higher wages and continued demand for labor have attracted more people into the labor force than at any time in recent history.

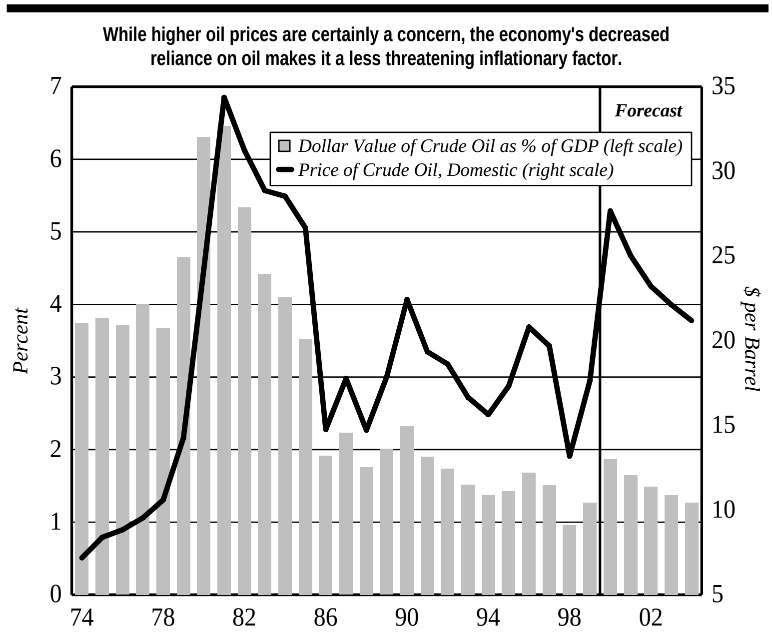
The benefits resulting from these structural shifts, combined with the usual factors that have propelled the economy over the past years, (in particular strong consumer spending) continue to keep the economy buoyant and impart a sense of optimism on the outlook. This optimism is not devoid of concerns that the recent uptick in oil prices and an unemployment rate at an all time low will cause inflation to accelerate. However, there are several reasons to believe that growth will continue without the sharp uptick in inflation that preceded previous recessions and which prompted the Federal Reserve in the past to aggressively raise rates to curtail growth.

First, the U.S. economy has become less reliant on oil both because of a shift in the outputs produced, with services and know-how in general replacing manufacturing, and because technological advances have made for more efficient fuel usage at the producer and consumer level. In fact, the total value of crude oil (domestically produced and imported) as a share of nominal GDP has fallen from seven percent in the early 1980s to one percent in 1998, making the economy better able to absorb inflationary pressures from higher oil prices[1].

REAL GDP, INFLATION, AND AVERAGE WAGE RATE



CRUDE OIL AS A PERCENTAGE OF GDP AND DOMESTIC PRICE OF CRUDE OIL



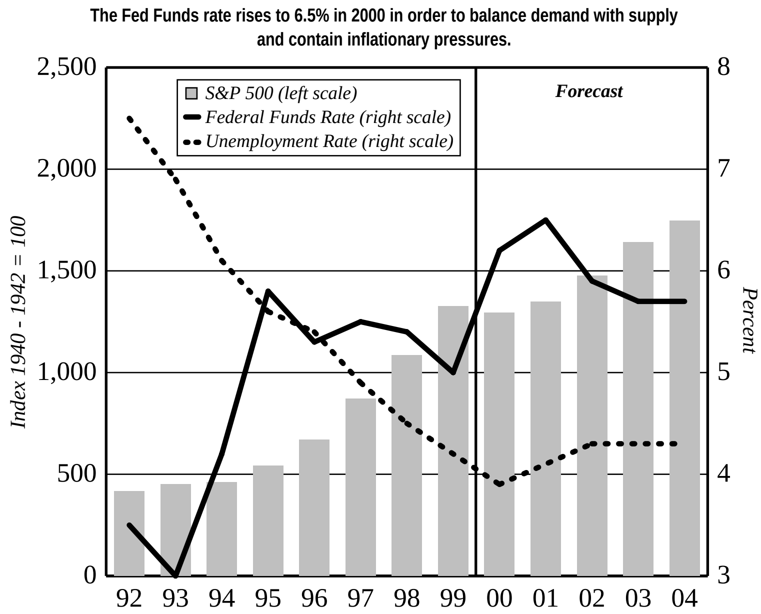
1. *Furthermore, the uptick in crude oil prices is likely to reverse as OPEC has recently announced increases in production.*

Second, increased foreign competition has made it more difficult for domestic producers to unilaterally raise prices. Today non-oil imports account for 11 percent of the economy compared to six percent twenty years ago. More recently increases in productivity have helped offset the wage pressures normally associated with low unemployment rates.

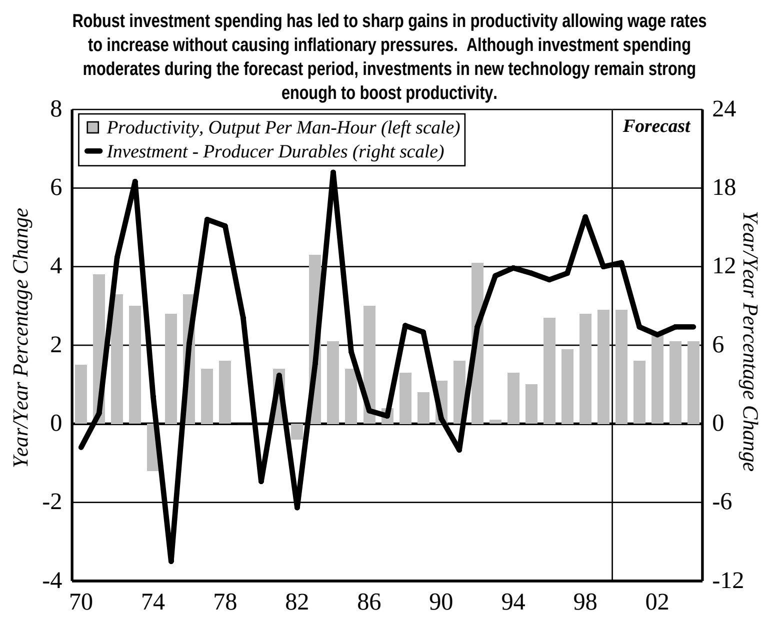
Finally, of course, the Federal Reserve has played a key role by trying to prevent the economy from overheating. The Fed has already raised rates five times since June of 1999 and has clearly signaled to the financial markets its intent to continue to cool off the "excessive demand" induced by a soaring stock market (the familiar "wealth effect"). The outlook assumes that the Federal Reserve will raise rates to 6 1/2 percent by the middle of this year. GDP is expected to average a still respectable 4.4 percent growth in 2000 given the current momentum in the economy, but as the Fed's actions begin to take effect, growth in the U.S. economy gradually moderates averaging three percent in the outyears.

More specifically, in a breakdown of the GDP components, consumption spending is expected to ease from an increase of five percent in 2000 to three percent on average in 2001-2004. Residential investment spending also begins to feel the effects of higher interest rates with growth stabilizing in 2000-04 after increasing at seven percent on average in 1995-1999. Despite slowing in the consumer and residential sectors, investment spending in producer durables is expected to increase 12 percent in 2000 and then at a still substantial rate of 7.3 percent on average from 2001-2004. Any slowdown in investment spending, which would normally occur with higher interest rates, is offset by the higher anticipated returns to capital stemming from new technologies. As a result of continued strong investment, productivity continues to increase by over two percent per year from 2000-2004 helping counteract the inflationary pressures of wage rate increases of four

S&P 500, FEDERAL FUNDS RATE, AND UNEMPLOYMENT RATE



PRODUCTIVITY - OUTPUT PER MAN-HOUR, AND INVESTMENT - PRODUCER DURABLES



percent. Inflation, therefore, is expected to be in the 2 1/2 percent range during the forecast period, up from the 1 1/2- 2 percent range of 1998-1999. The combined effects of higher interest rates and lower growth in corporate profits will cause a modest correction in the stock market in 2000-2001 before the S&P 500 resumes average growth of eight percent per year thereafter.

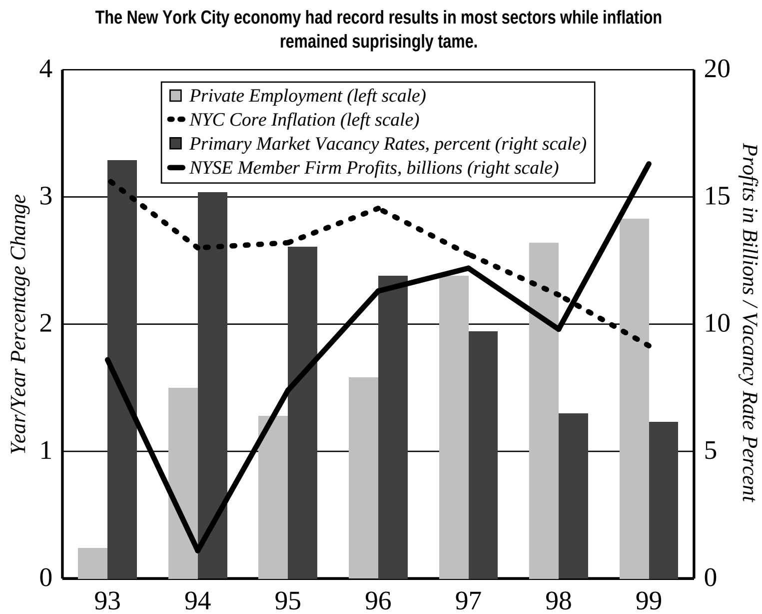
The remaining GDP components--the foreign and government sectors-- will continue to grow in opposite directions. The Federal budget surplus is forecast to reach over $250 billion dollars by 2004, while the trade deficit continues to widen by four percent per year, to nearly $500 billion by the end of the forecast.

In summary, the outlook retains the optimistic imprint warranted by recent structural changes and the economy's current underlying strength. At the same time this forecast remains highly predicated and sensitive to several key assumptions: that inflation remains tame, that the Fed successfully engineers a slowdown in growth and that the stock market undergoes only a modest correction.

The New York City Economy

The New York City economy has particularly benefited from the current technologically driven expansion. Along with the nation, the City is also riding a wave of optimism, following a euphoric year in 1999.

PRIVATE EMPLOYMENT, NYC CORE INFLATION, NYSE MEMBER FIRM PROFITS, AND PRIMARY MARKET VACANCY RATES



After an already remarkable six consecutive years of growth, private employment in 1999 expanded at the strongest rate on record, 2.8 percent, surpassing the nation and bringing the unemployment rate to a ten-year low. Profits on Wall Street surpassed expectations, as New York Stock Exchange member firms amassed $16.3 billion in profits, trampling the previous record by nearly 35 percent. Demand in both the residential and commercial real estate markets soared, causing vacancy rates to plummet and asking rents to skyrocket. Most surprisingly, all this occurred as the core rate of inflation decelerated in 1999.

The City created 83,800 new private sector jobs in 1999, surpassing 1998's record of 76,200. With the government sector adding 5,000 jobs, total employment in the City expanded by 89,000 jobs. The private sector's upsurge reflects the City's ability to attract firms in high skilled areas and the "new media" industry in particular. These firms contributed a large portion of the 54,000 new jobs that were added to the service sector. Within services, business services, which is made up of computer programming, advertising, and personnel supply firms, accounted for 19,500 jobs, or over 35 percent of the new jobs, while legal services grew by 3,000, medical by 7,300, and engineering/management by 5,400 jobs.

New York City Employment by Sector
(Jobs in Thousands)

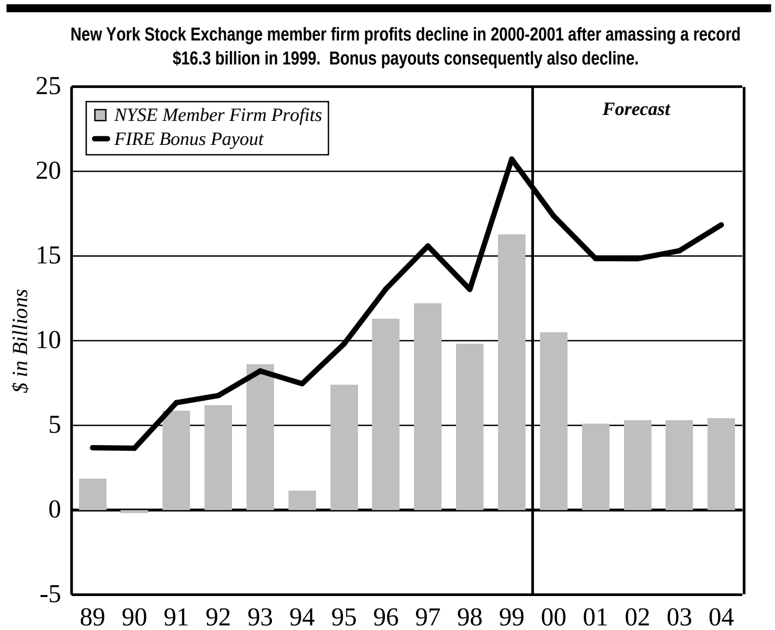
				Forecast		
	1999			2000-2004	2004	
	Level	% of Total	Change	Avg. Chg. Y/Y	Level	% of Total
Total Employment	3,617	100.0%	89	42	3,829	100.0%
Private Employment	3,050	84.3%	84	42	3,260	85.1%
FIRE	488	13.5%	5	1	491	12.8%
Securities	170	4.7%	4	1	174	4.5%
Banking	110	3.0%	-3	-2	98	2.6%
Services	1,379	38.1%	54	33	1,544	40.3%
Business Services	304	8.4%	20	12	366	9.6%
Health Services	322	8.9%	7	5	349	9.1%
Trade	610	16.9%	20	7	646	16.9%
Manufacturing	252	7.0%	-7	-6	221	5.8%
TCPU	207	5.7%	1	1	210	5.5%
Construction	114	3.2%	11	7	146	3.8%
Government	567	15.7%	5	1	569	14.9%

The other major engine of growth in the City was retail trade. Fueled by robust consumer demand, retail jobs grew by an impressive five percent, adding 19,000 new employees. The wholesale industry fared less well, but still added 1,300 jobs. Record demand for housing and office space in the City also resulted in a boom in the construction industry, fostering 11,300 new jobs.

Rounding out the major sectors, TCPU (transportation, communication and public utilities) added 500 jobs, while manufacturing employment continued its familiar downward trend, with losses of nearly 7,000 jobs. The pivotal FIRE (finance, insurance, and real estate) sector added 4,600 jobs. Within FIRE, the securities industry recorded its largest profits in history and added nearly 4,300 jobs. Employment in the banking industry contracted by 3,200 jobs, continuing a ten-year structural trend of job losses.

Buoyed by 1999's strong results and continued strength in the outlook for the U.S., the 2000 forecast for New York City remains bullish. Private employment in the City is forecast to slow only slightly in 2000, adding approximately 70,000 new jobs, before moderating in the outyears 2001-2004, as the Fed succeeds in its current supply-demand balancing act. The employment gains slow to nearly 40,000 jobs a year, about half the growth rate of 1998-2000.

NYSE MEMBER FIRM PROFITS AND FIRE BONUS PAYOUTS



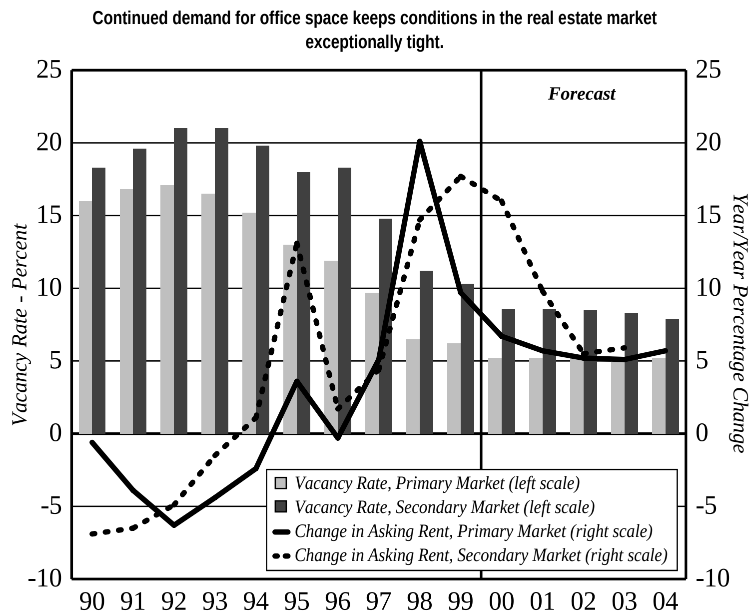
The service sector will continue to be the main engine of growth in the City. By the year 2004, the service sector will account for over 40 percent of total employment in the City, with business services accounting for nearly a third of the service sector gains. The securities subsector of FIRE loses some steam, however, as the stock market and industry profits drop in both 2000 and 2001, a result of the Fed's tightening and the consequent effect on earnings and asset valuations. The FIRE sector is forecast to shed nearly 6,000 jobs in 2000-2002 before a modest rebound in 2003 and 2004. Employment in trade slows from 16,000 new jobs in 2000 to 5,000 new jobs a year from 2001-2004. Due to the number of new office and residential projects in the pipeline, gains in the construction sector remain strong despite softening in the other sectors. The sector increases by over 5,000 jobs per year or close to five percent per year. In the remaining sectors of the economy, manufacturing jobs continue to leave the City at a brisk pace of almost 6,000 a year, while both TCPU and the government sectors remain essentially flat.

The securities industry experienced another exceptional year in 1999. Profits rose to $16.3 billion up over 33 percent from the previous high in 1997. The record profits stemmed particularly from strong activity in the trading, underwriting and M&A divisions. With interest rates increasing and lower growth in the economy in general, a repeat of these record profits levels is not expected to occur. Specifically, the forecast calls for a decline in New York Stock Exchange Member firm profits to $10.5 billion in 2000 and then again in 2001 to around $5 billion. The lower profits estimate will have a pronounced impact on overall bonus payouts. Total bonus compensation, estimated to have increased by over 50 percent in 1999, is expected to decline by fifteen percent on average in 2000-2001.

Outside of FIRE, wages are forecast to grow by 4.5 percent in 1999-2000, followed by increases of around four percent per year in 2001-2004. Given these estimates for wage rates and employment, total wage earnings rise by close to nine percent on average in 1999-2000 and 4.6 percent in 2001-2004. Personal income in the City increases from $278 billion in 1999 to $348 billion in 2004 and Real Gross City Product rises by 3.1 percent per year to almost $440 billion by 2004, matching the nation's real GDP growth.

With the emergence of the "new media" industry, the surge in the securities market, and the overall improvement in quality of life, demand for office space in the City has reached peak levels reminiscent of the mid-1980s. Given the City's limited capacity to expand, at least in the short term, the City's real estate market has been under intense pressure. Vacancy rates in the primary Midtown North market fell below six percent at the end of 1999, leaving only nine million square feet available in the approximately 300 buildings which make up that market. With so little space available and rents in the primary market averaging $46 per square foot, (and in some luxury buildings commanding as much as $100 per square foot), landlords and developers are once again finding it profitable to build.

VACANCY RATES AND ASKING RENTS
IN THE PRIMARY AND SECONDARY MARKETS



Unlike prior real estate booms in the City, much of the new construction is based on pre-leased demand, as major companies look to assemble their work force in one New York City skyscraper. In total, an additional 14 million square feet of primary space is projected to be added by 2004, which should help alleviate some of the pressure in the market. Vacancy rates, however, continue to fall, to a projected low of five percent, as additional employment gains cause demand for space to still outpace the forthcoming supply. Rents in the primary market are forecast to rise by seven percent in 2000 before increases slow to five percent on average in 2001-04.

