

THE HUGH L. CAREY BATTERY PARK CITY AUTHORITY

ANNUAL REPORT

Pursuant to Section 2800 of the Public Authorities Law

Operations and Accomplishments

Battery Park City Authority Accomplishments

During the past five years BPCA has administered 4.7 million square feet of new construction, all of which met the highest standards of environmental sustainability, achieving either the LEED gold or platinum standard.

Public amenities:

BPCA has continued its program of requiring developers to deed space to the Authority that is in turn made available for public purposes. During the past five years space has been completed or is under construction on the following public amenities:

Poet's House – the nation's largest poetry library, offering walk in services to the public as well as a variety of programming at the site, in local schools, and other venues. Open. Free to the public.

New York Public Library branch – under construction and expected to open in the spring.

Hunger Action Center: Operated by Mercy Corps., this center is open to the public and contains interactive and information exhibits regarding the issue of hunger worldwide, and suggests ways in which visitors can engage to help with the problem.

Community Center: BPCA is constructing a 55,000 square foot community center, containing a gym, swimming pools, theater, and classroom/meeting room facilities. The center, to be located in the base of the new Millstein towers, is expected to open in 2011.

New Park: In November BPCA is opening Teardrop Park South. This public park is located in the courtyard of the Riverhouse building. Adjacent to the original Teardrop Park, the new park contains water features, an amphitheatre for community events, and granite that mimics natural rock formations. Largely shaded by surrounding high rises, the park is the first outdoor space in the nation to be illuminated by heliostats, which sit atop a neighboring rooftop and reflect sunlight into the park.

New School:

BPCA partnered with the School Construction Authority to build the City's first Green School, which will open in September 2010. This K-8 school will have photo-voltaics as part of the structure, not only to generate power, but as an on-site enhancement to a curriculum that will highlight environmental issues.

Commercial construction:

In 2005, in conjunction with the Governor and Mayor, BPCA entered into an agreement with Goldman Sachs for construction of a new headquarters, thus cementing lower Manhattan's future as the nation's financial center. This new LEED Gold building is now nearing completion, and will officially open in early 2010. BPCA is responsible for numerous site improvements and roadway reconfigurations, which will be complete by December 2009. Goldman Sachs is paying a lump sum land rent of \$160 million.

Residential Construction:

Since 2005 five residential buildings have opened, and two more remain under construction. These buildings total 2,082 residential units. All were built to the highest environmental standards, and are rated either LEED gold or platinum. Besides being highly energy efficient, these buildings produce on-site power using photovoltaic cells and co-generation plants. In addition the buildings recycle and reuse water utilizing tertiary treatment plants in the basement of the buildings.

Pier A:

Pier A is the remaining example of the enclosed piers that once defined New York's waterfront. A landmarked building, it has remained empty and deteriorating for the past 20 years – a blight on the downtown waterfront in its location directly opposite the Statue of Liberty.

After years of bad experience with private development plans, the City turned to BPCA to bring this structure back to life, leasing it to BPCA two years ago. In that short time BPCA has repaired the deteriorated support structure and is now replacing the entire deck of the building. BPCA already has bids out for the entire core and shell, such that in 2011 Pier A will be ready for private sector tenants such as restaurants, retail, or other uses that will generate revenue and re-animate this once deteriorating landmark. This is a \$30 million project.

Environmental Initiatives:

Upgrading building standards: BPCA was the first governmental entity in New York State to implement sustainable building standards, which were adopted in 2000. Since then BPCA has consistently upgraded its requirements so that each successive building is more environmentally advanced than the one before. BPCA also maintains its 32 acres of parks without the use of pesticides, herbicides, or other potential harmful chemicals. In addition BPCA continues to be a leader among state agencies and authorities in environmental matters, including:

Composting: BPCA, through its Parks Corp., not only reuses its own waste to produce compost, but now collects food waste from local businesses to turn into compost. Goldman Sachs recently requested to be part of this program. A front page article in the October 20, 2009 NY Times explained using food waste for compost as a new trend. BPCA already has a robust program in place.

Green cleaning: BPCA adopted a green cleaning policy several years in advance of the Executive Order requiring green cleaning, and has required green cleaning for all of the new buildings that have been constructed since the advent of the 2000 green guidelines.

Bottled Water: BPCA eliminated all purchases of bottled water approximately a year in advance of the Executive order banning state agencies from using it.

LEED for Existing Buildings – BPCA worked with the New York Mercantile Exchange to successfully retrofit its building so that it achieved the first LEED for Existing Buildings rating in the state of New York.

Budgetary control and fiscal prudence

Although construction, operations, and maintenance continue at full levels, BPCA has held the line on costs for the past five years. In 2005 the operating budget was \$31.8 million. The budget has been reduced in each successive year, and for 2010 stands at \$28.6 million. In addition, during the past five years BPCA has always under-spent budgeted amounts. Actual expenditures in 2005, for example, were \$28.49 million. Actual expenditures for 2009 are estimated to be \$27.4 million.

These cost controls have been implemented with no reduction in services to the public. BPCA continues to provide first class maintenance of its parks, maintenance of pedestrian bridges, street light repair, street trash pickup, community cultural and concert programming, and the other services that contribute to the quality of life for the residents and visitors to Battery Park City.

At the same time expenditures have been falling, revenues have been rising every year. Revenues in the past year alone have risen \$18.8 million, to a total of \$228.9 million.

Minority and Women Owned Business participation:

BPCA continues to be a leader in implementing MWBE participation. BPCA has historically been in the upper tier of state agencies and authorities with regard to MWBE participation, this year providing an average 16% of contract dollars to MWBE enterprises. Although Article 15-A does not apply to projects on property leased or purchased from the state, BPCA has taken the position that it will apply robust MWBE standards to all developers. As a result, since 2004, approximately \$400 million in MWBE contracts have been awarded by developers doing business with BPCA. All of these dollars are a result of BPCA initiative, since they are not required under state law.

Receipts and Disbursements (Revenues and Expenses)

Receipts and Disbursements/Revenues and Expenses:

Below is a summary of the Organization's revenues, expenses, and changes in net deficit for the fiscal years ended October 31, 2009 and 2008:

	<u>October 31</u>		<u>2009 vs</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
Operating revenues:			
Revenues from ground leases:			
Base rent	\$ 58,732,238	57,374,979	1,357,259
Supplemental rent	772,225	715,188	57,037
Payments in lieu of real estate taxes	146,254,564	131,884,420	14,370,144
Civic facilities payments and others	18,220,364	21,600,614	(3,380,250)
Total operating revenues	<u>223,979,391</u>	<u>211,575,201</u>	<u>12,404,190</u>
Operating expenses:			
Wages and related benefits	13,992,092	13,225,261	766,831
OPEB	1,304,346	1,304,346	—
Other operating and administrative	24,440,520	16,333,034	8,107,486
Depreciation and amortization	8,965,328	8,494,364	470,964
Total operating expenses	<u>48,702,286</u>	<u>39,357,005</u>	<u>9,345,281</u>
Operating income	<u>175,277,105</u>	<u>172,218,196</u>	<u>3,058,909</u>
Nonoperating revenues (expenses):			
Interest and other income	16,790,117	21,254,895	(4,464,778)
Other revenue	581,405	5,390,357	(4,808,952)
Interest expense, net	(41,472,997)	(56,392,229)	14,919,232
Provision for transfer to the PANYNJ	(13,438,007)	—	(13,438,007)
Provision for transfer to the City of New York	(90,537,000)	(92,736,000)	2,199,000
Total nonoperating expenses, net	<u>(128,076,482)</u>	<u>(122,482,977)</u>	<u>(5,593,505)</u>
Change in net assets	47,200,623	49,735,219	(2,534,596)
Net deficit, beginning of year	<u>(302,726,890)</u>	<u>(352,462,109)</u>	<u>49,735,219</u>
Net deficit, end of year	<u>\$ (255,526,267)</u>	<u>(302,726,890)</u>	<u>47,200,623</u>