The secondary market has also flourished in the last two years. Vacancy rates in the secondary market, like the primary market, have plummeted recently. In 1996, vacancy rates were close to 18 percent in the secondary market. By 1999, vacancy rates had fallen to ten percent and are forecast to decline even further to approximately eight percent by 2004. With the arrival of small startup companies flush with venture capital and cash from the equity market, buildings in the "hot" Midtown South region are filling up. The speed with which these companies have spawned and multiplied and rapidly outgrown their space has continued to intensify. Recently demand has been so strong that rents in midtown south have increased at a much faster rate than in any other sub-market in the City. Increases in asking rents, throughout the secondary market, have accelerated, up from 15 percent in 1998 to 18 percent in 1999, leaving rents at $31.50. With fewer spaces left for conversion and little change in inventory, rents climb by an additional 16 percent in 2000 to $36.60 and ten percent in 2001, before increases slow thereafter with moderating employment growth.

Given that conditions in both Manhattan's primary and secondary market are expected to remain tight, companies will be increasingly faced with the question of whether to stay and pay more, or leave Manhattan. Although some of these companies might choose neighboring New Jersey, this migration could benefit the City as Brooklyn and Queens markets take some of the spillover.

Executive Budget 2001
Forecasts of Selected United States and New York City Economic Indicators
Calendar Years 1998-2004

	1998	1999	2000	2001	2002	2003	2004	Average Change 1969–1998*
NATIONAL ECONOMY								
Real GDP								
Billions of 1992 Dollars	7,809.6	8,131.3	8,488.4	8,732.9	9,009.1	9,284.7	9,559.4	
Percent Change	4.3	4.1	4.4	2.9	3.2	3.1	3.0	3.0
Non-Agricultural Employment								
Millions of Jobs	125.8	128.6	131.5	133.3	134.9	136.6	138.2	
Change from Previous Year	3.1	2.8	2.9	1.8	1.6	1.7	1.6	
Percent Change	2.6	2.2	2.2	1.4	1.2	1.2	1.2	2.0
Consumer Price Index								
All Urban (1982-84=100)	163.1	166.7	170.8	174.4	178.8	183.4	188.1	
Percent Change	1.6	2.2	2.4	2.2	2.5	2.6	2.6	5.2
Wage Rate								
Dollars Per Year	33,275	34,775	36,409	37,976	39,522	41,123	42,762	
Percent Change	5.0	4.5	4.7	4.3	4.1	4.0	4.0	5.3
Personal Income								
Billions of Dollars	7,358.9	7,791	8,281.2	8,712.8	9,148.3	9,622.2	10,123.2	
Percent Change	5.9	5.9	6.3	5.2	5.0	5.2	5.2	8.0
Before-tax Corporate Profits								
Billions of Dollars	781.9	854.7	910.1	940.5	992.9	1,047.6	1,098.4	
Percent Change	-1.8	9.3	6.5	3.3	5.6	5.5	4.8	7.8
Unemployment Rate								
Percent	4.5	4.2	3.9	4.1	4.3	4.3	4.3	6.3 (avg)
10-Year Treasury Bond Rate								
Percent	5.3	5.6	6.5	6.4	6.2	6.0	6/0	8.2 (avg)
Federal Funds Rate								
Percent	5.4	5.0	6.2	6.5	5.9	5.7	5.7	7.4 (avg)
NEW YORK CITY ECONOMY								
Real Gross City Product**								
Billions of 1992 Dollars	351.8	373.3	390.5	393.6	403.7	417.7	434.9	
Percent Change	4.4	6.1	4.6	0.8	2.6	3.5	4.1	2.6
Non-Agricultural Employment								
Thousands of Jobs	3,528.0	3,616.7	3,688.0	3,711.4	3,743.8	3,784.7	3,829.1	
Change from Previous Year	86.2	88.7	71.3	23.4	32.4	40.9	44.4	
Percent Change	2.5	2.5	2.0	0.6	0.9	1.1	1.2	-0.2
Consumer Price Index								
All Urban NY-NJ Area								
(1982-84=100)	173.6	177.0	181.6	185.6	190.1	195.0	200.0	
Percent Change	1.6	2.0	2.6	2.2	2.4	2.6	2.6	5.2
Wage Rate								
Dollars Per Year	52,131	54,650	57,646	59,546	61,628	64,449	67,533	
Percent Change	6.5	4.8	5.5	3.3	3.5	4.6	4.8	6.5
Personal Income								
Billions of Dollars	261.4	277.7	296.5	307.4	318.3	331.8	348.0	
Percent Change	6.8	6.2	6.8	3.7	3.5	4.3	4.9	6.8
NEW YORK CITY REAL ESTATE MARKET								
Manhattan Primary Office Market								
Asking Rental Rate***								
Dollars Per Sq Ft	41.86	45.92	49.00	51.78	54.47	57.26	60.54	
Percent Change	20.1	9.7	6.7	5.7	5.2	5.1	5.7	NA
Vacancy Rate***								
Percent	6.5	6.2	5.2	5.2	5.2	5.0	5.2	NA

* *Compound annual growth rates for 1969-1998. Compound growth rate for Real Gross City Product covers the period 1978-1997; for NYC wage rate, 1975-1997.*

** *GCP estimated by OMB.*

*** *Office market data are based on statistics published by Cushman & Wakefield. Data for 1995 and beyond are not directly comparable to prior years due to a reclassification of many buildings by Cushman & Wakefield.*

TAX REVENUE

Overview

The tax revenue is forecast to increase 3.2 percent in 2000 and decline 2.1 percent in 2001.

The positive economic environment that has buoyed tax collections in recent years has gained momentum in the past year. The national economy posted a third straight year of real GDP growth above four percent. The City has seen its third consecutive year of record private employment gains. Finally, Wall Street posted profits of $16.3 billion in calendar year 1999, up more than a third from the earlier record of $12.2 billion set in calendar year 1997. Non-property tax growth is forecast at a modest 4.0 percent in 2000, however, suppressed by a number of tax cuts including the full-year impact of the expiration of the 12.5 percent personal income tax surcharge, the repeal of the commuter tax, the sales tax exemption for clothing and footwear costing below $110 and the impact of the School Tax Relief (STAR) program. On a common rate and base, non-property taxes are forecast to grow 15.1 percent in 2000. The personal income tax is forecast to grow 23.5 percent on a common rate and base, as a soaring bonus payout on 1999 Wall Street profits as well as employment gains further boost wage income and as capital gains realizations from the aging bull market increase nonwage income. Business tax collections are forecast to average growth of 13.4 percent in 2000, buoyed by payments from the FIRE sector and the strong national economy. The sales tax is forecast to grow at 6.7 percent, also above trend.

2000 and 2001 Tax Revenue Forecast
($ Millions)

Tax	2000 Forecast	2001 Executive Budget	Increase/(Decrease) From 2000 to 2001 Amount	Growth
Real Property	$7,771	$7,956	$185	2.4%
Commercial Rent	333	351	18	5.4
Mortgage Recording	412	364	(48)	(11.7)
Real Property Transfer	473	461	(12)	(2.5)
Personal Income†	5,144	4,840	(304)	(5.9)
General Corporation	1,690	1,498	(192)	(11.4)
Banking Corporation	351	399	48	13.7
Unincorporated Business	759	745	(14)	(1.8)
Sales and Use	3,407	3,395	(12)	(0.4)
Utility	243	231	(12)	(4.9)
All Other	747	714	(33)	(4.4)
Subtotal	$21,330	$20,954	($376)	(1.8%)
STAR Aid	$260	$494	$234	90.0%
Tax Audit Revenue	378	412	34	9.0
Tax Reduction Program	0	(364)	(364)	n.a.
Total	**$21,968**	**$21,496**	**($472)**	**(2.1%)**

† *Excludes revenue for TFA debt service of $266.7 million in 2000 and $470.2 million in 2001.*

* *The April 3, 2000 report, "Tax Revenue Forecasting Documentation" discusses the tax forecasting techniques used in this Executive Budget.*

Property tax collections are forecast to grow by 2.2 percent in 2000 after an increase of 5.0 percent in 1999. The levy in 2000 is up 3.4 percent compared to 2.7 percent growth last year, accounting for most of the increase in property tax collections seen this year. Part of this increase was offset by increases in tax expenditures, particularly the STAR program, a decline in lien sale proceeds and a reduction in collections from prior year delinquencies. The real property transfer tax continues to benefit from the City's surging real estate markets, growing at 11.5 percent, but the mortgage recording tax posts flat growth over 1999's record growth of 75.9 percent. The commercial rent tax is forecast to remain flat, a result of the full-year impact of the reduction in the effective tax rate from 4.5 percent to 3.9 percent.

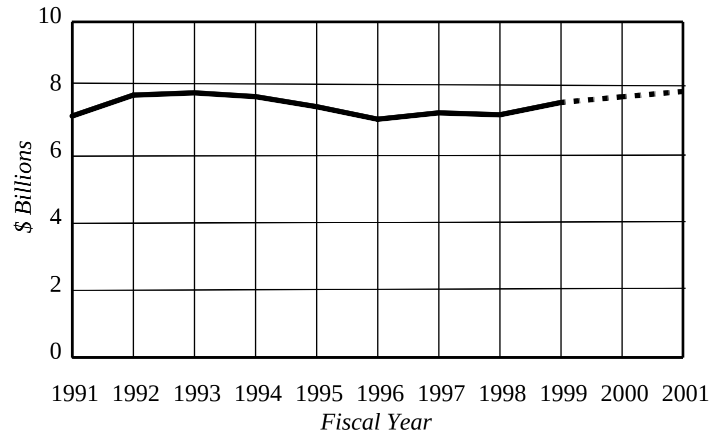
The non-property taxes are forecast to decline 4.1 percent in 2001, a result of a forecast drop in Wall Street profitability from $16.3 billion in calendar year 1999 to $10.5 billion in calendar year 2000, along with a moderating growth forecast for both employment and wage rates. Contributing to the forecast decline in 2001 are the full-year impact of the clothing and footwear sales tax exemption, an increase in the value of the STAR program and a $203 million increase in TFA retention. The sales tax exemption on clothing and footwear purchases costing below $110 reduces revenue by $241 million and the STAR program reduces personal income tax revenue by $401 million. On a common rate and base non-property taxes are forecast to decline 1.4 percent in 2001.

The property tax is forecast to grow 2.4 percent in 2001. The levy is expected to grow by 3.8 percent in 2001, reflecting accelerated growth in market values for Class 1, 2 and 4. However an expansion of the STAR program , a reduction in lien sale proceeds, and higher refunds reduces growth in revenue. The real property transfer and mortgage recording taxes are forecast to decline 2.5 percent and 11.7 percent, respectively, with the pace of real estate transfers in the City declining as interest rates continue to increase and growth in the local economy moderates. The commercial rent tax is forecast to grow by 5.4 percent in 2001 before proposed tax reductions are taken into account as the demand for space continues to put pressure on the asking rents.

REAL PROPERTY TAX

The real property tax is projected to account for 37.1 percent of tax revenue in 2001, or $7,956 million.

REAL PROPERTY TAX 1991-2001



Tax Base and Administration: In December 1981, Chapter 1057 of the Laws of 1981, commonly referred to as S.7000A, enacted 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 primarily 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 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 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 the Department of Finance (DOF) or by the State Board of Real Property Services (SBRPS). 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 SBRPS, 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 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 Bell Atlantic) 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 phaseout 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 the Department of Finance 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 in Class 3 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 State enacted School Tax Relief (STAR) program which began in the 1998-99 school year (fiscal year 1999) is designed to provide property tax relief to one-, two- and three-family homes, and to co-ops and condominiums where the property serves as the primary residence of the owner. An enhanced exemption is available for senior citizens with incomes less than $60,000. During the first year, the exemption was limited to properties owned by eligible senior citizens. The exemption is based on a fixed market value exemption adjusted for differences between local and statewide median home prices, levels of assessment and the portion of the real estate tax that represents the school tax (for New York City this portion is fixed at 50 percent).

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

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

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

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

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

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

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' 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 1995-2000, State legislation lowered the five percent cap.

Components of the Tax Levy: The 2000 real property tax is the primary source of revenue for the General Debt Service Fund. Under the State Constitution, the City's ability to levy a real property tax for the payment of principal and interest on the City's long-term debt is unlimited. There is a limit, however, on the amount of real property tax that can be raised for operating purposes. This operating limit is equal to 2.5 percent of the average full value of taxable real estate for the current and prior four years, less payments for City short-term debt and business improvement district levies. In addition, total debt outstanding including business improvement district debt may not exceed 10 percent of the five-year average full value. SBRPS estimates the full value as of January 1 for each of the five years of the average. The 1997 market value survey, which reflected an increase in real estate market values for the first time since 1989, was incorporated into the calculation of 2000's operating limit.

Real Property Tax Operating Limit

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

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

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

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

* *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.*

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

Each year the City forgoes revenue that it could collect under the basic tax structure in order to protect certain taxpayers or to create an economic incentive for taxpayers to take certain actions that would be

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 [3]	Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of end of Fiscal Year [4]	Delinquency as a Percentage of Receivable/ Tax Levy	Lien Sale [5]
1989	$6,233.0	$5,913.4	94.9%	$108.4	($78.9)	($166.7)	($152.7)	2.45%	—
1990	6,872.4	6,507.1	94.7	109.6	(74.1)	(135.0)	(230.2)	3.35	—
1991[6]	7,681.3	7,199.2	93.7	149.7	(62.7)	(166.4)	(315.7)	4.11	—
1992	8,318.8	7,748.4	93.1	193.7	(124.3)	(200.2)	(370.2)	4.45	—
1993	8,392.5	7,766.1	92.5	227.7	(107.2)	(215.2)	(411.2)	4.90	—
1994	8,113.2	7,520.3	92.7	223.1	(199.1)	(189.5)	(403.4)	4.97	$200.6
1995	7,889.8	7,377.4	93.5	210.8	(164.2)	(130.8)	(381.6)	4.84	223.1
1996	7,871.4	7,306.9	92.8	240.6	(399.7)	(275.5)	(289.1)	3.67	169.1
1997	7,835.1	7,371.3	94.1	146.8	(279.0)	(179.4)	(284.4)	3.63	51.5
1998	7,890.4	7,414.2	94.0	148.2	(345.6)	(199.1)	(277.1)	3.51	22.5
1999	8,099.3	7,519.0	92.8	127.7	(175.1)	(304.1)	(276.2)	3.41	127.3
2000[7]	8,374.3	7,745.0	92.5	117.0	(184.0)	(352.7)	(276.6)	3.30	89.9

(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) Includes repurchase of defective tax liens in 1997, 1998, 1999, and 2000 amounting to $7.6 million, $0.5 million, $7.9 million and $4.0 million, respectively.
(4) These figures include taxes due on certain publicly-owned property and exclude delinquency on shelter rent and exempt property restored in 1995 and 1996.
(5) Net of reserve for defective liens.
(6) Does not include supplemental levy of $61.7 million raised in mid-year for the "Safe Streets, Safe City" program.
(7) Forecast.

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 $1,481 million in 1999, 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 recently created 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. The Department of Finance, 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 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-90's, reaching a peak of $400 million in 1996, has decreased to $184 million in 2000, as a result of reductions in *certiorari* settlements.

Property Tax Revenue
($ Millions)

	1995	1996	1997	1998	1999	2000*f*	2001*f*
Levy	$7,889.8	$7,871.4	$7,835.1	$7,890.4	$8,099.3	$8,374.3	$8,696.0
Current Year Reserve*	(601.8)	(640.7)	(463.8)	(476.0)	(588.1)	(628.9)	(684.0)
Prior Year Collections	126.7	100.3	146.8	148.2	127.7	117.0	115.0
Refunds**	(164.2)	(399.7)	(278.9)	(345.6)	(175.1)	(184.0)	(232.0)
Sub-Total	$7,250.5	$6,931.3	$7,239.2	$7,216.9	$7,471.7	$7,678.4	$7,895.0
Receivables/ Lien Sale Proceeds	223.1	169.1	51.5	22.5	127.3	92.3	61.0
Total	**$7,473.6**	**$7,100.4**	**$7,290.7**	**$7,239.4**	**$7,599.0**	**$7,770.7**	**$7,956.0**

* *Includes cancellations, delinquency, net credits, abatements, exempt property restored, shelter rent and STAR.*
** *Includes repurchase of defective tax liens in 1997, 1998, 1999 and 2000.*
f=forecast

Forecast: The real property tax revenue forecast for 2000 is $7,771 million, a $3 million decrease from the Financial Plan level. Revised estimates of individual reserve components resulted in an increase of $23 million to the reserve (a reduction in revenue). However, this increase was offset by a reduction in the refund forecast based on year-to-date collection information. The STAR program is expected to reduce property tax revenue by $60 million.

The 2001 property tax revenue forecast is based on the tentative roll which was published on January 14, 2000. Total billable assessed value on the tentative roll increased by $4.2 billion from the 2000 final roll level to $84.3 billion, growth of 5.2 percent. The strength in total billable assessed value reflects market value growth of 9 percent, the strongest growth seen since the 1991 final roll. Market value growth on the tentative roll was strong across all classes except utility, as the recovery in the City real estate market gathers momentum. The market value growth of 11.1 percent for Class 1 properties is attributable to rising sale prices. It is the largest increase for any class since 1992. Rental apartments in Manhattan were the primary force behind the appreciation in market value in Class 2 properties for the second year in a row. This Manhattan subclass registered a growth of 14.7 percent over last year. Class 4's market value growth of 8.2 percent reflects the continued strength in the office market due to strong leasing activity and gains in office employment. Primary office buildings posted a 7.7 percent increase in market value, with secondary office buildings surging 9.7 percent. The final roll, to be released in May, is estimated to be about $1.1 billion lower than the tentative roll level as a result of Tax Commission actions, Department of Finance changes by notice and the completion of exemption processing. The tax levy is expected to increase by $321 million to $8.7 billion in 2001, a 3.8 percent increase. Tax rates for the individual classes will be calculated using finalized class equalization rates from SBRPS, and from the final roll information on physical changes due to new construction, demolition, and reclassification. The estimate for the 2001 levy maintains the 2000 average tax rate of $10.366.

In 2001, revenue from the property tax is forecast at $7,956 million, an increase of $31 million over the Financial Plan level and 2.0 percent growth over the prior year. The increase in the 2001 forecast reflects an increase in the levy of $35 million due to a revision in the outlook for special franchise assessments. The collection rate for 2001, after adjusting for abatements remains strong at 95 percent. The value of the STAR exemption is forecast to increase from $60 million to $93 million in 2001.