Operating Revenues

Overall operating revenues for the fiscal years ended October 31, 2009 and 2008 totaled \$224 million and \$211.6 million, respectively, representing a \$12.4 million increase. The overall operating revenue increase is primarily due to a \$14.4 million increase in PILOT from \$131.9 million for fiscal 2008 resulting from additional amounts recognized on sites completed during the current fiscal year coupled with increases in tax rates for commercial and residential sites effective January 2009. Additionally, civic facility and other revenue decreased \$3.4 million from

\$21.6 million in fiscal 2008 and relates to a one-time \$3.4 million participation payment received from Site 2A in fiscal 2008 and a \$2.4 million decrease in transaction payments received on the sale of residential units at Site 16/17, offset by a \$1.1 million increase in retail and percentage rent received on Site 3 and a \$1.8 million increase in net fixed rent (percentage rent) received from the World Financial Center Tower buildings. Lastly, base rent revenue increased \$1.4 million from \$57.4 million in fiscal 2008 and relates to the recognition of an additional \$1 million from approximately \$30 million of upfront payments received from Site 3 in fiscal 2009.

Operating Expenses

Operating expenses totaled approximately \$48.7 million for the fiscal year ended October 31, 2009, representing a \$9.3 million increase compared to the fiscal year ended October 31, 2008. The expenses include wages and related benefits; other postretirement benefits; operating and administrative expenses such as site security and maintenance, insurance, rent, legal, and planning/design expenditures; and depreciation and amortization.

Wages and related benefits increased \$766 thousand and relates to normal increases to wage and benefit expenses in fiscal 2009.

OPEB expenses remained constant period over period and represent annual normal costs and interest expense for all eligible current employees in accordance with GASB Statement No. 45.

Other operating and administrative expenses increased \$8.1 million and primarily relates to a PILOT credit due in accordance with the Goldman Lease. The lease terms require the Authority provide Goldman with a \$6 million PILOT credit, which is due and payable in the current reporting period. Additionally, the lease provides for interest on the unused credit at a rate of 7.75% to be paid by the Authority. Approximately \$328 thousand in interest expense was incurred for the fiscal year ended October 31, 2009. Additionally, the annual administrative fee paid to New York State increased \$1.4 million. Other operating and administrative increases, approximately \$1.2 million, primarily resulted from outside legal fees, planning costs and fees associated with a project completed for the benefit of the City.

Amortization and depreciation expenses increased marginally by \$471 thousand resulting from increased project costs.

Non-operating Revenues (Expenses)

Total non-operating expenses increased \$5.6 million to \$128.1 million during the fiscal year ended October 31, 2009.

Investment and other income decreased \$4.5 million over the prior fiscal year due to the composition of assets held during the year coupled with market interest rates earned.

Other revenue decreased \$4.8 million and primarily relates to the transfer of assets to the Authority associated with a defaulted lessee at the north cove marina, approximately \$7.6 million, offset by a \$1.2 million transfer of north neighborhood streets to the City during fiscal 2008, and a \$0.6 million increase relating to revenue recognized from an insurance settlement.

Net interest expense on outstanding bonds decreased \$14.9 million and primarily relates to significantly lower interest rates paid on the 2003 variable-rate revenue bonds due to failed auctions and a continuous decrease in the 30-day LIBOR resulting in a decrease of \$21.3 million decrease in the 2003 Series B and C interest expense. LIBOR averaged 3.3% during the fiscal year ended October 31, 2008, but averaged 0.5% during the fiscal year ended October 31, 2009. This decrease is offset by a \$7.1 million decrease in monthly earnings on the six interest-rate

swap agreements entered into in 2003. The counterparties pay the Authority 65% of LIBOR and receive a fixed 3.452% on the outstanding 2003 Series C Bonds.