Estimated Value of Real Property Tax Exemptions and Abatements 1992-1999
($ Millions)

	1992	1993	1994	1995	1996	1997	1998	1999
Economic Development Exemptions								
I.C.I.B/I.C.I.P.	$165.0	$147.1	$119.7	$107.1	$105.7	$99.3	$111.9	$132.5
Battery Park City Authority*	117.7	127.8	124.5	113.7	94.2	87.2	81.6	79.5
Industrial Development Agency*	31.5	37.7	37.3	52.6	48.5	47.2	47.8	61.5
Urban Development Corp.	76.9	79.8	77.9	78.3	77.0	76.9	80.0	84.5
Economic Development Corp.*	5.2	18.5	2.8	4.3	3.7	3.4	4.1	7.4
World Trade Center*	101.1	100.2	95.8	80.7	79.8	64.0	54.7	61.5
Teleport, Port Authority	9.6	1.6	1.2	0.9	2.2	1.1	1.3	1.5
Madison Square Garden	8.6	8.8	9.1	9.0	8.8	8.7	8.6	8.7
Commercial Revitalization Program	n.a	n.a	n.a	n.a	n.a	1.3	3.6	7.0
Subtotal	$515.6	$521.4	$468.3	$446.6	$419.9	$389.1	$393.6	$444.1
Residential Exemptions								
Public Housing, Housing Authority*	$282.1	$294.9	$312.2	$295.2	$281.7	$264.0	$255.3	$241.2
Private Housing, Publicly Assisted								
J-51 (exemption)	110.0	109.3	88.4	70.8	67.9	59.5	54.6	54.9
J-51 (abatement)	105.4	110.9	112.7	113.8	108.7	105.4	104.6	105.7
421-a New Multiple Dwelling	189.7	171.0	142.2	117.2	103.4	96.5	87.9	78.9
421-b New Private Housing	15.6	13.3	12.0	10.9	10.3	9.9	9.5	9.8
Other**	236.6	247.9	242.0	287.4	270.3	257.7	252.1	234.2
Senior Citizen Homeowner Exemption	9.5	12.0	13.8	15.1	17.2	18.2	19.8	21.1
Senior Citizen Rent Increase Exemption (abatement)	58.0	60.2	60.7	59.8	91.9	54.1	61.0	62.5
Division of Alternative Management Programs	1.5	2.2	3.1	3.9	3.7	4.0	4.3	4.6
Veteran Exemption	13.0	12.6	9.8	10.1	9.1	10.0	11.0	16.1
Co-op/Condo Abatement	n.a.	n.a.	n.a.	n.a.	n.a.	9.0	91.8	152.7
Subtotal	$1,021.5	$1,034.3	$996.9	$984.2	$964.2	$888.3	$951.9	$981.7
Other Exemptions								
NY Power Authority	51.9	50.9	30.8	31.8	34.5	35.5	38.5	41.3
Jamaica Water Supply	6.6	6.2	6.6	6.8	7.2	7.4	7.8	8.2
Trust for Cultural Resources	n.a.	3.6	5.0	5.1	4.8	4.8	5.7	5.7
Subtotal	$58.5	$60.7	$42.4	$43.7	$46.5	$47.7	$52.0	$55.2
TOTAL	**$1,595.6**	**$1,616.5**	**$1,507.6**	**$1,474.5**	**$1,430.6**	**$1,325.1**	**$1,397.5**	**$1,481.0**

Source: Department of Finance

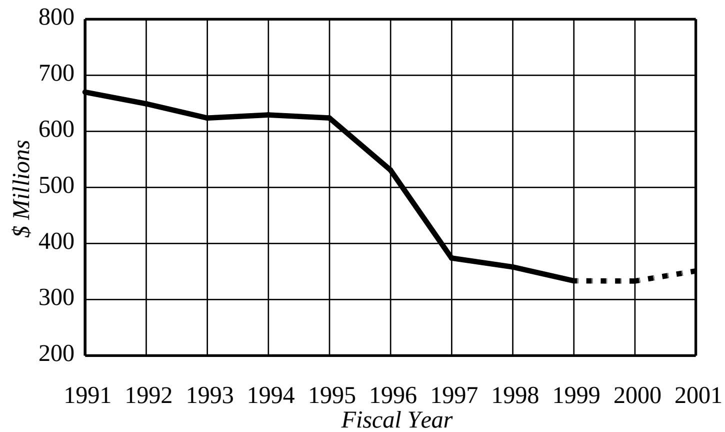
* *Net of Payments in Lieu of Taxes (PILOTs) and other miscellaneous payments.*
** *"Other" includes miscellaneous State-assisted housing, housing development fund companies, limited dividend housing companies, redevelopment companies, limited profit housing companies and the Urban Development Action 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.*

COMMERCIAL RENT TAX

The commercial rent tax is projected to account for 1.6 percent of tax revenue in 2001, or $351 million.

COMMERCIAL RENT TAX 1991-2001



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 $100,000 per year do not pay tax; those whose base rents are in excess of $100,000 but less than $140,000 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 also raised the base rent exemption for tenants located in Manhattan south of 96th Street to $40,000 in 1997, and allowed a sliding scale of credit for base rents ranging between $40,000 and $59,999, and completely eliminated the commercial rent tax in the rest of the City. However, legislation passed in 1995 accelerated the effective date of these changes to September 1, 1995. The 1995 legislation further allowed tenants to reduce rent subject to the tax by 15 percent for the tax period March 1, 1996 to May 31, 1996, and by 25 percent for tax years beginning on or after June 1, 1996, bringing the effective tax rate down to 5.1 percent as of March 1, 1998 and to 4.5 percent as of June 1, 1998.

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

Under the Commercial Revitalization Program, which expires on March 31, 2001, qualifying tenants in the lower Manhattan abatement zone are eligible for a three- or five-year special reduction to their commercial rent tax liability. The tax reduction period is determined by the number of employees the tenant employs, the length of the initial lease term and the lease execution date.

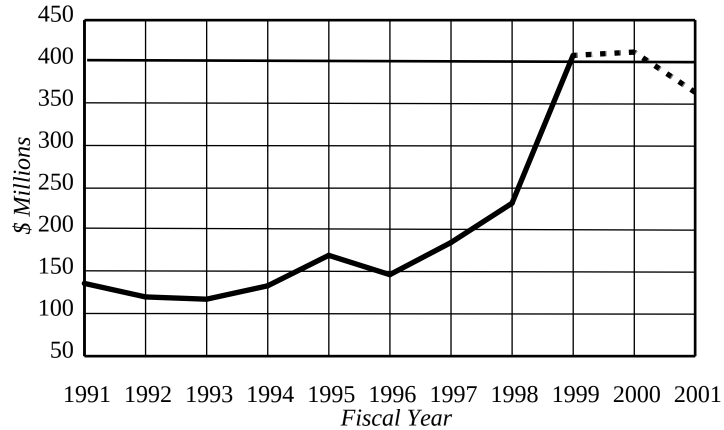
Forecast: The 2000 revenue forecast for the commercial rent tax is $333 million, a decline of 0.1 percent from 1999. Fiscal year 2000 reflects the first full year impact of the 1998 tax reduction which reduced rent subject to tax by 10 percent as of September 1998, bringing the effective tax rate to 3.9 percent. Revenue before proposed tax reductions is expected to increase by 5.4 percent in 2001 to $351 million due to the continued strength in asking rents and occupancy rates.

MORTGAGE RECORDING TAX

The mortgage recording tax is projected to account for 1.7 percent of tax revenue in 2001, or $364 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 1991-2001



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, if the purchase occurred no more than two years before the declaration of the condominium; and (6) increase the rate of interest payable on underpayments and overpayments and increase nonpayment penalties.

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

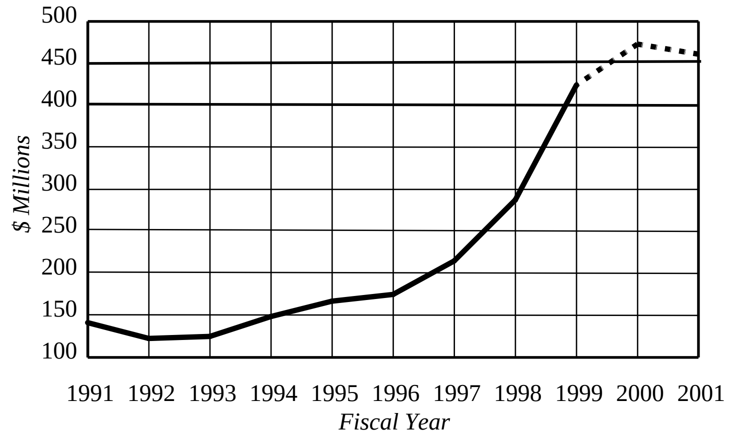
Beginning in 1996, credit line mortgages (i.e. mortgages which allow a series of advances, repayments, and readvances) under $3 million are not subject to additional mortgage recording taxes. Previously, this advantage was available only to credit line mortgages on owner-occupied one- to six-family homes.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

Forecast: The mortgage recording tax revenue forecast has been raised $34 million to $412 million in 2000, growth of 1.0 percent over 1999. This near flat growth follows three years of exceptional growth in the mortgage recording tax. Total collections grew 26 percent, 25 percent and 76 percent in 1997 through 1999, respectively, demonstrating the strength of the resurging City real estate market. While strength was seen over the period in residential collections (average growth of 24.1 percent), the collections growth from commercial transactions (average growth of 82 percent) has been unprecedented, and is unlikely to be sustained. Commercial collections have already begun to slow in 2000, with year-to-date collections through February down 21 percent from the 1999 level for the same period. Mortgage recording tax collections from commercial transactions are forecast to decline 11.1 percent in fiscal year 2000. Collections from residential transactions, however, continue to demonstrate robust growth in 2000, with year-to-date collections through February up 19 percent from the 1999 level. Collections from residential transactions are forecast at 12.5 percent growth in 2000. Activity in both the residential and commercial real estate markets is forecast to moderate in 2001 due to a slowdown in the local economy and an increase in interest rates. Residential and commercial collections are expected to drop 6.0 percent and 18.8 percent, respectively. Total revenue in 2001 is forecast at $364, a decline of 11.7 percent.

REAL PROPERTY TRANSFER TAX

The real property transfer tax is projected to account for 2.2 percent of tax revenue in 2001, or $461 million.

REAL PROPERTY TRANSFER TAX 1991-2001



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.

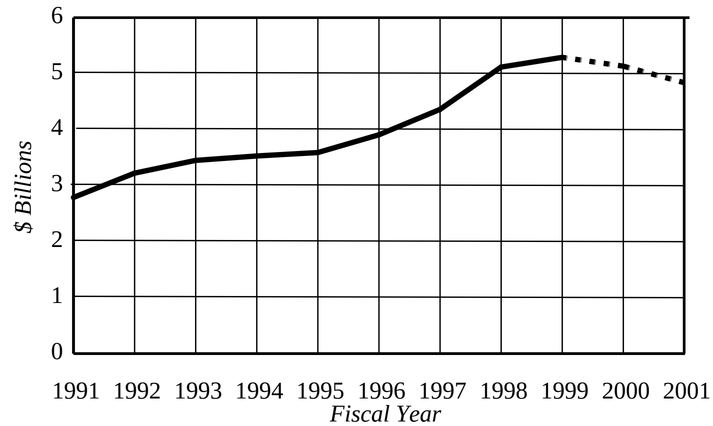
In June of 1994, a State law was passed which provided a temporary 50 percent reduction in the rate of the real property transfer tax for certain transfers to newly organized Real Estate Investment Trusts (REITs). This provision has now been made permanent. In addition, a 50 percent temporary reduction has been applied to transfers to pre-existing REITs occurring between July 13, 1996 and August 31, 1999, provided the transferor receives and retains for at least two years an ownership interest in the REIT. Starting July 1, 1997, a deduction on the real property transfer tax payable on the transfer of a one- to three-family home, or an individual residential co-op or condo unit, is allowed for the amount of any mortgage assumed by the transferee.

Forecast: The real property transfer tax revenue forecast has been raised $29 million to $473 million in 2000, growth of 11.5 percent over 1999. This growth represents a slowdown from the exceptional strength in collections seen in years 1997 through 1999 which posted growth of 23 percent, 34 percent and 48 percent, respectively, due to the resurging City real estate markets. While residential collections were strong over the period (averaging 20.8 percent), collections from commercial transactions (average growth of 34.7 percent) have been even stronger and are unlikely to be sustained. Collections from commercial transactions through February 2000 are down 6.7 percent from the same period in the prior year. For the year, collections from commercial transactions are expected to be at the same level as in 1999. Collections from residential transactions continue to be strong in 2000, with year-to-date collections through February up 25 percent over the same period in 1999. For the year, collections from residential transactions are forecast up 22 percent over 1999. As interest rates continue their steady upward pace in 2001, activity in the real estate market is forecast to level off. Total real property transfer collections are forecast to decline 2.5 percent to $461 million, with residential collections growth moderating but commercial collections declining substantially.

PERSONAL INCOME TAX

The personal income tax is projected to account for 22.6 percent of tax revenue in 2001 or $4,840 million.

PERSONAL INCOME TAX 1991-2001



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 3.78 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. As of July 1, 1999, the tax was eliminated by the State Legislature.

2000 Rate Schedule

	Over	But Not Over	Pay	Plus	Of the Amount Over
Rate Schedule for Single Filers	$ 0	$12,000	$ 0	3.02%	$ 0
If net income is:	12,000	25,000	363	3.67	12,000
	25,000	50,000	839	3.72	25,000
	50,000		1,770	3.78	50,000
Rate Schedule for Joint Filers	$ 0	$21,600	$ 0	3.02%	$ 0
If net income is:	21,600	45,000	653	3.67	21,600
	45,000	90,000	1,511	3.72	45,000
	90,000		3,186	3.78	90,000
Rate Schedule for	$ 0	$ 14,400	$ 0	3.02%	$ 0
Head of Household Filers	14,400	30,000	435	3.67	14,400
If net income is:	30,000	60,000	1,007	3.72	30,000
	60,000		2,124	3.78	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, 1966-2000

Tax Year	Exemption	Standard Deduction
1997-2000	None for taxpayers, $1,000 for each dependent	$7,500 for individuals, $10,500 for heads of households, $13,000 for joint filers, and $3,000 for dependent taxpayers
1996	Same as above	$7,400 for individuals, $10,000 for heads of households, $12,350 for joint filers, and $2,900 for dependent taxpayers
1995	Same as above	$6,600 for individuals, $8,150 for heads of households, $10,800 for joint filers, and $2,800 for dependent taxpayers
1989 - 94	Same as above	$6,000 for individuals, $7,000 for heads of households, $9,500 for joint filers, and $2,800 for dependent taxpayers
1988	Same as above	$5,000 for individuals, $6,000 for heads of households, $8,500 for joint filers, and $2,800 for dependent taxpayers
1987	$900 *(Available for taxpayers and each dependent)*	$3,600 for individuals, $4,600 for heads of households, $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. The taxable threshold grew to $18,114 in 1999 and to $19,799 in 2000 as a result of the STAR program credit.

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

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

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

Personal Income Tax Increases
($ Millions)

	1996	1997	1998	1999	2000	2001
Components of the 12.5 Percent Surcharge:						
Criminal Justice Account	$185	$ 90	$185	—	—	—
General Fund	182	320	297	$368	—	—
12.5 Percent Surcharge Total	$367	$410	$482	$368	—	—
14 Percent Increase	$433	$486	$566	$609	$668	$696

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

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

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

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

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

State Sponsored Personal Income Tax Reductions
($ Millions)

	1999	2000	2001	2002	2003	2004
STAR Program:						
Credit	($85)	($73)	($181)	($237)	($237)	($237)
Rate Cut	—	(127)	(220)	(337)	(357)	(378)
STAR Program Total	($85)	($200)	($401)	($574)	($594)	($615)

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

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

On May 17, 1999, the State Legislature passed, and on May 27, 1999 the Governor signed into law a selective repeal of the City's nonresident earnings tax. The legislation provided that the City may impose a nonresident earnings tax only on 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 were 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, and exercised the provision in the State's legislation to extend the repeal to out-of-state nonresidents, retroactive to July 1, 1999.

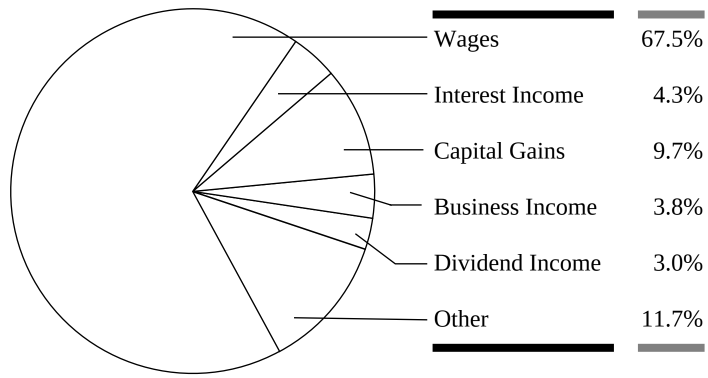
Distribution of Liability: A sample of 1997 tax returns reveals that the majority of resident returns were filed by taxpayers with adjusted gross income less than $50,000 (see charts on this page). However, the 21 percent of taxpayers with income greater than $50,000 paid 80 percent of the tax. Wage income was 68 percent of total reported income on resident returns. Capital gains realizations and interest income were the second and third largest sources of income, accounting for approximately 10 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 (primarily the telephone line for answering taxpayer questions) which can be attributed to the City. For 1999 the administrative charge paid by the City was $21 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

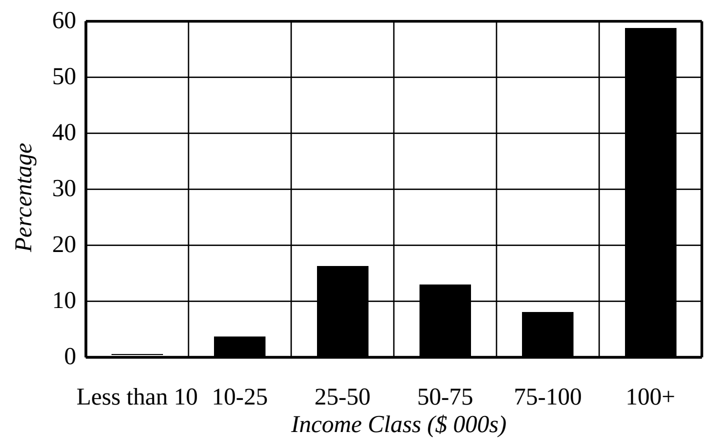
COMPONENTS OF INCOME

New York City Resident Returns—Tax Year 1997



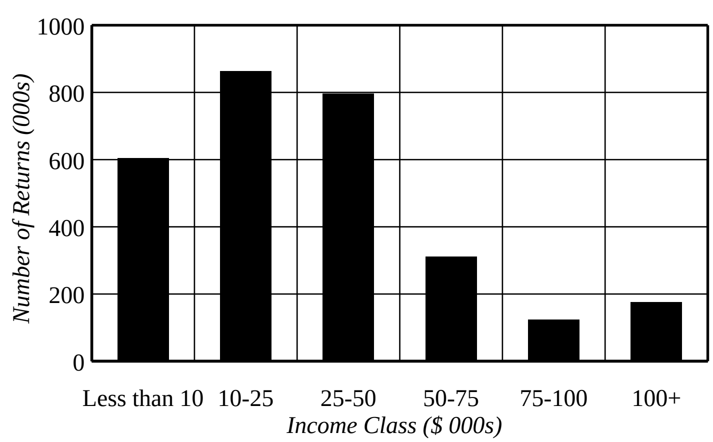
SHARE OF LIABILITY

Tax Year 1997
New York City Resident Returns



NUMBER OF FILERS

Tax Year 1997
New York City Resident Returns



October 1989. To implement the temporary surcharge, withholding tables were changed in October 1990 and again in October 1991 to reflect the implementation of the 14 percent increase. Withholding tables were changed in January 1999 to reflect the expiration of the 12.5 percent surcharge and again in July 1999 to reflect a reduction in rates due to implementation of the STAR program. Effective January 1, 2000, the City nonresident withholding tables were changed to reflect a reduction in nonresident rates from 0.45 to 0.25 percent on wages, and from 0.65 to 0.375 percent on net earnings from self-employment. The lower rates applied to out-of-state nonresidents only, as in-state nonresidents were exempt from the nonresident earnings tax from July 1, 1999 on. The nonresident earnings tax repeal did not apply to out-of-state nonresidents until April 4, 2000, and therefore the new withholding tables were in effect for this group of commuters, effective January 1, 2000.

Forecast: The personal income tax revenue forecast has been increased $399 million to $5,144 million in 2000. In 2001, the forecast has been revised upward by $300 million to $4,840 million. The forecast reflects the expiration of the 12.5 percent surcharge, the implementation of the STAR program, and the nonresident earnings tax repeal. Additionally, the forecast reflects reductions in personal income tax collections deposited in the general fund due to the Transitional Finance Authority (TFA) retention of $267 million in 2000 and $470 million in 2001. After these reductions, the personal income tax is forecast to decline 2.8 percent in 2000 and 5.9 percent in 2001, after growth of 3.4 percent in 1999.