Change in Net Assets

The total net deficits at October 31, 2009 and 2008 were \$255.5 million and \$302.7 million, respectively.

Assets and Liabilities

Assets & Liabilities (Including status of reserve, depreciation, special or other funds and receipts and payments under these funds):

The summary schedule of net assets presents the financial position of the Authority at the end of the fiscal year. Net assets (deficit) are the difference between total assets and total liabilities. A summarized comparison of the Organization's assets, liabilities, and net deficit at October 31, 2009 and 2008 is as follows:

	<u>October 31</u>		2009 vs 2008
	<u>2009</u>	<u>2008</u>	Increase (decrease)
Assets:			
Bank deposits, investments, and rents and other receivables	\$ 21,488,317	21,172,802	315,515
Bond resolution restricted assets (current and noncurrent)	286,619,196	340,387,509	(53,768,313)
Battery Park City project assets, net	461,548,193	449,568,884	11,979,309
Other current and noncurrent assets	<u>391,637,995</u>	<u>305,053,797</u>	<u>86,584,198</u>
Total assets	<u>\$ 1,161,293,701</u>	<u>1,116,182,992</u>	<u>45,110,709</u>
Liabilities:			
Current liabilities	\$ 193,177,302	188,726,988	4,450,314
Long-term liabilities	<u>1,223,642,666</u>	<u>1,230,182,894</u>	<u>(6,540,228)</u>
Total liabilities	<u>1,416,819,968</u>	<u>1,418,909,882</u>	<u>(2,089,914)</u>
Net assets (deficit):			
Invested in capital assets, net of related debt	9,354,597	(280,135)	9,634,732
Restricted	378,935,643	336,524,025	42,411,618
Unrestricted	<u>(643,816,507)</u>	<u>(638,960,780)</u>	<u>(4,855,727)</u>
Total net deficit	<u>(255,526,267)</u>	<u>(302,716,890)</u>	<u>47,190,623</u>
Total liabilities and net deficit	<u>\$ 1,161,293,701</u>	<u>1,116,192,992</u>	<u>45,100,709</u>

Assets

At October 31, 2009, the Organization maintained total assets of approximately \$1.16 billion, approximately \$45.1 million greater than total assets at October 31, 2008.

Bank deposits, investments, and rents and other receivables increased approximately \$315 thousand to \$21.5 million at October 31, 2009 and is primarily due to a \$3.1 million decrease in

unrestricted investments offset by a \$3.1 million increase in rents and other receivables. The decrease in investments primarily relates to a \$7.4 million transfer of fiscal 2008 transaction and administrative payments received on the sale of residential units into the 2003 bond resolution restricted accounts after the fiscal year ended October 31, 2008, offset by the collection of transaction and administrative payments in fiscal 2009 of approximately \$4.4 million and held in unrestricted accounts at October 31, 2009. The decrease in rents and other receivables relates to a \$203 thousand decrease in interest receivable and an \$841 thousand decrease in Swap receivable relating to a decrease in the 30-day LIBOR rate at each fiscal period end, offset by increases of \$512 thousand in bond issuance costs for the December 2009 bond issuance, \$2.4 million relating to rent due on a lease with Goldman Sachs Headquarters LLC (Goldman) and \$1 million relating to an unpaid upfront lease payment due from Site 3.