The confluence of positive economic trends that in recent years has raised City personal income tax revenue growth to rates not seen since the mid-1980s has continued into 2000. The continued national expansion and strong local economy have fueled three back-to-back years of record City private employment gains in calendar years 1997 through 1999. A succession of profitable years on Wall Street has boosted securities industry bonus payouts to unprecedented levels. Capital gains realizations by City residents have continued to accelerate following the equity markets' run-up and the national trend of increasing household participation in the ownership of equities. As a result, personal income tax collections on a common rate and base have grown 13.5 percent on average from 1997 through 1999 and are forecast to grow 23.5 percent in 2000.

Withholding is forecast to rise 20.8 percent on a common rate and base in 2000, after the large bonus payout rise in the securities industry and continued strength in the rest of the local economy. New York Stock Exchange member-firm profits reached $16.3 billion in calendar year 1999, much higher than the levels of $12.2 billion and $9.8 billion seen in calendar years 1997 and 1998. As a result, in the December through March bonus period, withholding collections grew 26.5 percent on a common rate and base. Last year, when the securities sector posted strong, but lower earnings, bonus period withholding collections grew 9.3 percent on a common rate and base.

Installment payments on liability year 1999 grew 27 percent on a common rate and base, surprising strength after the growth of 27 percent on liability year 1998 and 18 percent on liability year 1997, although explained by another steep rise in capital gains realizations. The unprecedented bull market continues to fuel capital gains realizations, resulting in an estimated 25 percent gains realization increase in calendar year 1999, the fifth consecutive year of growth greater than or equal to 25 percent. The recent shift from direct stock ownership to ownership through managed funds has also contributed to the realized gains increases.

Settlement payments (final returns, extensions, State/City offsets, and refunds) on liability year 1999 are forecast to be $117 million lower than liability year 1998 after adjusting for the STAR program and the expiration of the 12.5 percent surcharge. In addition, the settlement is lowered by the liability for refunds due New York State nonresidents who had commuter taxes withheld from July 1, 1999 through April 2000.

For 2001, the personal income tax revenue forecast has been increased $300 million to $4,840 million, a decline of 5.9 percent. The forecast reflects the expansion of the STAR program and the nonresident earnings tax repeal. Additionally, the forecast reflects reductions in personal income tax collections deposited in the general fund due to the Transitional Finance Authority retention. Adjusted for these reductions, personal income tax revenue is forecast to decline 2.0 percent in 2001. The forecast incorporates a New York Stock Exchange member-firm profits decline from $16.3 billion in calendar year 1999 to an estimated $10.5 billion in calendar year 2000, resulting in slowdowns in both wage and nonwage income growth.

Withholding growth in 2001 slows to 3.7 percent on a common rate and base, following the decline in FIRE wage rate growth from 8.3 percent in 2000 to 2.3 percent in 2001. The forecast of slower growth in the non-FIRE wage rate and employment in 2001 will further dampen withholding collections. Installment payments rise 1.7 percent on a common rate and base. This slower growth is due to the flat forecast in capital gains realizations for tax year 2000, based on the modest market correction assumed for 2001 in the economic forecast. The forecast slowdown of growth in total liability is expected to decrease settlement payments by $142 million on a common rate and base in liability year 2000 over 1999.

Personal Income Tax Collections By Component
($ Millions)

	1998	1999	2000*f*	2001*f*
Withholding	$3,765	$3,936	$4,048	$3,878
Estimated Payments[1]	1,029	1,195	1,291	1,209
Final Returns	423	438	449	361
Other[2]	371	402	324[3]	512
Gross Collections	$5,588	$5,971	$6,112	$5,960
Refunds	(455)	(534)	(701)	(650)
Net Collections	$5,133	$5,437	$5,411	$5,310
Less TFA Retention	(16)	(144)	(267)	(470)
Total	$5,117	$5,293	$5,144	$4,840

(1) Includes extension payments.

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

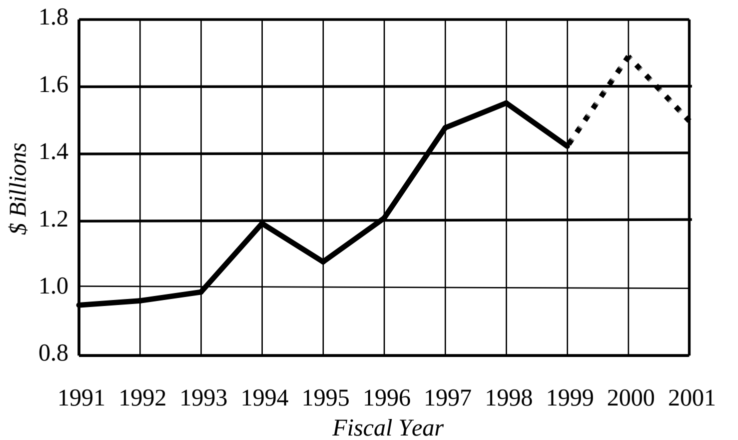
(3) In 2000, gross collections are reduced by a liability accrual of $147 million for the commuter taxes withheld from New York State nonresidents for the period July 1, 1999 through April 2000.

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

GENERAL CORPORATION TAX

The general corporation tax is projected to account for 7.0 percent of tax revenue in 2001 or $1,498 million.

GENERAL CORPORATION TAX 1991-2001



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 (REMIC) are exempt from the general corporation tax. For taxable years beginning on or after January 1, 1998, the general corporation tax also does not apply to an alien corporation whose activities in New York City are limited solely to investing or trading in stocks, securities or commodities for its own account.

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

The starting point for determining the net income base, 72 percent of corporate liability in tax year 1996, 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 17 percent of corporate tax liability in tax year 1996. 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 nearly three percent of all corporate tax liability. This base is designed to tax firms which have low net income, either because of temporary financial difficulties or because of extensive use of tax preferences, such as deductions and net operating loss carryforwards. To determine the tax obligation under this base, a firm must compute the value of its business and investment assets, deduct liabilities against those assets and, if eligible, allocate a portion of the business capital and investment capital to the City using the same allocation formulas described previously. The 0.15 percent rate is then applied.

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

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

In response to business tax reform initiatives at the Federal and State levels, New York City 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 (REMIC) 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 how the issuer's allocation percentage of a corporate issuer of stock is determined.

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 allows 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 $118 million in 2001 and $145 million by 2004.

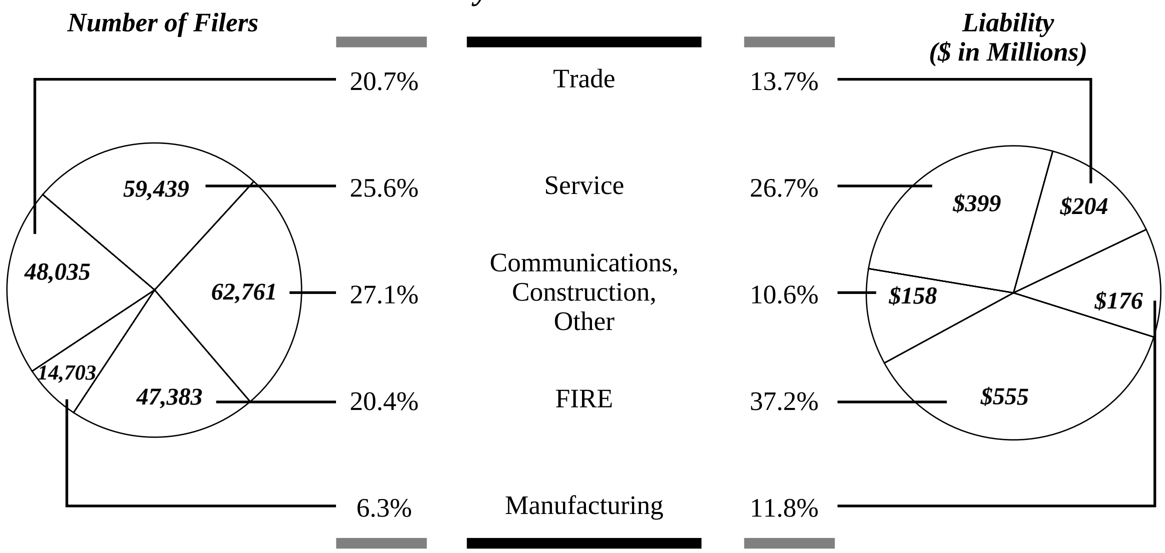
The income-plus-compensation alternative tax computation of the general corporation tax has been modified by phasing out the portion of the tax that applies to compensation paid to corporate officers and by increasing the per-firm statutory deduction. For tax years beginning on or after July 1, 1996,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

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

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

GENERAL CORPORATION TAX *(Tax Year 1997)*

By Industrial Sector



Source: NYC Department of Finance, Office of Tax Policy

Industrial Mix of General Corporation Tax Revenue: The importance of the finance, insurance and real estate sector (FIRE) and the service sector (business, medical, advertising and amusement industries) to the New York City economy is clear. Together these two sectors account for approximately 64 percent of corporate tax liability and 46 percent of all filers. The trade sector accounts for almost 14 percent of liability and 21 percent of filers while the manufacturing sector represents 12 percent of liability and six percent of filers. The remaining 10 percent of liability is generated by communications, construction and other firms who make up 27 percent of corporate filers.

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

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

Forecast: The 2000 general corporation tax forecast has been raised by $119 million to $1,690 million, growth of 18.7 percent from the prior year. The forecast for 2001 has been increased by $107 million to $1,498 million, a decline of 11.4 percent from the 2000 level.

The 2000 and 2001 forecasts include reductions of $80 million and $118 million, respectively, relating to the effects of the limited liability company (LLC) business form which is expected to reduce the number of corporate filers, as well as reductions of $107 million and $127 million in 2000 and 2001, respectively, relating to the business tax reform measures passed in 1996. On a common rate and base, general corporation tax revenue is forecast to increase 19.9 percent in 2000 and decrease 7.1 percent in 2001.

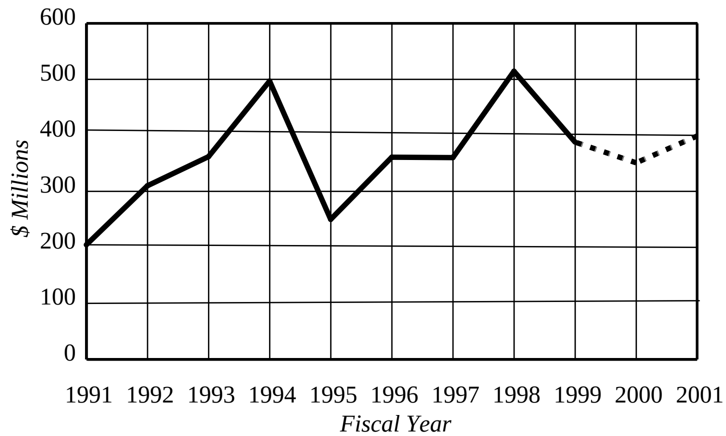
Through March, general corporation tax collections have increased 17.7 percent from the prior year period. Strength in collections year-to-date in part reflects the remarkable performance of the securities industry in calendar year 1999, particularly in the fourth quarter when pre-tax profits for New York Stock Exchange (NYSE) member firms reached $6.8 billion, shattering all previous records. For the year, profits were $16.3 billion, up more than one third from the earlier annual record of $12.2 billion set in 1997 and an increase of over 66 percent from calendar year 1998. Although the results were largely driven by gains in revenues from principal transactions throughout the year, other earnings sources also achieved record results including commissions, underwriting and asset management. Growth in FIRE sector tax liability is estimated at 28.7 percent for liability year 1999.

The rise in general corporation tax collections in 2000 is also being fueled by growth in the non-FIRE sectors of the City’s economy as evidenced by the addition of a total of 79,000 private jobs outside the FIRE sector in calendar year 1999. Real gross city product is estimated to have grown by 7.1 percent, buoyed by the continued national expansion as real gross domestic product increased by 4.6 percent and national corporate profits rose by 9.3 percent. Growth in non-FIRE tax liability is estimated at six percent in liability year 1999.

In 2001, general corporation tax revenue is forecast to decline 11.4 percent, reflecting a decrease in NYSE member-firm profits in calendar year 2000 to $10.5 billion, as well as lower growth in national corporate profits. From calendar year 2002 through 2004, NYSE member-firm profits are expected to return to a more sustainable level and modest growth is projected for national corporate profits, leading to minimal revenue growth in the outyears of the plan.

BANKING CORPORATION TAX

BANKING CORPORATION TAX 1991-2001



The banking corporation tax is projected to account for 1.9 percent of tax revenue in 2001, or $399 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.

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.

Effective in tax years beginning on or after January 1, 1996, 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. The existing New York methodologies were maintained.

Forecast: The 2000 banking corporation tax forecast has been lowered by $4 million to $351 million, a decline of 9.6 percent from the prior year. The 2001 forecast has been increased by $5 million to $399 million, growth of 13.7 percent over 2000.

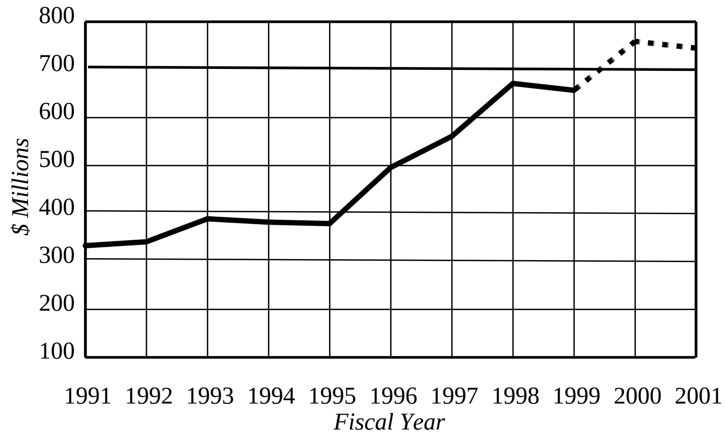
Through March, banking corporation tax collections have decreased by 10.7 percent from the prior year period. Growth in banking corporation tax payments made on liability year 1999 is being restrained by overpayments made by banks on prior liability years, principally liability years 1997 and 1998. The drop in collections is also attributable to low levels of declared liability for liability year 1999, despite record profits at large banks. These record profits were mainly driven by fee income and revenue from capital markets activities as well as growth in consumer banking. Although banking corporation tax collections have been volatile historically, recent trends in collections and liability suggest that consolidation and reorganization within the banking industry, and within individual organizations, may have resulted in lower bank tax liability in New York City.

In 2001, banking corporation tax revenue is forecast to rebound 13.7 percent, due to an increase in gross collections and lower refunds as credits from prior year overpayments are liquidated. Collections are forecast to increase 4.3 percent on average on a common rate and base in the outyears of the plan.

UNINCORPORATED BUSINESS TAX

The unincorporated business tax is projected to account for 3.5 percent of tax revenue in 2001, or $745 million.

UNINCORPORATED BUSINESS TAX 1991-2001



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

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

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

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

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

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

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

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

Also in July 1994, New York State passed legislation allowing the formation of limited liability companies (LLCs). These business entities have the limited liability of corporations, but the organizational flexibility and tax treatment of partnerships. At the Federal level, LLCs are not taxed as separate entities, but partners are taxed on their share of the income. For New York State tax purposes, LLCs pay a $50 per partner fee, with a minimum fee of $350 and a maximum of $10,000. In New York City, LLCs pay the unincorporated business tax. It is expected that businesses will increasingly opt to form LLCs rather than corporations. As a result, a shift of taxpayers is expected from the general corporation tax base to the unincorporated business tax base. Unincorporated business tax revenues are expected to increase by $38 million in 2000 as a result of this shift, rising to $63 million in 2002.

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.

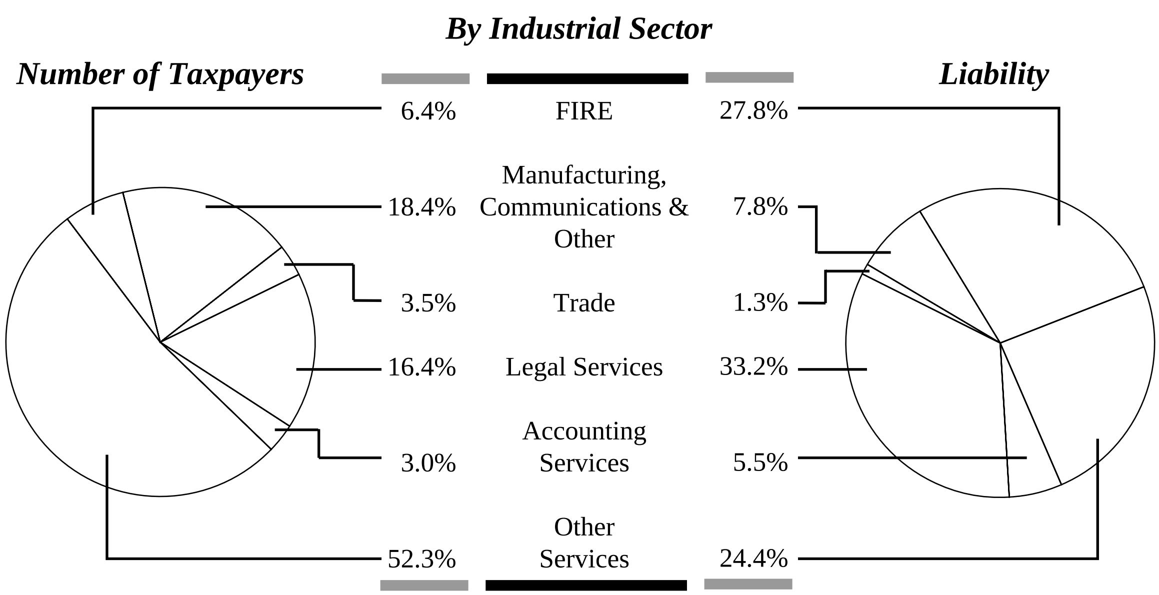
Beginning in 1996, certain unincorporated businesses (including LLCs) treated as corporations for Federal and State tax purposes are subject to City general corporation tax. This law lists several exceptions for businesses subject to unincorporated business tax in 1995, which may elect irrevocably to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

Distribution and Industrial Mix of Filers: In 1997, there were 196,002 partnership and sole proprietorship filers of which 24,009 paid tax. Sole proprietorships comprised 77.8 percent of all taxpayers but paid only 17.5 percent of total liability. Partnerships accounted for 22.2 percent of all taxpayers and paid 82.5 percent of total liability. Because of the tax credit and exemptions, 87.7 percent of filers in 1997 were exempt from the tax. Proprietorships with net income less than $25,000 (71.2 percent of all filers) paid no unincorporated business tax. The additional exemption for each partner creates higher thresholds for

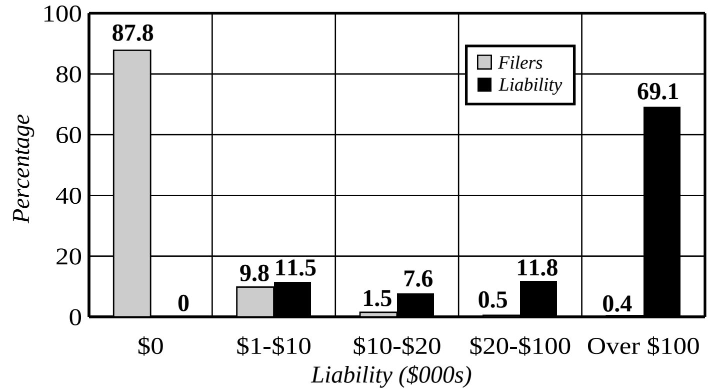
UNINCORPORATED BUSINESS TAX *(Tax Year 1997)*



Source: NYC Department of Finance, Office of Tax Policy partnerships (16.5 percent of all filers in 1997 were partnerships with no liability). The service sector, made up of the legal, accounting and other subsectors, accounted for 63.1 percent of total unincorporated business tax liability. Legal services and FIRE comprised only 22.8 percent of taxpayers but incurred 61.0 percent of total liability.

UNINCORPORATED BUSINESS TAX *(TAX YEAR 1997)*

Share of Filers and Share of Liability



Source: NYC Department of Finance, Office of Tax Policy

Forecast: The 2000 unincorporated business tax forecast has been increased by $66 million to $759 million. This yields a growth in collections of 15.6 percent in 2000. The forecast for 2001 has been increased by $35 million to $745 million, a decline of 1.8 percent over the prior year.

Notwithstanding 1995, when collections from FIRE sector firms were temporarily depressed by the large bond market correction of tax year 1994, unincorporated business tax revenues in recent years have been particularly robust, with average annual growth from 1996 through 1998 reaching 26 percent. This unusually high rate of collections growth came in spite of substantial business tax cuts, which returned $50 million to unincorporated business taxpayers in 1998 alone, and stems from the unprecedented strength seen in New York Stock Exchange member-firm profits in recent years. In 1999, unincorporated business tax revenues declined 2.1 percent reflecting credits taken against current liability for overpayments made in 1998. In addition, collections were hampered by an international financial crisis in the third quarter of 1998 which reduced FIRE sector collections in 1999.

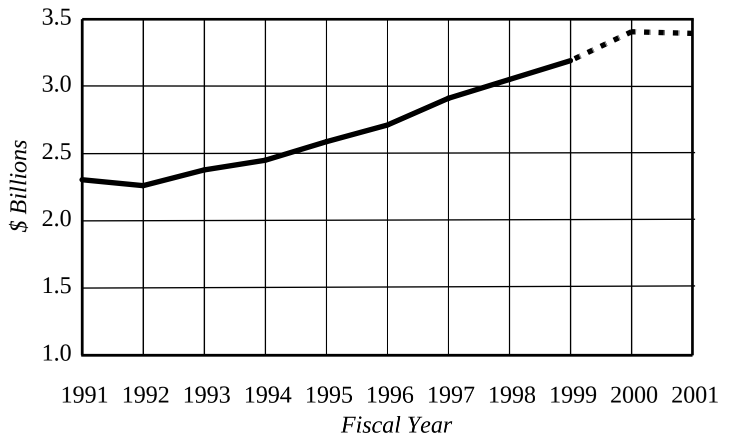
In 2000, unincorporated business tax revenues are forecast to increase to $759 million, growth of 15.6 percent over the prior year. Collections year-to-date through March are up 29.5 percent from the same period in 1999. The strong growth reflects the record New York Stock Exchange member-firm profits in tax year 1999 and a substantial expansion of private sector employment with a gain of 74,000 jobs over the prior year. Of these new jobs, over 23,000 were added to business services with strong gains within the new media industry, which includes computer programming, advertising and E-commerce, while an additional 3,000 were added in the legal sector.

Unincorporated business tax revenue is forecast to decline in 2001 from the robust growth in 2000, as the economy slows and New York Stock Exchange member-firm profits drop to $10.5 billion in tax year 2000 from $16.3 billion in 1999.

SALES AND USE TAX

The sales and use tax is projected to account for 15.9 percent of tax revenue in 2001, or $3,395 million.

SALES TAX 1991-2001

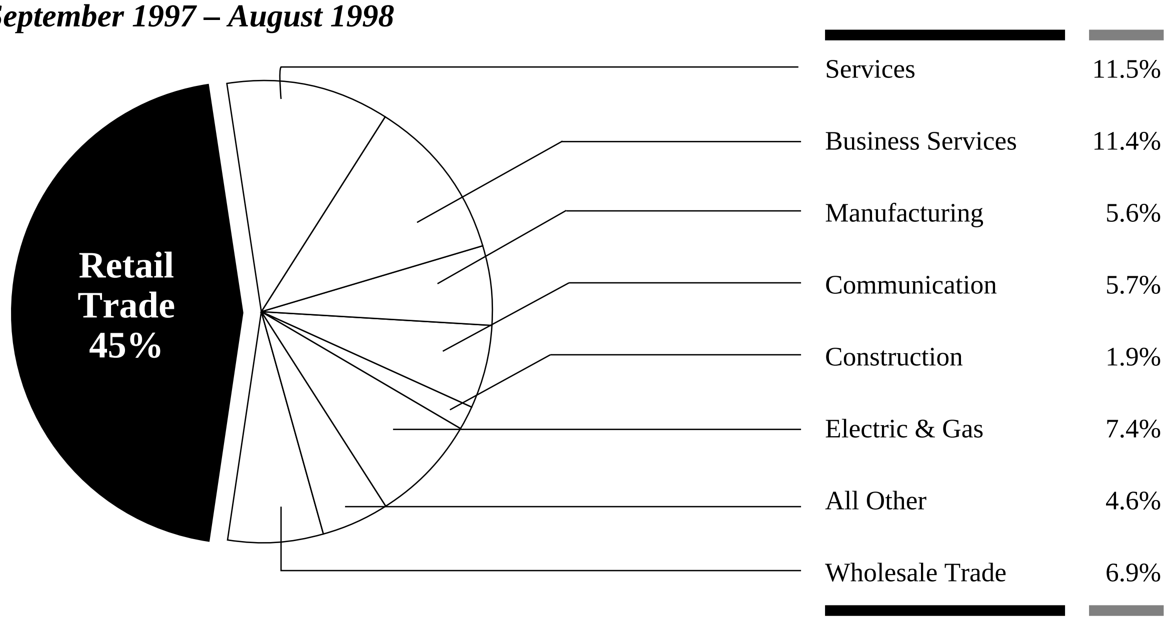


Tax Base and Rate: The tax rate is four percent and applies to: (1) sales and use of tangible personal property and services; (2) sales of gas, electricity, steam, refrigeration, and intrastate telephone and telegraph services; (3) food and beverages sold by restaurants and caterers; (4) hotel and motel 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, public transportation and clothing and footwear costing less than $110. 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, and interstate and international telecommunications services. 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 45 percent of the sales tax base, is the largest expenditure category. Business services and other services combined account for 22.9 percent of the sales tax base. Since 1981 the proportion of business services in the taxable base has increased from 3.7 percent to 11.4 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

September 1997 – August 1998



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 $1 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. However, 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).

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

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

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

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

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

1985 Manhattan residents are exempted 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, reducing the City's MAC tax base (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's tax base and the MAC tax base (effective date: June 1, 1989). The State enhances its revenue enforcement capability to improve revenue collections from interstate mail-order sales, prefabricated building materials purchased from out-of-state manufacturers and used in New York, and catalogues printed out-of-state and mailed by in-state firms (effective date: September 1, 1989). Excise taxes on cigarettes (effective date: June 1, 1989) and tobacco products (effective date: July 1, 1989) are included in the calculation of the sales tax, and are added to the State's tax base and the MAC tax base. 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 City's MAC tax base (effective date: December 1, 1989).

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

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

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

1995 Interior decorating and design services are exempted 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 Receipts from the retail sale of shopping papers to the publishers and receipts from the sale of related printing services performed when publishing shopping papers are exempted from the State's tax base and City's MAC sales tax base (effective date: September 1, 1996). The State and City repealed their taxes on clothing and footwear purchases under $500 during the week of January 18-24, 1997, reducing the State's tax base and the MAC tax base. Printed promotional material delivered through the mail and associated shipping services are exempted from State and City taxes, reducing the State's tax base and the MAC tax base (effective date: March 1, 1997). Vehicles leased by Manhattan residents are exempted 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 exempted from State and City sales taxes, other than the eight percent Manhattan parking surcharge (effective date: December 1, 1996). Certain parts, tools, supplies and services used or consumed in production processes, including film production, are exempted from the City tax, reducing the City's MAC tax base, and bringing City tax law into conformity with the State (effective date: September 1, 1996). This law was amended October 1, 1997 to include live theatrical performances. The services of installing, repairing, maintaining and servicing tangible personal property used to produce a product for sale by manufacturing, processing and assembling are exempt from the City tax, reducing the City's MAC tax base, and bringing City tax law into conformity with the State (effective date: September 1, 1996).

1997 The State and City repealed their taxes on clothing items under $100, excluding footwear, during the week of September 1-7, 1997, reducing the State's tax base and the MAC tax base. The State repealed their tax on clothing items under $500, including footwear, during the week of September 1-7, 1998 and permanently repealed its four percent sales tax on clothing items under $110, including footwear (effective date: December 1, 1999), and gave local governments the option to match both repeals. If a locality within the MCTD opts to repeal, clothing will also be exempt from the 0.25 percent MCTD sales tax. The locality will reimburse the MCTD for one half of the tax foregone and the State will reimburse the MCTD for the other half. Emissions inspection equipment purchased by an official inspection station is exempt from the State's tax base and the MAC tax base (effective date: September 1, 1997). Bus purchases and repairs, coin-operated car washes, coin-operated bulk vending machines and photocopying machines at fifty cents or less, temporary transportation devices sold through coin-operated equipment, food or drink (except hot drinks or sandwiches) sold through coin-operated vending machines, wine or wine product furnished by the official agent of a farm, winery, wholesaler, or importer at a wine tasting, and receipts from admissions to all circuses are exempted from the State's tax base and the MAC tax base (effective date: December 1, 1997). Internet access services, defined as the service of providing connection to the internet and including the provision of communication or navigation software, an E-mail address, E-mail software, news, headlines, space for a website and website services are exempt from the State's taxable base, and consequently, the City's MAC tax base (effective date: February 1, 1997). Additionally, exempt from the State tax base and the MAC tax base are receipts from the sale of the service of installing alternative fuel refueling property (property used for storing and/or dispensing fuel) and receipts from the retail sale of alternative fuel refueling property (effective date: March 1, 1998 through February 28, 2003).

1998 The State and City repealed their taxes on clothing items under $500, including footwear, during the week of January 17-23, 1998, reducing the State's tax base and the MAC tax base. The State and City repealed their taxes on clothing and footwear purchases under $500 during the week of January 17-24, 1999, reducing the State's tax base and the MAC tax base. Textbooks purchased by full or part time college students for their courses at accredited institutions are exempt from the State's tax base and the MAC tax base (effective date: June 1, 1998). Computer system hardware used or consumed directly and predominately in designing and developing computer software for sale is exempt from the State's tax base and the MAC tax base (effective date: June 1, 1998). Coin phone calls costing 25 cents or less are exempt from the State's tax base and the MAC tax base (effective date: September 1, 1998). The exemption for telephone central office equipment or station apparatus is expanded to include equipment used directly and predominately in receiving, amplifying, processing, transmitting telephone or telegraph signals, reducing the State's tax base and the MAC tax base (effective date: September 1, 1998). Parking charges paid to homeowners' associations (including co-op and condominium housing) by its members for parking space in a facility owned or operated by the association are exempted from the 6 percent City sales tax and the 8 percent Manhattan parking tax (effective date: September 14, 1998). Additionally, the 1997 law that exempted parking charges from the State sales tax when the parking facility is operated by a homeowners' association has been amended to include facilities owned by such an association even though operated by a third party.

1999 The State and City repealed their taxes on clothing and footwear purchases under $500 during the weeks of September 1-7, 1999 and January 15-21, 2000 reducing the State's tax base and the MAC tax base. The State and all participating localities delayed the permanent exemption of clothing and footwear purchases under $110 scheduled to become effective December 1, 1999 until March 1, 2000. The exemption for hot drinks and certain food items sold from vending machines is extended to include vending machines which accept credit or debit cards (effective date: December 1, 1999). The exemption for computer system hardware used in designing and developing computer system software is extended to include computer system hardware used in designing and developing internet websites (effective date: March 1, 2001). Machinery or equipment used or consumed directly and predominately 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 is exempt from the State's tax base and the MAC tax base (effective date: March 1, 2001). Tangible personal property sold to a contractor, subcontractor or repair person for use directly and predominately in the production of farming will be exempt from the State's tax base and the MAC tax base (effective date: March 1, 2001). The base for computing the use tax on self-produced items which a manufacturer used in its business operations is modified from a use tax on the manufacturer's normal selling price to a use tax based on the manufacturer's cost of materials (effective date: March 1, 2001). The sales tax special recordkeeping and on-site inspection requirements for Manhattan parking garages is extended until November 30, 2004. These special requirements were originally enacted in 1992 to improve sales tax compliance.

Administration: New York State and local sales tax laws provide that the New York State Department of Taxation and Finance administer the sales taxes imposed by both the State and the localities. A general sales tax is collected from approximately 620,000 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 total statewide collections. For 1999, the administrative charge paid by the City was $18 million.

Vendors are responsible for collecting the sales tax from the purchaser at the time of sale. Large vendors submit estimated payments to the State for the first two months of each reporting quarter. In the third month they submit a return with remittances for complete quarterly collections. Small vendors submit returns quarterly or annually. The State distributes estimated monthly payments to the City based on prior year payment patterns. At the end of a reporting quarter remittances are conveyed to the City based on vendor returns received by the end of the third month. In subsequent months, the State reviews returns for accuracy and processes late returns. This may lead to substantial reconciliations of the distributions made in prior periods giving rise to what are known as prior period adjustments (PPAs).

Forecast: The 2000 sales tax forecast is reduced by $15 million to $3,407 million, a 6.7 percent increase over the prior year. The 2001 revenue forecast is $3,395 million, a decline of 0.4 percent from the prior year.

Sales tax revenue growth rebounded from 1993 through 1995, averaging growth of 4.5 percent (common rate and base). National economic growth and strength on Wall Street contributed to strong consumer confidence, along with a recovering real estate market, fueling durable goods spending in the City. In addition, a revived tourism industry accounted for an unprecedented increase in the number of foreign visitors, which in turn has spurred the purchase of goods and services. Bad weather and increased consumer debt burdens slowed revenue growth in 1996 to 4.0 percent (common rate and base).

Sales tax revenue rebounded briskly in 1997 and 1998 growing 8.4 percent and 6.1 percent (common rate and base), respectively. This strength in consumer spending can be attributed in part to increased discretionary income in the City as record Wall Street profits produced a wealth effect through the steep appreciation of equities held by households. Buoyed by continuing historic gains in employment and strong growth in the hotel industry, sales tax revenue grew 4.6 percent (6.8 percent on a common rate and base) in 1999.

Though growth in 1999 was strong it would have been even higher, over eight percent on a common rate and base, had it not been for a State processing delay. For several months throughout the year revenues to the City were erroneously under-distributed. These incidents delayed the receipt of approximately $55 million in sales tax revenues from 1999 until 2000. The bulk of this revenue, approximately $46 million, was distributed throughout the first, second and third quarters of 2000 as additional late filed payments and prior period adjustments. The remaining revenue, approximately $9 million, is expected as additional late filed payments and prior period adjustments in the fourth quarter.

The sales tax is forecast to grow 6.7 percent in 2000 (9.3 percent on a common rate and base). Collections continue to benefit from strong Wall Street profits, high consumer confidence and low unemployment. Furthermore, effective April 1, 2000, the sales tax loophole that opened up with energy deregulation and which had enabled ESCOs (energy service companies) to sell gas and electricity for approximately five percent less than the large utilities which provided the energy commodity and transportation service, was finally closed when the New York State Department of Taxation and Finance effectively withdrew an earlier opinion of counsel that found no sales tax was due on the transportation and distribution of energy once that service was unbundled from the sale of the energy commodity.

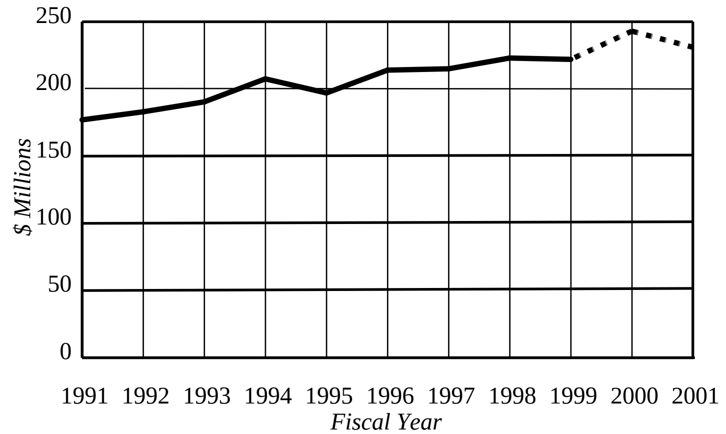
In 2001, sales tax revenue is forecast to decline 0.4 percent (growth of 3.2 percent on a common rate and base), reflecting a drop-off in security sector profits and in aggregate wages. Sales tax revenue growth is also hampered by the exemption of clothing and footwear purchases under $110, effective March 1, 2000, which is expected to reduce revenue by $241 million.

UTILITY TAX

The utility tax is projected to account for 1.1 percent of tax revenue in 2001, or $231 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.

UTILITY TAX 1991-2001



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 grants 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. As of December 1991, more than 3,000 companies were approved for 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 landlords who have improved their buildings by at least 20 percent of assessed value. The program reduced utility tax revenue by $2 million in 1999 and is expected to reduce revenue by $3 million in 2000 and $4 million in 2001.

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.

In October 1996, Consolidated Edison filed for an increase to its electric rates, for the third year of their 1995 rate agreement with the Public Service Commission (PSC), to become effective April 1, 1997. However, on March 13, 1997, Consolidated Edison 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 Consolidated Edison’s largest industrial customers with a 10 percent rate decrease for other large industrial and commercial customers (which include office buildings, hospitals and colleges and universities) and a 3.3 percent rate reduction for residential and small commercial customers. The five-year rate plan superseded the prior 1995 rate agreement as of March 31, 1997, and the revenue requirement increase for the third rate year (12 months ending March 31, 1998) of the 1995 agreement was reversed. The settlement agreement reduced utility tax revenue by $3 million in 1999, and is expected to reduce revenue by $4 million in 2000 and $8 million in 2001.

As a result of the 1996 PSC Competitive Opportunities proceeding, the PSC ordered a complete restructuring of the States' energy utilities to encourage competitive markets. The deregulation of the energy industry in the State is proceeding at the pace set by the PSC agreements for electricity and gas, with the expectation of full retail access by about 2006. The PSC agreements provide transition to a competitive energy 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 phase-in of deregulation has reduced utility tax revenue by $5 million in 1999 and is expected to reduce revenue by $9 million in 2000 and $12 million in 2001.

Forecast: The 2000 utility tax forecast is increased by $10 million to $243 million, a 9.6 percent increase over the prior year. In 2001, utility tax revenue is projected to decline 4.9 percent over 2000 to $231 million. The strong growth forecast for 2000 is partially due to the sale of Con Edison assets that added $8 million to revenues. Also contributing to the strength of utility tax collections is the unprecedented economic expansion which has made calendar year 1999 the third year of record job gains and an increase in energy prices, principally caused by the diminished OPEC oil production quotas. The downturn in 2001 reflects the delay in additional sales of Con Edison assets and a projected reduction in energy prices. ECSP is estimated to reduce collections by $32 million per year in 2000 and 2001.

OTHER TAXES

All other taxes are projected to account for 3.3 percent of total City tax revenue in 2001, or $714.0 million.

2000-2001 Other Taxes Forecast
Excluding Tax Audit Revenue
($ Thousands)

Tax	2000 Forecast	2001 Executive Budget	Increase/(Decrease) From 2000 to 2001 Amount	Percent Growth
Hotel Room Occupancy	$226,000	$240,000	$14,000	6.2%
Auto Related Taxes				
Auto Use	31,200	31,200	0	0.0
Commercial Motor Vehicle	49,700	42,700	(7,000)	(14.1)
Taxi Medallions Transfer	3,600	3,600	0	0.0
Excise Taxes				
Beer and Liquor	21,500	21,500	0	0.0
Cigarette	33,000	30,000	(3,000)	(9.1)
Liquor License Surcharge	3,000	3,000	0	0.0
Horse Race Admissions	100	100	0	0.0
Off-Track Betting	10,600	13,200	2,600	24.5
Off Track Betting Surtax	20,500	21,200	700	3.4
Miscellaneous				
Other Refunds	(18,000)	(32,000)	(14,000)	(77.8)
Payments in Lieu of Taxes (PILOTs)	153,396	133,600	(19,796)	(12.9)
Stock Transfer	114,000	114,000	0	0.0
Waiver	60,700	57,300	(3,400)	(5.6)
Penalty & Interest Real Estate (Current Year)	11,000	11,000	0	0.0
Penalty & Interest Real Estate (Prior Year)	42,000	40,000	(2,000)	(4.8)
Penalty & Interest - Other	1,300	2,500	1,200	92.3
Penalty & Interest - Other Refunds	(16,600)	(18,900)	(2,300)	(13.9)
Total	$746,996	$714,000	($32,996)	(4.4%)

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 rate was increased to six percent on September 1, 1990 with one-quarter of the additional revenue collected from the one percent tax rate increase 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.