The Authority's bond resolution restricted assets are funds and accounts established in accordance with the 2003 Revenue Bond Resolutions, approximately \$286.6 million at October 31, 2009, approximately \$53.8 million lower than the October 31, 2008 balance of \$340.4 million. At October 31, 2009 funds held for the designated purposes of paying debt service were approximately \$7.8 million higher than October 31, 2008 primarily due to increased funding requirements for principal payments. Approximately \$3.7 million less in excess revenues was held at October 31, 2009 in the Residual Fund for the benefit of the City compared to October 31, 2008 resulting from a decrease in the amounts payable to the City. In addition, funds held in the Pledged Revenue Fund (PRF) at October 31, 2009 were approximately \$45.4 million less than funds held at October 31, 2008. The decrease is primarily attributable to transfers of approximately \$274 million to other bond resolution funds for the purposes of funding debt service based on the resolution requirements, supporting operating expenses and, transferring funds to the City and retaining funds in the Joint Purpose Fund, offset by deposits of approximately \$233 million relating to ground lease payments, interest rate exchange agreement (Swap) receipts from the three counterparties, and interest earnings. Lastly, assets held under the bond resolution for project infrastructure and certain other asset costs were approximately \$10 million lower compared to October 31, 2008 due to investments in infrastructure and other assets.

Project Assets

At October 31, 2009, the Authority's investment in project assets, net of accumulated depreciation was approximately \$461.5 million, an increase of \$12 million over October 31, 2008.

The Battery Park City project (Project) consists of approximately 92 acres of landfill created, owned, and operated by the Authority. The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction by private developers of approximately 10.2 million square feet of office space, a 502,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, community and cultural facilities, three public schools, a public library, condominium units and approximately 8,500 residential units (see notes 2, 5 and 6). Approximately 2.2 million square feet of commercial space representing the Goldman Sachs headquarters located on Site 26 is substantially complete. A total of 471 residential units in two residential buildings on Sites 23 and 24, and a public school on Site 2B are currently under construction.

The Authority's project assets include land, site improvements, and a residential building constructed by the Authority on Site 22. Additionally, condo units owned by the Authority on Sites 1, 16/17, 3, and a community center on Sites 23 and 24, and related infrastructure improvements are included in project assets. The balances at October 31, 2009 and 2008 are as follows:

	<u>October 31</u>		<u>2009 vs</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
Land	\$ 83,015,653	83,015,653	—
Site improvements	357,580,295	350,174,709	7,405,586
Residential building and condominium units	<u>98,364,135</u>	<u>87,750,081</u>	<u>10,614,054</u>
	538,960,083	520,940,443	18,019,640
Less accumulated depreciation	<u>(77,411,890)</u>	<u>(71,371,559)</u>	<u>(6,040,331)</u>
Total Battery Park City project assets	<u>\$ 461,548,193</u>	<u>449,568,884</u>	<u>11,979,309</u>

For the fiscal year ended October 31, 2009, the increase in Site Improvements of approximately \$7.4 million, relates to improvements to the Esplanade, Teardrop park and other park improvements in the north and south neighborhoods and as well as other minor capital improvements. The \$10.6 million increase in residential building and condominium units during the fiscal year ended October 31, 2009 principally relates to the construction of a community center and ball-field maintenance facility at Sites 23 and 24; coupled with costs relating to a maintenance facility to be used by the Conservancy at Site 3.

Other Current and Noncurrent Assets

Other current and noncurrent assets at October 31, 2009 and 2008:

	<u>October 31</u>		<u>2009 vs</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
Residential lease required funds	\$ 18,992,184	15,589,335	3,402,849
Corporate-designated, escrowed and OPEB funds	326,354,351	241,295,331	85,059,020
Deferred costs:			
Bond issuance costs, net	36,468,774	37,907,248	(1,438,474)
Costs of leases, net	<u>3,798,078</u>	<u>3,862,220</u>	<u>(64,142)</u>
Total deferred costs, net	40,266,852	41,769,468	(1,502,616)
Other assets	<u>6,024,608</u>	<u>6,399,663</u>	<u>(375,055)</u>
Total other current and noncurrent assets	<u>\$ 391,637,995</u>	<u>305,053,797</u>	<u>86,584,198</u>

Total other current and noncurrent assets increased approximately \$86.6 million from \$305 million at October 31, 2008 to \$391.6 million at October 31, 2009.