The State introduced a special hotel occupancy tax of five percent (effective June 1, 1990) on rooms costing $100 or more per day. 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.

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.

Hotel tax revenue is increased $3 million to $226 million in 2000, growth of 13.6 percent. The strength in hotel tax collections in 2000 results from both the continuing strong national and local economies and unique millennium related behavior. The occupancy rate for the year is forecast at 82 percent, just above the 81 percent seen in 1999. In addition, the average room rate is forecast at $227 for the year, 5.7 percent growth over 1999. Also contributing to the revenue growth in 2000 is the addition of inventory for the first time in a decade. The opening of new hotels is expected to add an average of 1,600 rooms over the course of 2000. Finally, adding to the strong hotel tax revenue growth in 2000 was the millennium celebration. December hotel room prices averaged $280, almost 25 percent greater than the annual average and 15 percent greater than the prior year December, buoying collections. However, December occupancy declined four percent, bucking the annual trend as some visitors were priced out of the millennial hotel room market. In 2001, room rate growth is expected to slow to 4.2 percent with some price sensitivity slowing growth in occupancy which is expected to remain at current levels.

AUTO RELATED TAXES

Auto Use Tax: This tax is imposed by the City on privately-owned vehicles at the annual rate of $15 per vehicle. The tax was first imposed on October 1, 1974, and the amount has since remained unchanged. The tax is administered by the State Department of Motor Vehicles, with an administrative charge levied on the City for this service. In 1990 taxpayers were required to change from annual to biennial payments to conform to a change in State registration procedures. This new procedure resulted in roughly half of all registrants in 1990 paying for two years, while the other half continued to pay only the annual fee. Revenue from the tax is projected to be $31.2 million in 2000 and in 2001.

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, 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. Revenue from the tax is projected to be $49.7 million in 2000 and $42.7 million in 2001, following a Department of Finance initiative which will transfer 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.

Taxi Medallion Transfer Tax: This tax is imposed at a rate of five percent of the consideration paid for transfers of taxicab licenses (medallions). The tax is expected to generate $3.6 million in 2000 and 2001.

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 2000 and in 2001.

Cigarette Tax: The City has imposed a tax on the sale of cigarettes in the City since 1952. The current rate is eight cents for each pack of 20 cigarettes and two cents for each five cigarettes or fraction thereof past 20. This tax is imposed in addition to a State cigarette tax which is currently $1.11 per pack after the increase of 55 cents effective March 1, 2000. Other tobacco products are not subject to the tax. Revenue from the cigarette tax has been steadily declining due to a reduction in cigarette consumption and the increase to the New York State tax rate per pack. Receipts from the cigarette tax are expected to be $33 million in 2000 and $30 million in 2001.

Liquor License Surcharge: This tax is imposed on distributors and non-commercial importers of beer and liquor at a rate of 25 percent of the license fees payable under the New York State Alcoholic Beverage Control Law. This tax is expected to generate $3 million in 2000 and 2001.

Horse Race Admissions Tax: A three percent tax was imposed in 1952 on the price of all paid admissions to horse races held either partly or wholly within the City of New York. Revenue from this tax is expected to be $0.1 million in 2000 and 2001.

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 $10.6 million in 2000 and $13.2 million in 2001. Revenue is forecast at $20.5 million from the Off-Track Betting surtax in 2000, and $21.2 million in 2001.

MISCELLANEOUS

Other Refunds: These refunds are primarily paid out on the commercial rent tax and waiver and are projected to be $18 million in 2000 and $32 million in 2001. The large increase in 2001 reflects refunds expected to be made to certain nonresident City employees who paid the City income tax under Section 1127, but who were found, as a result of recent litigation, not to be subject to Section 1127.

PILOTs: Payments in lieu of taxes (PILOTs) are contractual agreements between public agencies and private property holders which result in real property tax relief in order to: (1) induce businesses to remain in

New York City; (2) attract new business; (3) provide subsidies for low income housing; and (4) promote economic growth. PILOT payments are either fixed sums based on real property taxes paid on the underlying property in the year preceding the agreement, formulas calculated on the income derived from business operations at the PILOT facility, or a combination of both. Payments are remitted quarterly, semi-annually or annually.

There are four primary sponsor agencies which serve as intermediaries between the City and the PILOT facility owner: New York City Housing Authority, Port Authority of New York and New Jersey, Industrial Development Agency and Battery Park City Authority. These agencies administer projects that comprise approximately 95 percent of PILOT payments received. Two smaller sponsors are the Economic Development Corporation and the Triborough Bridge and Tunnel Authority. PILOT revenue is expected to be $153.4 million in 2000 and $133.6 million in 2001.

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 2000 and 2001, a level of $114 million is expected.

Waiver (Personal Income Tax On Nonresident City Employees): Under section 1127 of the New York City Charter, the City may collect payments from nonresident employees of the City or any of its agencies in an amount which equalizes their personal income tax liability to what it would be if they were residents. Revenue is projected to be $60.7 million in 2000 and $57.3 million in 2001.

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 2000 and in 2001, while prior year penalty and interest is expected to be $42 million in 2000 and $40 million in 2001.

Penalty and Interest - Other: Penalty and interest charges on outstanding balances for all taxes except the real property tax are reflected in penalty and interest - other. Revenue is projected to be $1.3 million in 2000 and $2.5 million in 2001.

Penalty and Interest - Other Refunds: The City currently pays out interest on refunds claimed on overpayments against the first installment paid on business income taxes, on audits of the general corporation and unincorporated business taxes already collected by the Department of Finance but overturned by Federal or State rulings, and on payments made under protest by taxpayers who subsequently substantiate their claims. As a result of legislation, interest on overpayments claimed on amended returns is currently no longer paid for tax years beginning with 1989 as long as the refund is paid within a 90-day period. Penalty and interest - other refunds is projected to be $16.6 million in 2000 and $18.9 million in 2001.

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 $378 million in 2000 and $412 million in 2001.

MISCELLANEOUS RECEIPTS

Forecast of Miscellaneous Receipts

The non-tax revenue portion of City Funds is referred to as miscellaneous revenues. The 2001 Executive Budget includes eleven classes of miscellaneous revenues, which are discussed below.

Miscellaneous Revenues

($ in Millions)

	2000 Forecast	2001 Executive Budget	Forecast to Executive Budget Increase (Decrease)
Licenses	$52	$44	(8)
Permits	87	84	(3)
Franchises and Privileges	178	168	(10)
Interest Income	156	131	(25)
Tuition and Charges for Services	429	417	(12)
Water and Sewer Revenues	820	843	23
Rental Income	145	112	(33)
Fines and Forfeitures	465	490	25
Miscellaneous	680	799	119
Total Miscellaneous Revenues	$3,012	$3,088	$76

Miscellaneous revenues are estimated at $3,088 million in 2001, an increase of $76 million from 2000, 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 460,000 licenses. About 60,000 are non-recurring, 145,000 are renewed annually, and 255,000 biennially. The major sources of license revenue are taxi and limousine licenses, pistol licenses, marriage licenses, and various business licenses under the jurisdiction of the Department of Consumer Affairs.

The 2001 forecast for license revenue is $44 million, $8 million less than 2000. The biennial licensing program for drivers and vehicles, implemented by the Taxi and Limousine Commission in 2000, caused a one-time acceleration of revenues.

Permits

Permits are issued to 923,000 individuals or entities for the use of facilities, premises or equipment. Approximately 240,000 permits are renewable on an annual basis, 60,000 are renewable biennially, and 70,000 are renewable triennially. Seasonal or single occurrence permits, such as tennis, golf, and building permits account for 553,000 additional permits, all of which are issued and regulated by nine City agencies.

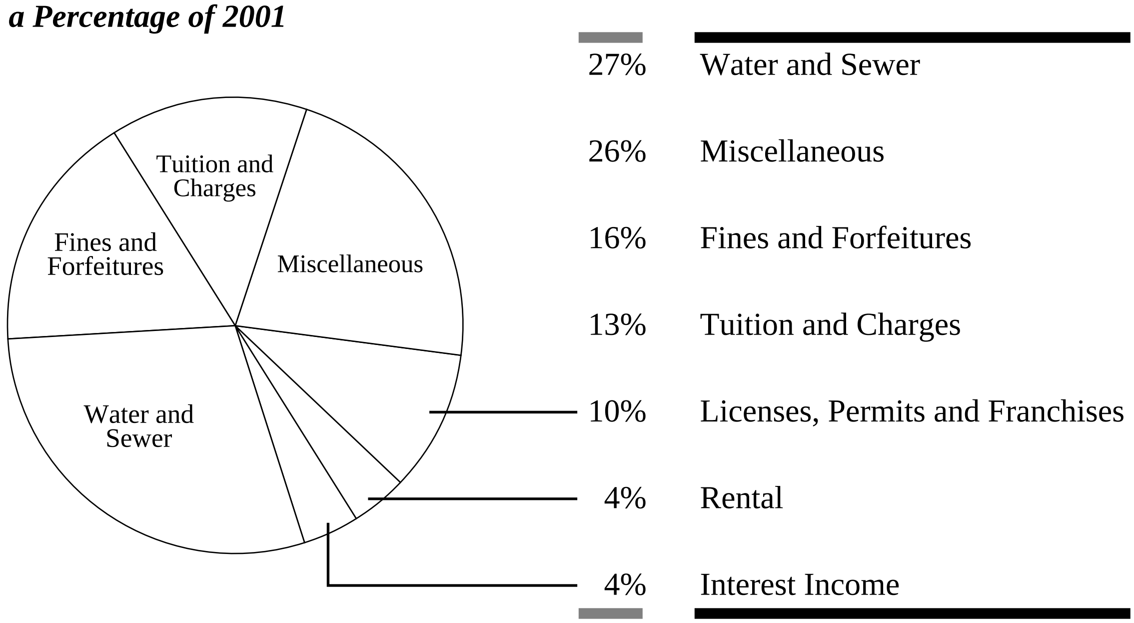
The major sources of revenue are permits for building construction and alteration, street opening, restaurants, hazardous material, and air pollution control. The 2001 forecast for permit revenue is $84 million, $3 million less than 2000. The decrease is due to a decline in receipts for various construction-related permits issued by the Department of Buildings.

Tuition and Charges for Services

The City collects tuition from students enrolled at community colleges. In addition, the City collects money from charges to the public and other governmental agencies for services rendered. There are over 100 different service fees in this category, including fees for parking, towing, Sheriff poundage, provision of school lunches, copies of reports, processing applications, searches, and performing fire and building inspections. The 2001 forecast for tuition and charges is $417 million, $12 million less than 2000. The loss of one-time revenues collected from the processing of 421-a tax exemption applications for large developments, from parking meters during the mild winter of 2000, and from one-time collections of arrears at the Department of Buildings account for this change.

COMPONENTS OF MISCELLANEOUS REVENUES

As a Percentage of 2001



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.

In 2001, water and sewer rates are expected to increase by one percent. The 2001 forecast for Water Board revenue is $1.5 billion, including a City payment of $32 million for municipal water and sewer charges and $73 million for interest on funds held by the New York City Municipal Water Finance Authority. The Water Board will pay $692 million for Water Board and Authority expenses and debt service. The City will receive $708 million for services rendered in the delivery of water and the collection, treatment, and disposal of waste water, and $135 million for the rental of the water supply and sewer system plant, in accordance with the lease agreement between the Water Board and the City.

Other Income

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

Interest Income

The City earns interest income by investing funds from four sources: overnight cash balances, debt service accounts, sales tax, and cash bail balances. Overnight cash balances are invested and earn interest at a rate slightly lower than 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 2001 forecast for interest earnings is $131 million, a decrease of $25 million from 2000. Higher interest rates are offset by a change in short term borrowing, and an expected return to normal cash balances in the City's accounts.

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 Con Edison and LILCO for transformers on City property.

The 2001 forecast for franchise revenue is $168 million, compared to $178 million in 2000. The 2000 collections reflect higher fee payments from cable television and high capacity fiber franchises, and one-time arrears collections from the City's long distance carrier on public pay telephones.

Rental Income

Rental income is derived from revenue collected from both long and short-term agreements for the occupancy of City-owned property, including condemnation sites and *in rem* buildings. Approximately 3,560 properties are rented from the City. Over 2,400 are *in rem* or condemnation sites, 160 are covered by long term agreements, and approximately 1,000 are schools that are rented on a per event basis after school hours.

The 2001 forecast for rental income is $112 million, $33 million less than in 2000. The decrease is due to additional rent payments received from the Port Authority of New York and New Jersey based on increased activity at Kennedy and LaGuardia Airports in calendar year 1999, the declining inventory of residential units managed by the Department of Housing Preservation and Development, and additional revenue received in 2000 from percentage-based rent agreements collected by the Department of Citywide Administrative Services.

Fines and Forfeitures

The City collects fine revenue through courts and administrative tribunals for violations issued under the Administrative Code, Vehicle and Traffic Law, and other laws. Forfeiture revenue is obtained from the surrender and conversion of bail and cash bonds, and contractors' performance bonds. The 2001 forecast for forfeitures is $3.6 million, $1.5 million less than 2000. The Department of Finance collected additional revenue in 2000 by improving cash bail forfeiture processing and eliminating backlogs. The revenue expected from fines in 2000 and 2001 is listed below:

Fine Revenue

SOURCE ($ in 000's)	2000 FORECAST	2001 EXECUTIVE BUDGET
Parking Violations	$371,993	$396,371
Environmental Control Board	30,672	32,150
Traffic Violations	19,800	18,067
Department of Health	12,000	12,907
Taxi and Limousine Commission	6,441	7,441
State Court Fines	6,400	7,085
Department of Buildings	6,290	5,000
Department of Consumer Affairs	2,900	3,992
Other sources	3,095	3,630
Total	$459,591	$486,643

The Parking Violations division of the Department of Finance is forecasted to collect $396 million in parking fines in 2001, $24 million more than 2000. The Department's initiative to enhance customer service and provide one-stop shopping will continue to improve collections by offering electronic payment options, streamlining workflows, and eliminating duplicative activities. The Department of Finance has also initiated several programs to improve the processing of parking summonses that currently cannot be collected.

The Environmental Control Board (ECB) adjudicates more than 400,000 notices of violation 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 $32 million. The Traffic Enforcement Division within the Police Department will expand street opening and sidewalk obstruction enforcement efforts throughout the City.

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

Miscellaneous

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

The 2001 forecast for miscellaneous revenue is $799 million, $119 million more than in 2000. Increased revenue from the proceeds of the sale of the Coliseum, and from the disposition of other surplus commercial and residential real property, including economic development sites, will more than offset the non-recurring revenue received in 2000 from the recovery of additional FICA payments made in prior years, a higher tobacco settlement payment, and other miscellaneous sources.

Private Grants

The Executive Budget includes $347 million in private grants in 2001, $96 million less than 2000. 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 2001, IFA reimbursements will be $290 million.

CAPITAL BUDGET

The Executive Capital Budget and Four-Year Plan, 2001-2004

The 2001 Executive Capital Budget includes new appropriations of $7.3 billion, of which $6.8 billion are to be funded from City sources. These appropriations, together with available balances from prior years, authorize total commitments for 2001 of $8.9 billion, of which $8.0 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 $6.7 billion in 2001. The aggregate agency-by-agency authorized commitments of $8.0 billion exceed the 2001 financial plan by $1.3 billion. Excess authorizations in this proportion have proven necessary to achieve commitment spending targets by accommodating such factors as project scope changes and delays.

FY 2000-2004 Commitment Plan
($ in millions)

	2000		2001		2002		2003		2004	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Environmental Protection										
• Equipment	$140	$151	$167	$371	$39	$39	$30	$30	$17	$17
• Sewers	265	266	217	217	165	165	106	106	98	98
• Water Mains	351	351	251	251	255	255	308	308	301	301
• Water Pollution Control	437	468	1,053	1,083	1,387	1,412	638	663	285	310
• Water Supply	109	109	194	194	236	236	324	324	154	154
Subtotal	$1,303	$1,344	$1,882	$2,115	$2,082	$2,107	$1,404	$1,430	$854	$879
Transportation										
• Mass Transit	$114	$114	$108	$108	$279	$279	$278	$278	$106	$106
• Highways	226	214	307	328	279	287	246	273	271	271
• Highway Bridges	292	337	326	353	401	433	560	620	347	387
• Waterway Bridges	123	128	210	326	88	158	0	0	474	549
Subtotal	$754	$793	$951	$1,116	$1,047	$1,157	$1,084	$1,171	$1,198	$1,312
Education & Hospitals										
• Education	$1,105	$1,360	$1,529	$1,614	$1,105	$1,180	$1,318	$1,398	$1,201	$1,281
• Higher Education	39	50	9	12	4	6	3	5	4	8
• Hospitals	144	144	171	171	48	48	181	181	121	121
Subtotal	**$1,288**	**$1,554**	**$1,708**	**$1,796**	**$1,156**	**$1,234**	**$1,502**	**$1,584**	**$1,326**	**$1,410**
Housing And Economic Development										
• Housing	$335	$466	$260	$363	$361	$446	$312	$400	$268	$353
• Economic Development	288	375	380	416	173	191	95	101	42	42
• Port Development	(1)	(1)	0	0	0	0	0	0	0	0
Subtotal	**$623**	**$840**	**$640**	**$779**	**$533**	**$637**	**$407**	**$502**	**$310**	**$395**
City Operations & Facilities										
• Correction	$118	$122	$210	$210	$104	$104	$43	$43	$138	$138
• Fire	152	152	212	212	62	62	51	51	52	52
• Police	50	29	128	161	36	36	56	56	55	55
• Public Buildings	134	136	223	227	78	78	61	61	64	64
• Sanitation	125	125	282	295	233	233	216	216	258	258
• Parks	219	234	231	242	139	139	38	38	49	49
• Other	1,170	1,291	1,567	1,779	630	711	442	476	525	532
Subtotal	**$1,969**	**$2,089**	**$2,853**	**$3,127**	**$1,281**	**$1,363**	**$907**	**$940**	**$1,140**	**$1,147**
Total Commitments	**$5,936**	**$6,620**	**$8,035**	**$8,933**	**$6,099**	**$6,497**	**$5,304**	**$5,627**	**$4,829**	**$5,144**
Reserve For Unattained Commitment	**(1,688)**	**(1,688)**	**(1,303)**	**(1,303)**	**(56)**	**(56)**	**47**	**47**	**3**	**3**
Commitment Plan	**$4,248**	**$4,932**	**$6,732**	**$7,630**	**$6,043**	**$6,441**	**$5,351**	**$5,674**	**$4,832**	**$5,147**
Total Expenditures	**$4,347**	**$4,837**	**$4,614**	**$5,151**	**$5,459**	**$6,107**	**$5,254**	**$5,906**	**$5,534**	**$6,055**

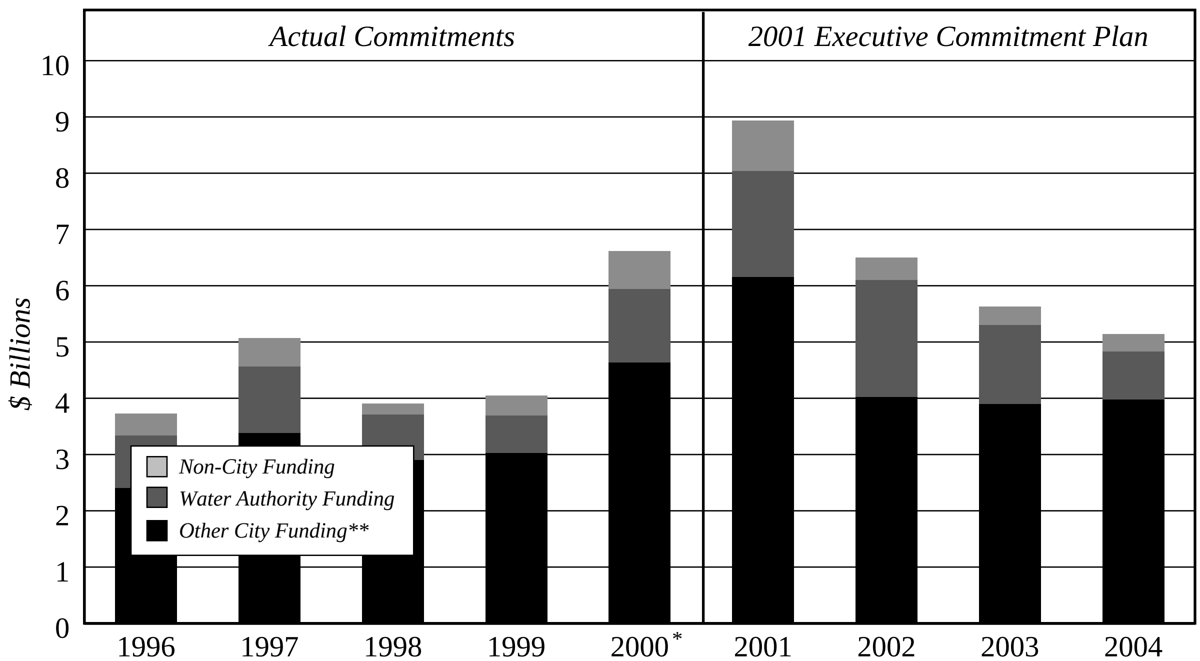
**Note: Individual items may not add to totals due to rounding*

Non-City Funding Sources

Non-City capital funding sources include $898.0 million in the 2001 plan and $1.9 billion over the 2001-2004 four-year plan period. The majority of non-City funding supports Transportation, Housing, and Environmental Protection programs. Non-City includes pay-as-you-go capital of $85.0 million for the Board of Education in 2001, financed in part by the proceeds from the sale of real property in Battery Park City.

Transportation programs are projected to receive non-City funding of $746.0 million over the 2001-2004 period, with $648.0 million from the Federal government and $97.0 million from the State, and private funds of $0.5 million. Housing programs anticipate non-City funding of $361.0 million in the 2001-2004 period, consisting of Federal funds. Environmental Protection programs anticipate receiving $308.0 million in non-City funding over the 2001-2004 period, with $5.0 million from the Federal government, $303.0 million from the State and $0.2 million of private funds.

FY 1996-2004 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 1996

The table below illustrates the changes in the size of the City's capital program over the 1996-1999 period.

FY 1996 - 1999 Commitments
($ in millions)

	1996		1997		1998		1999	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
Environmental Protection								
• Equipment	$211	$211	$185	$185	98	98	$81	$81
• Sewers	126	126	166	166	184	184	185	185
• Water Mains…	315	343	460	462	152	152	200	203
• Water Pollution Control	254	311	352	355	320	321	198	198
• Water Supply	32	32	17	17	58	58	4	482
Subtotal	**$937**	**$1,023**	**$1,180**	**$1,185**	**$812**	**$813**	**$668**	**$671**
Transportation								
• Mass Transit	$113	$111	$864	$863	$123	$122	$116	$116
• Highways	136	149	172	209	168	185	171	184
• Highway Bridges	140	144	77	122	119	123	92	94
• Waterway Bridges	60	150	150	413	152	127	177	355
Subtotal	**$449**	**$555**	**$1,264**	**$1,607**	**$561**	**$557**	**$556**	**$749**
Education & Hospitals								
• Education	$621	$621	$1,013	$1,013	1,246	1,246	$1,400	$1,400
• Higher Education	3	3	6	7	9	11	12	14
• Hospitals	53	53	30	30	23	23	56	56
Subtotal	**$678**	**$678**	**$1,049**	**$1,049**	**$1,278**	**$1,279**	**$1,468**	**$1,470**
Housing And Economic Development								
• Housing	$168	$261	150	239	116	241	$161	$259
• Economic Development	156	164	112	119	55	69	54	59
• Port Development	(9)	(9)	0	0	4	4	0	0
Subtotal	**$315**	**$416**	**$263**	**$358**	**$175**	**$314**	**$215**	**$318**
City Operations & Facilities								
• Correction	$223	$223	33	33	81	81	$63	$74
• Fire	30	30	73	73	56	56	66	66
• Police	62	62	56	51	47	47	46	46
• Public Buildings	118	118	92	93	54	54	65	67
• Sanitation	169	169	107	107	102	102	63	63
• Parks	117	155	141	174	153	165	158	174
• Other	240	296	306	335	390	434	323	352
Subtotal	**$959**	**$1,053**	**$809**	**$866**	**$882**	**$939**	**$784**	**$842**
Total Commitments	**$3,338**	**$3,725**	**$4,565**	**$5,066**	**$3,709**	**$3,904**	**$3,691**	**$4,050**
Total Expenditures	**$3,355**	**$3,733**	**$3,568**	**$3,946**	**$3,631**	**$3,985**	**$4,385**	**$4,786**

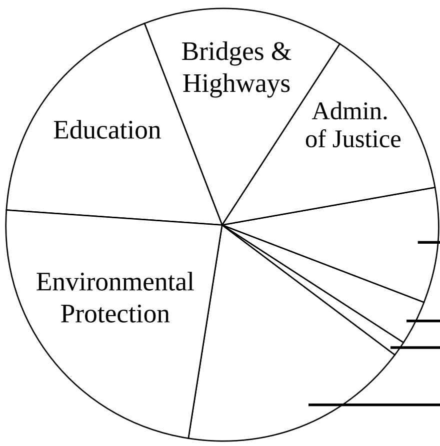
** Note: Individual items may not add to totals due to rounding*

2001 Agency Highlights

The chart below outlines the major elements of the 2001 Capital Commitment Plan.

2001 AUTHORIZED CAPITAL COMMITMENTS, BY PROGRAM

($ in Millions - All Funds)



% of Plan	*Program*	*2001 Plan*
23.7%	Environmental Protection	$2,115
18.2%	Education	1,626
14.9%	Bridges & Highways	1,326
13.0%	Administration of Justice	1,164
8.7%	Housing & Development	779
3.3%	Sanitation	295
1.2%	Mass Transit	108
17.0%	Other City Services	1,520
	Total	**$8,933**

Environmental Protection and Sanitation

- Landfill Remediation: construction work to remediate the Pennsylvania/Fountain Avenue and Brookfield landfills ($74.1 million, G.O. funds, $203.2 million State funds).

- Water Supply: construction of shafts for City Tunnel No. 3, Stage 2 ($111.6 million).

- Water Pollution Control: the continued reconstruction of the Newtown Creek Water Pollution Control Plant ($775.6 million); reconstruction of various sewage pumping stations ($75.8 million)

- Water Mains: projects in the upstate watershed include the reconstruction of watershed dams ($22.9 million) and the continuation of the land acquisition programs ($54.0 million). In-City water main replacement and extension projects ($120.6 million).

- Sanitation: replacement of equipment, including collection trucks, mechanical brooms and salt spreaders ($115.8 million) in accordance with established replacement cycles.

Transportation

- Bridges: continued reconstruction of the four East River Bridges; reconstruction of three bridge structures rated “poor” and 16 bridge structures rated “fair”; continued rehabilitation of “fair” bridges through the component rehabilitation program ($679.7 million).

- Highways: reconstruction of 32.4 linear (103.5 lane) miles and the resurfacing of 244.0 (811.4 lane) miles of streets; continued installation of pedestrian ramps and replacement of sidewalks ($285.8 million).

- Transit: contribution to the MTA's capital program including subway and bus fleet enhancement, infrastructure improvements, in-house track rehabilitation, reconstruction of bus and subway lines and facilities ($108.0 million).

Education, Health and Social Services

- Education: A total program of $1.6 billion, including $275.0 million for the Mayor/City Council initiative. Funding provides for capacity expansion, technology, air-conditioning, school modernization and the rehabilitation/replacement of building components and other facility improvements. In addition, the Plan will be enhanced by the dedication of an additional $85.0 million of expense budget resources.

- Health: construction of a new free standing OCME facility on the Kings County Hospital campus ($11.4 million); construction of a new High Sensitivity DNA Laboratory for OCME ($10.8 million); implementation of a case management and reporting system for the HIV/AIDS Partner Notification program ($6.4 million); renovations to two Center for Animal Care and Control shelters ($5.4 million); Phase II of the Jamaica Health Center renovations project ($2.0 million).

- Aging: renovations, fire safety, handicapped accessibility and infrastructure repairs to senior centers, citywide ($17.2 million).

- Homeless Services: loans to nonprofit organizations to develop SROs for single adults leaving the shelter system ($3.5 million); adult facility upgrades at Camp LaGuardia, the Franklin Armory and the Bedford-Atlantic Armory ($10.1 million); renovations of family facilities including Catherine Street and Jamaica Assessment ($4.2 million); and exterior repairs to maintain compliance with City building codes ($7.3 million).

- Human Resources: renovations and initial outfitting of Job Centers ($26.7 million); expansion of the Wide Area Network ($11.3 million); implement imaging projects ($5.3 million); infrastructure improvements and renovations at Multi-Service Centers ($8.2 million).

- Children's Services: renovation of the Jefferson Place Group Home ($1.4 million); completion of Williamsburg Day Care Center ($1.9 million); technology projects, including data warehousing, LAN & WAN development and Bellevue Children's Center MIS installation ($5.4 million).

- Housing: disposition and rehabilitation of approximately 2,300 occupied in rem dwelling units through the Building Blocks! (privatization) initiative and of nearly 400 vacant in rem units through a variety of sale and loan programs ($160.3 million); provision of low-interest loans for capital improvements to privately-owned residential buildings, with more than 3,800 units, to prevent their abandonment and preserve their quality through the Participation Loan, Article 8A, Small Homes Private and Article 7A programs ($60.8 million); development starts for the construction of close to 1,500 homeownership and rental units in one- to three-family homes, through the Partnership New Homes and Nehemiah programs, and multi-family, mixed-use and retail units, through the Alliance for Neighborhood Commerce, Homeownership and Revitalization or ANCHOR program ($41.9 million); and production of over 400 units through the Supportive Housing program, which includes units for homeless, low-income, and special needs (persons with mental illness or AIDS) populations ($39.3 million). Production levels are dependent on the availability of Federal HOME funds.

- Housing Authority: replacement of apartment closet doors ($2.5 million) and drains/sewer lines ($1.8 million) at Boulevard Houses, a 1,436-unit development in Brooklyn; replacement of apartment closet doors ($2.8 million), installation of steel bar fencing ($1.3 million), and renovation of roofs ($1.9 million) at Linden Houses, a 1,586-unit development in Brooklyn; and replacement of radiator traps and valves ($0.8 million) at Marble Hill Houses, a 1,682-unit development in The Bronx.

- Economic Development: development of the New York Stock Exchange in Manhattan ($109.0 million); St. George Stadium in Staten Island ($25.6 million); Steeplechase Stadium in Brooklyn ($26.0 million); St. Johns Interim Stadium in Queens ($6.0 million); Whitehall Ferry Terminal Reconstruction, Manhattan ($27.7 million); St. George Ferry Terminal Reconstruction, Staten Island ($29.0 million); Brooklyn Army Terminal Phase IV ($15 million); Kingsbridge Armory in The Bronx ($8.0 million); and Brooklyn Navy Yard Development Corporation match ($7.3 million).

Administration of Justice and Public Safety

- Correction: replacement of deteriorating housing facilities with new facilities ($106.9 million); reconstruction of the James A. Thomas Center ($32.0 million); completion of fire safety system upgrades in borough houses and on Rikers Island ($15.7 million).

- Courts: construction of a Supreme Criminal Court building in the Bronx ($129.5 million); construction of a west wing addition to the Criminal Courts building in Queens to house the Supreme Criminal Court ($65.8 million); renovation of the Family Court building in Manhattan ($47.2 million); renovation of the Supreme Court building in Queens ($39.5 million); renovation of space at the Brooklyn Army Terminal to provide a records storage facility for the courts ($11.9 million); upgrade of systems in the Appellate Court building in Manhattan ($11.3 million); upgrade of elevator systems in four courthouses, in Manhattan, Brooklyn and the Bronx ($16.0 million); upgrade of electrical systems in eight courthouses, in Manhattan, Brooklyn, the Bronx and Queens ($9.7 million); and renovation work to comply with the Federal Americans with Disabilities Act (ADA) in eight courthouses, citywide ($7.8 million).

- Police: construction of a Public Safety Answering Center at 109 Park Row ($48.5 million); design of three new precincts ($7.0 million); replacement of the Computer Aided Dispatch system and upgrade of other computer equipment ($24.8 million); rehabilitation of various floors at the Police Academy to add new classrooms ($3.3 million); noise abatement at the Rodman’s Neck Firing Range ($3.4 million); enhancement and replacement of communications equipment ($67.9 million).

- Fire: replacement of front-line firefighting apparatus, support vehicles and equipment ($38.8 million); acquisition of ambulance sites for EMS ($13.0 million); rehabilitation of Department facilities ($23.0 million); renovation of buildings for classroom training at Fort Totten and construction of a new fire training facility at Randall’s Island ($91.0 million); continued maintenance and upgrade of the current call box network ($0.9 million); Computer Aided Dispatching (CAD) and other communications systems ($6.4 million).

Recreation and Culturals

- Parks: focused reconstruction and replacement of safety surfaces, play equipment and paths to improve the overall condition of parks ($13.0 million); reconstruction of regional parks, citywide ($20.0 million); planting of street trees ($7.0 million); East River Park ($5.0 million); construction of a playground in Madison Square Park ($750K).

- Public Libraries: redesign and renovation of the Library for the Performing Arts ($8.2 million); various renovation projects at the Humanities and Social Sciences Library, formerly the Central Research Library, totaling $11.8 million. These projects include: $1.5 million for renovations to the Map Division; $3.4 million for the creation of the Center for Scholars and Writers; $2.6 million for renovation work to the US History, Local History, and Genealogy Division; $1.8 million for the construction of a Rare Books room; and $2.7 million for renovation work to office and administrative space.

- Department of Cultural Affairs: construction of the Third Stage Theater, a mid-sized theater with an innovative stage and seating design, at Carnegie Hall ($3.5 million); a Master Plan including renovations and upgrades at Lincoln Center for the Performing Arts ($24.0 million); comprehensive reconstruction and expansion at the Metropolitan Museum of Art ($5.0 million); creation of a new wing for the Museum of Jewish Heritage that will contain a theater, special exhibition galleries, a Family History Center, classrooms, offices, a kosher dining facility, and a garden ($6.0 million); major renovation and expansion at the Museum of Modern Art. A key feature will be an entire building dedicated to education and research. In addition, gallery space will be doubled, the Abby Rockefeller Sculpture Garden will be renovated and restored, stores and restaurants will be expanded, and a state-of-the-art storage and study facility will be constructed ($30.0 million); infrastructure improvements at the New York Botanical Garden ($4.3 million).

Department of Citywide Administrative Services

- Public Buildings: compliance with legal mandates ($79.2 million), including vapor control and leak detection equipment for petroleum underground storage tanks ($53.7 million); lead and asbestos abatement ($14.3 million), and compliance with the Americans with Disabilities Act ($1.6 million); the reconstruction of public buildings and City owned office space ($96.2 million), including the construction of a Visitor Center and code compliance work at the Tweed Courthouse ($45.8 million); the construction of leased space ($38.6 million), including the construction of the Department of Finance Business Center at 66 John Street in Manhattan ($16.3 million), and the renovation of City Council offices ($2.5 million); and the reconstruction of non-waterfront properties including construction at the Kingsbridge Armory ($5.0 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 2001-2004 Borough Presidents' Allocations*
(City Funded Appropriations $ in thousands)

	2001	2002	2003	2004
Bronx Program				
Economic Development	$1,095	$0	$0	$0
Housing Authority	500	-----	-----	-----
Housing	3,200	-----	-----	-----
Higher Education	624	-----	-----	-----
Highways	0	1,611	-----	-----
New York Public Library	1,800	800	-----	-----
Parks	100	-----	-----	-----
EDP Equipment	300	-----	-----	-----
Cultural Affairs	353	-----	-----	-----
Public Buildings	175	-----	-----	-----
Real Property	700	-----	-----	-----
Traffic	150	-----	-----	-----
GRAND TOTAL: BRONX	$8,997	$2,411	$0	$0
Brooklyn Program				
Economic Development	$2,313	$2,748	$9,000	$5,500
Highways	754	-----	-----	-----
Brooklyn Public Library	4,527	865	1,000	2,000
Parks	5,135	6,150	-----	7,800
Cultural Affairs	9,527	6,561	3,842	-----
Public Buildings	-----	70	1,600	-----
GRAND TOTAL: BROOKLYN	$22,256	$16,395	$15,442	$15,300

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

FY 2001-2004 Borough Presidents' Allocations*
(City Funded Appropriations $ in thousands)

	2001	2002	2003	2004
Manhattan Program				
Aging	$345	-----	-----	-----
Education	1,079	-----	-----	-----
Economic Development	800	200	-----	-----
Housing	1,750	800	-----	-----
Higher Education	732	427	-----	-----
Highways	89	500	-----	-----
New York Research Library	953	-----	-----	-----
New York Public Library	806	-----	-----	-----
Parks	1,453	-----	-----	-----
Cultural Affairs	1,183	1,050	-----	-----
Public Buildings	200	200	-----	-----
Transit	250	250	-----	-----
Traffic	225	-----	-----	-----
GRAND TOTAL: MANHATTAN	$9,865	$3,427	$0	$0
Queens Program				
Housing	$71	-----	-----	-----
Higher Education	194	-----	-----	-----
Hospitals	2,605	2,000	-----	-----
Highways	700	-----	-----	-----
Parks	6,211	1,000	-----	-----
Cultural Affairs	13,523	17,073	2,916	-----
GRAND TOTAL: QUEENS	$23,305	$20,073	$2,916	$0
Staten Island Program				
Housing Authority	$300	-----	-----	-----
Highways	1,079	2,000	-----	-----
Parks	1,500	-----	-----	-----
Public Buildings	143	-----	-----	-----
GRAND TOTAL: STATEN ISLAND	$3,022	$2,000	$0	$0

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

Management Initiatives

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

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

Capital Program Management

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

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

Capital Asset Inventory and Maintenance Program

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

Value Engineering

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

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

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

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

FINANCING PROGRAM

The City's financing program projects $26.9 billion of long-term borrowing for the period of FY2000 through FY2004 to support the City's current capital program. The majority of the financing will be implemented through four bond issuing entities: the City through its General Obligation (GO) bonds, the New York City Transitional Finance Authority (TFA), the New York City Municipal Water Finance Authority (NYW) and TSASC, Inc. In addition, the City will utilize the New York State Dormitory Authority (DASNY) to fund several capital initiatives. Through financing lease arrangements, DASNY will issue bonds for the City's court facilities program, the expansion or reconstruction of three hospital facilities and the Lincoln Center capital improvement project. The annual financing amount during the planned period for each of the bond issuing entities is listed in the table below.

2000-2004

CAPITAL FUNDING PROGRAM

(In Millions)

	2000	2001	2002	2003	2004	Total
SOURCES OF FUNDS:						
City General Obligation Bonds (1) (2)	$935	$1,195	$2,440	$2,900	$3,650	$11,120
Transitional Finance Authority (2) (3)	2,320	1,630	0	0	0	3,950
Tobacco Settlement Bonds (4)	709	700	700	700	0	2,809
Water Authority Financing (5)	888	1,067	1,561	1,482	1,597	6,595
DASNY and other Lease Debt (6)	317	823	252	386	530	2,308
Other Sources (7)	(567)	(325)	901	152	(1)	160
Total	$4,602	$5,090	$5,854	$5,620	$5,776	$26,942
USES OF FUNDS:						
City Capital Improvements (8)	$4,372	$4,747	$5,586	$5,306	5,535	25,546
City General Obligation Refinancing	0	0	0	0	0	0
Water Authority Refunding	0	0	0	0	0	0
Reserve Funds and Other (9)	230	343	268	314	241	1,396
Total	$4,602	$5,090	$5,854	$5,620	$5,776	$26,942

(1) *The City has issued no general obligation bonds to date during fiscal year 2000. It expects to issue approximately $700 million of new money bonds by negotiated sale in May, and $200 million of new money bonds by competitive sale in June*

(2) *If the City's proposed changes to the TFA enabling act and to the state constitutional debt cap are adopted, the City would expect the issuance of additional TFA bonds in fiscal years 2001 through 2004, matched by some reduction in the issuance of general obligation bonds.*

(3) *The Finance Authority has sold $1.8 billion of bonds and $1.1 billion of bond anticipation notes (BANs) during fiscal year 2000 for the City's capital improvement program. The first $600 million of BANs issued in Nov. 1999 will be defeased on May 2, 2000 with long-term financing and the second $515 million of BANs sold on April 12, 2000 will be redeemed or defeased in November 2000 through the issuance of bonds. TFA will continue pre-funding its long-term financing program with BANs in FY2001. In FY2002, TFA will issue approximately $600 million of bonds to defease BANs issued in May 2001. The figures set forth above exclude bonds issued to defease bond anticipation notes and include bond anticipation notes and capitalized interest thereon.*

(4) *TSASC bonds are not indebtedness of the City. The amounts shown are estimates. The City expects to derive proceeds of approximately $2.4 billion from these issuances, including the $604 million of proceeds from the November 1999 TSASC financing.*

(5) *The above figures reflect NYW commercial paper and certain revenue bonds issued to date and expected to be issued for the water and sewer system's capital program, and includes reserve amounts. The figures above do not include bonds which defease commercial paper.*

(6) *The financing program includes DASNY financing of 100% of the City court capital program, three HHC projects, as well as other lease financings. The amounts reflected in fiscal years 2000 through 2004 include an allocation for reserve funds and other costs of issuance of $359 million.*

(7) *Other sources include changes in restricted cash balances, federal and state grants, $53 million increase in proceeds available for the three HHC projects, and a $128 million increase in proceeds available for water and sewer purposes.*

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

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

As shown, the City will issue approximately $11 billion of its GO bonds, which represents the largest share, 41 percent of the total program. NYW will continue a steady pace of financing activity, at an average annual amount of $1 billion. TSASC, Inc. will complete its financing program by FY2003 with three more annual issuances, each generating $600 million of net proceeds to the City. It is also assumed here that the TFA's $7.5 billion bonding authorization, which is expected to be fully utilized by the end of FY2001, will be increased by $4 billion to allow the City to implement its current capital program.

TSASC, Inc., a special-purpose corporation, has successfully issued the first of four series of Tobacco Flexible Amortization Bonds (Tobacco Bonds) to finance a portion of the City's capital program. The Bonds are secured by future payments of tobacco settlement revenues (TSRs) from the four largest American tobacco companies. This first series included $709 million of tax exempt bonds and will be followed by three similar-size bond financings to be issued annually. The total program size is expected to be $2.8 billion. The City is expected to realize $2.4 billion in net proceeds for its capital improvement purposes, including the $609 million of proceeds from the initial issuance of TSASC bonds in November 1999. The remaining $400 million of bond proceeds will provide for liquidity reserves, capitalized interest and costs of issuance.

The TSRs are payable pursuant to a nationwide Master Settlement Agreement (MSA) entered into between 46 States and the manufacturers of over 99% of cigarettes sold in the US. The City's share is approximately equal to 3.4% of the national total, or approximately $6.7 billion over the next 25 years. These payments consist of initial payments and annual payments. Two of the initial payments have been received; the remaining three are payable on January 10, 2001, 2002 and 2003. Annual payments are payable every April 15, commencing in 2000 and continuing in perpetuity. The first Annual Payment in 2000 is expected to be distributed to TSASC on schedule in an amount of approximately $117 million. All planned debt service through June 30, 2001, totaling $55.8 million has been fully funded by the initial payment received in January 2000. The amount of TSRs to be received by TSASC will vary according to an inflation factor and the annual amount of cigarettes sold in the U.S. among other factors. TSASC's current forecast, based on the projection provided by its consultant, WEFA, indicates an annual receipt of TSRs ranging from $215 million in 2001 to $350 million in 2029, assuming an average annual cigarette consumption decline of approximately 2 percent.

Utilizing an asset-backed securitization framework, the City sold its share of the future TSRs to TSASC, which in turn agreed to issue tax-exempt Tobacco Bonds, transfer the net proceeds to the City for capital purposes and release all residual TSR revenues to a trust owned by the City. The inaugural issue, also the first of its kind nationwide, offered investors a dual-amortization payment structure: a 30-year Planned Principal Payment schedule and a 40-year Rated Amortization schedule. Under the structure, TSASC will make debt service payments according to the more accelerated 30-year Planned Payment schedule as long as there are sufficient TSRs. However, TSASC will not incur default unless it falls behind a slower 40-year Rated Amortization Payment schedule.

The structure is designed and tested to withstand as high as a continuous 4% annual decline in cigarette consumption without triggering payment default. In addition, the structure can also endure without default a dramatic increase in cigarette prices, including up to three additional (theoretical) massive litigation settlements by the cigarette manufacturers similar in scale of payments to those of the MSA. Potential payment disruption caused by bankruptcy of one or two major tobacco manufacturers has also been vigorously examined and tested. Other credit features, such as a liquidity reserve fund and a money trapping mechanism, were also built into the legal framework to provide for additional assurance of timely payments of debt service.

Recognizing the resilience of the structure and the strength of the legal protections, three of the four major rating agencies rated most of the maturities of TSASC's tobacco bonds in the double A category. Duff and Phelps rated the entire transaction double A. Moody's and S&P's ratings varied according to the maturities, with the earlier maturities receiving higher ratings than the later maturities (see chart below). Fitch IBCA rated all maturities A+.

Maturities	Moody's Rating	Maturities	S&P Ratings
2003-2027	Aa1	2003-2005	AA-
2027-2034	Aa2	2006-2010	A+
2034-2039	Aa3	2011-2039	A

Although the ratings of TSASC's bonds are higher than those of the City's GO, the interest rates on the inaugural TSASC bonds were somewhat higher than City GO bonds in similar maturities. Investor demand for TSASC's initial issuance was strong, with more than $1 billion in orders placed for the $703 million offering. This transaction represents the first flexible amortization structure ever sold in the municipal market. It is expected that the future spread between TSASC and GO yields should tighten, as investors become more comfortable with the structure and the credit, which is essentially the credit of the tobacco industry as a whole.

Allowing for full utilization of TSASC's $2.4 billion bonding capacity, and the TFA's current $7.5 billion issuance authority, the City will require additional borrowing capacity to carry out its capital program starting in fiscal year 2001.

The City intends to seek a constitutional amendment increasing the City's debt limit as well as legislative initiatives increasing TFA's bonding capacity by an additional $4 billion to $11.5 billion. In addition, the City proposes to expand its variable-rate bond capacity from 10% to 20% of debt limit or authorized amount for both the City's GO and the TFA. The proposed constitutional amendment will expand the economic base (i.e. the real estate property value), from which the debt limit is derived, to include Personal Income. The new methodology to calculate debt limit will include a component based on the five-year average real estate property value and a component based on the five-year average personal income in New York City. The constitutional amendment will require legislative approval in two consecutive sessions and a voter referendum and could have an effective date in FY2002.

If such an amendment as proposed by the City is approved, it would allow the City to implement its current 10-year capital program. Additional TFA bond capacity alone, if passed by the State legislature in this session, will allow the City to implement its current capital program through 2004 without major delay. The additional variable-rate bonding capacity will increase the structuring flexibility of the City's General Obligation bonds and TFA bonds, producing savings by lowering interest costs.

The current debt limit, which was established in the early 1930's, does not reflect the additional financial resources that are available to the City to fund its infrastructure needs. Furthermore, the volatility of the current debt limit calculation, which caused the City's limit to drop from $54 billion in 1995 to $32 billion in 1997, is not an effective tool in managing the City's long-term liabilities and does not reflect the essential stability and strength of the City's economic and revenue base. Rating agency analysts and the investment community have often commented that a distinction should be made between debt affordability, which measures the size of the City's capital program relative to the City's revenues (or wealth), and a debt limit, which should not impede the City's rational management of its actual issuance of debt.

As presented in the City's Debt Affordability Statement dated April 18, 2000: "debt affordability is a judgment made by balancing the City's need for essential capital improvements and the costs of delaying or not implementing such improvements against the impact of debt service costs…. The judgement is reflected in the City's Plan proposed by the Mayor." In making such analysis, one must bear in mind that while the City has a large amount of debt outstanding, it, unlike any other city, must also carry out the responsibilities traditionally reserved for the county government and school district in addition to traditional municipal functions. Additionally, the City has substantial resources not considered by standard debt burden ratios, notably its income tax and sales tax bases.

Finally, the New York State Constitution does not provide for "equitable" debt incurring power between the City and other counties or cities within the State. The Constitution grants separate debt limits for cities, counties and in some cases, city school districts as well. Based on this formulation, cities such as Buffalo, Rochester, Yonkers, Syracuse, Albany and White Plains would have a combined "effective" debt limit equal to 16% to 19% of their 5-year average taxable real property value. New York City on the other hand, serving city, county and school district functions, is currently allowed the debt incurring power equal to 10% of its property value under the Constitution.

While the Tobacco bonds enjoyed much of the spotlight in the first half of fiscal year 2000, TFA's well-established credit structure and market acceptance continue to provide the least costly financings for the City. The TFA has completed nine bond financings to date, totaling $6 billion. The TFA has raised capital for the City on average at approximately 10 basis points less in cost than City GO bonds.

In November 1999 and February 2000, the TFA issued a total of $1.12 billion of tax-exempt bonds and $80 million of taxable bonds (Series 2000A and 2000B). In addition, the TFA also sold for the first time $600 million of Bond Anticipation Notes (BANs) in November 1999, comprised of $560 million of tax-exempt and $40 million of taxable BANs. The 2000A tax-exempt bond series achieved a true interest cost (TIC) of 5.80 percent and the 2000A taxable bond series achieved a TIC of 6.72 percent. The 2000B tax-exempt bond series achieved an overall true interest cost (TIC) of 6.01 percent and the 2000B taxable bond series achieved a TIC of 7.33 percent.

TFA's first tax-exempt BANs were sold at a yield of 3.62 percent and the taxable BANs at 6.02 percent. In April 2000, TFA sold $560 million of tax exempt bonds and $40 million of taxable bonds (the Series 2000C) to redeem the BANs issued in November 1999. The tax-exempt portion of the Series 2000C bonds was sold with an overall TIC of 5.61 percent and the taxable portion of the bonds received a winning bid of 7.12 percent. The tax-exempt fixed rate TFA bonds had the lowest relative borrowing cost for TFA in over two years. The spreads over the triple A MMD scale were 10 basis points in the 10 year maturity and 13 basis points in the 30 year maturity. In addition, TFA also issued a new six-month BAN in the amount of $515 million in April 2000, which had a winning bid of 4.11 percent.

The TFA intends to continue the BAN program through the next fiscal year, which has already generated approximately $5 million of debt service savings in FY2000.

The remaining TFA financing program in FY2001 consists of three $500 million financings in September 2000, February 2001 and May 2001, at which time TFA's current $7.5 billion bonding authorization will be fully utilized. Assuming the Constitutional Amendment as proposed by the City is passed in 2002 and the TFA bonding capacity is raised, there will be additional borrowing by TFA beyond FY2001.

In FY2000 to date, the TFA tax-exempt floating-rate bonds have performed at an average of 3.2%, These rates are slightly lower than those on the City's GO adjustable-rate bonds.

While the City may not enter into additional capital contractual liabilities when it reaches its debt limit, it may continue to issue GO bonds for previously contracted liabilities. The financing program in the above table reflects this practice. However, with the TFA assuming $1.8 billion and $1.5 billion of the City's new-money financing needs in FY2000 and 2001, respectively and TSASC shouldering $2.4 billion of borrowing needs during the plan period, annual issuance of City General Obligation bonds is expected to decrease from $2.5 billion in FY1997 to $935 million and $1.2 billion in FY2000 and 2001, respectively. Beginning in FY2004, the financing plan currently anticipates that the City will resume financing the entire program through issuance of its general obligation bonds.

In April 1999, the City implemented a competitive GO financing employing a new electronic bidding mechanism. The electronic format has become the norm for New York City GO and TFA competitive sales. Since the first competitive bid using an electronic format, there have been two GO sales and three TFA competitive sales for the taxable component of TFA bonds.

In April 1999, the City converted $140 million of its existing floating-rate bonds into Dutch Auction-based floating-rate securities. The Dutch Auction process eliminates the need for a bank liquidity facility, required for traditional variable-rate paper. In addition, the new product was expected to broaden the City's investor base. Since the inception of this program, all-in costs, inclusive of credit enhancement, have been considerably lower than traditional variable-rate paper where a remarketing agent determines the interest rate. Excluding upfront costs, which are amortized over the life of the bonds, the new program has achieved average savings of nearly 10 basis points compared to NYC's traditionally remarketed variable-rate paper.

In FY2000 to date, short-term interest costs as reflected in the GO $3 billion of variable-rate bonds have been 3.3 percent on average for tax-exempt debt and 5.4 percent for the taxable floaters during the last calendar year. These rates paid on variable rate bonds are expected to generate an annual debt service savings of over $15 million in FY2000 compared with fixed-rate debt.

The City's seasonal borrowing has declined considerably in recent years. From a high of $3.65 billion of RANs and TANs issued in FY1991, the City issued only $500 million of RANs in FY1999 and $750 million of RANs in FY2000.

With rising interest rates and the numerous refinancing activities in the last three years exhausting much of the advance refundable GO bonds, there has not been any refunding activity in FY2000. However, the City has issued a total of $15 billion of refunding bonds since January 1994. These refundings have produced an aggregate of $851 million of present value savings in debt service on City GO bonds.

The City is also expected to realize a $25 million savings from the release of interest earnings on a debt service fund held by the Municipal Assistance Corporation (MAC) for its debt. The earnings, which were generated mainly from the City's pre-payment of MAC debt service in prior years, reduce MAC's funding requirement for 2001.

In December 1999, DASNY issued $290 million of revenue bonds for the City's courts capital program. The bonds are supported by a lease appropriation from the City and enhanced by a State aid intercept. The intercept is triggered if the City fails to make lease appropriation or rental payments to DASNY. This is the second DASNY financing for the City's courts program, bringing the inception-to-date DASNY financing for this program to $707 million. The City's current 10-year capital strategy calls for a $2.3 billion capital construction and reconstruction program for the City's court facilities through 2009. Fitch IBCA upgraded the credit from BBB+ to A and S&P also raised the rating from BBB+ to A-. The bond rating from Moody's Investors Service is A3. These rating adjustments reflect recognition of an additional credit support through the State aid intercept mechanism, bringing the credit to a par with the City's GO. Generally, lease-appropriation debt is rated at a notch below G.O. The TIC for the 1999 DASNY court financing was 6.16 percent.

The City is also expected to implement several new lease-financing initiatives in the next four years. In 2001, the City is expected to issue approximately $130 million of bonds for the phase two reconstruction of Kings County Hospital through DASNY. Also through DASNY, the City plans to finance another $250 million for a new DNA lab and ambulatory service facilities at Bellevue hospital in late 2000 or early 2002. In addition, the City will also use DASNY to fund an annual $25 million capital program for Lincoln Center in the next ten years.

The New York City Municipal Water Finance Authority ("NYW" or the "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 $13.955 billion in General and Second Resolution bonds. Of this aggregate bond par amount, $9.931 billion is outstanding, $3.937 billion was refinanced with lower cost debt, and $887 million was retired with Authority revenues as it matured. In addition to this long-term debt, NYW utilizes a tax-exempt $600 million commercial paper program as a source of flexible short-term financing.

NYW's General Resolution bonds are rated "Aa3" by Moody's Investors Service, "A" with a positive outlook by Standard and Poor's, "AA-" by Fitch IBCA and "AA-" by Duff & Phelps. The "Aa3" Moody's rating reflects an upgrade that occurred on March 6, 2000. In upgrading the Authority, Moody's Investor Service cited the water and sewer system's success in meeting capital and operational goals, the increasing rate of customer collections, sound management of the capital program, and the strong legal provisions put in place for the protection of the Authority's bondholders.

To date in FY2000, the Authority has completed three financing transactions. The Series A issuance consisted of a bond sale directly to the public. The Second Resolution Series 1 bonds were issued to the New York State Environmental Facilities Corporation (EFC) and will secure a temporary direct loan from EFC to the Authority. The Second Resolution Series 2 bonds represent the Authority's participation in an EFC pooled loan financing. The final financing activity in FY2000 will consist of a bond sale by the Authority directly to the public for approximately $400 million. These financings are discussed in more detail below.

On September 28, 1999, the 2000 Series A bonds were offered for sale with a par amount of $276 million. The transaction structure consisted of four term bonds with maturities in 2027, 2030, 2031 and 2032. In pricing this transaction, the Authority decided to insure the entire 2027, 2031 and 2032 term bonds in an effort to lower the costs of this financing. The insurance was provided by the Financial Guaranty Insurance Company (FGIC) and covered $190 million or 69 percent of the total par amount. With insurance in place, yields were lowered to 5.79 percent in the 2027 maturity, 5.83 percent in the 2032 maturity, and 5.85 percent in the 2031 maturity. The uninsured bonds yielded 5.90 percent in the remaining 2030 maturity. In marketing this bond sale, the Authority tapped into the retail segment of the investor community by offering a one day priority retail order period. During this period, the Authority received approximately $10 million in orders from retail investors. Proceeds from this bond sale defeased a portion of the Authority's Series One and Five commercial paper, funded the debt service reserve fund, and paid certain costs of issuance. The true interest cost of this financing was 5.93 percent.

On February 3, 2000 the Authority received a direct loan from EFC. EFC offered this $287 million bridge loan as it awaits approval from the United States Environmental Protection Agency (EPA) to extend the amortization of its bond structures from 20 years to 30 years. Proceeds from EFC bond sales assist in the financing of federally mandated clean water and safe drinking water projects for municipalities like New York City. NYW used the direct loan proceeds to defease commercial paper previously issued to fund clean water improvements to the system. The interest cost of this direct loan was 2.56 percent. Upon EPA approval of the longer amortization structure, NYW will issue 30-year Second Resolution bonds to EFC and EFC will issue its 30-year bonds directly to the public. Proceeds from the EFC issuance will be used to repay NYW's temporary direct loan.

On February 8, 2000, the Authority participated in an EFC pooled loan financing. The Authority's share in this pool was $13 million or 17 percent of the $73 million total par amount of the pooled sale. The Authority received a 33 percent subsidy on its interest costs by participating in this sale. The proceeds of the 2000 Series 2 bonds were utilized for safe drinking water projects. Taking into account the interest subsidy, NYW's cost of funds was 4.25 percent.

In May of 2000, the Authority expects to sell an additional $400 million of tax-exempt bonds.

In FY's 2001-2003, the Authority expects to sell approximately $1 billion of debt per year. Of this $1 billion amount, NYW plans to issue a minimum of $300 million per year through EFC. The Authority fully participates in the EFC program to take advantage of the 33 to 50 percent interest subsidy available to participants for qualifying projects. These subsidies allow NYW to minimize the overall costs of its financing program.