Residential lease required funds increased approximately \$3.4 million from \$15.6 million at October 31, 2008 to \$19 million at October 31, 2009 and relates to security deposits received from ground lease tenants; \$1.4 million from Site 16/17 and \$1.8 million from Site 3, coupled with interest earnings on all residential funds held.

Overall, corporate designated, escrowed, and OPEB funds increased approximately 85.1 million. The increase is primarily attributable to a \$98.7 million transfer from the 2003 Revenue Bond Funds into the Joint Purpose Fund in January 2009, which relates to excess revenues retained by the Authority from the fiscal year ended October 31, 2008, coupled with interest earnings and market adjustments on all funds held, approximately \$8 million. These increases were offset by a \$14.1 million transfer of funds to the City relating to the defeasance of the Housing Revenue Bonds in fiscal 2005 and a \$7.5 million transfer of corporate funds to bond resolution funds for the use of capital expenditures. Beginning May 2009, corporate designated funds were earmarked for the replenishment of capital expenses as bond proceeds were nearing extinguishment. Certain corporate funds used will be reimbursed with proceeds from the December 2009 bond issuance. Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Other assets decreased by \$375 thousand primarily due to annual depreciation offset by minor fixed asset purchases.

Liabilities

Total liabilities at October 31, 2009 and 2008 are as follows:

	<u>October 31</u>		<u>2009 vs</u>
	<u>2009</u>	<u>2008</u>	<u>2008</u>
Current liabilities:			
Accrued interest on bonds	\$ 16,732,457	18,301,915	(1,569,458)
Accounts payable and other liabilities	11,305,786	7,087,189	4,218,597
Due to the City of New York	90,537,000	92,736,000	(2,199,000)
Due to the Port Authority of NY & NJ	13,438,007	—	13,438,007
Deferred revenue	39,040,950	35,047,311	3,993,639
Security and other deposits	3,693,102	17,609,573	(13,916,471)
2003 Revenue Bonds	<u>18,430,000</u>	<u>17,945,000</u>	<u>485,000</u>
Total current liabilities	<u>193,177,302</u>	<u>188,726,988</u>	<u>4,450,314</u>
Noncurrent liabilities:			
Deferred revenue	191,144,394	184,382,843	6,761,551
Security and other deposits	19,879,295	16,442,500	3,436,795
Other Post Employment Benefits	16,032,763	14,943,967	1,088,796
Bonds outstanding:			
2003 Revenue Bonds	1,024,880,309	1,044,484,046	(19,603,737)
Unamortized loss on extinguishment	<u>(28,294,095)</u>	<u>(30,070,462)</u>	<u>1,776,367</u>
Total noncurrent liabilities	<u>1,223,642,666</u>	<u>1,230,182,894</u>	<u>(6,540,228)</u>
Total liabilities	<u>\$ 1,416,819,968</u>	<u>1,418,909,882</u>	<u>(2,089,914)</u>

The Organization's total liabilities decreased approximately \$2.1 million.

Total liabilities comprise amounts due to the City and the PANYNJ, accrued interest on bonds, deferred revenue, security and other deposits, postemployment benefits, outstanding bonds, and accounts payable and accrued expenses.

The \$2.1 million decrease in total liabilities is due to the following:

- \$1.6 million decrease in accrued interest payable on bonds from \$18.3 million at October 31, 2008 to \$16.7 million at October 31, 2009 resulting from lower interest rates paid on the Authority's variable-debt. The reset rate for failed ARS is based on a fixed percentage of 30-day LIBOR which averaged 3.3% during the fiscal year ended October 31, 2008, but averaged 0.5% during the fiscal year ended October 31, 2009.

- \$4.2 million increase in account payable and other liabilities from \$7.1 million at October 31, 2008 to \$11.3 million at October 31, 2009, which primarily relates to a PILOT credit due on the Goldman lease. The lease terms require the Authority provide Goldman with a \$6 million PILOT credit which is due and payable in the current reporting period. The \$4.6 million outstanding credit at October 31, 2009 will be applied against future PILOT payments due to the Authority. Approximately \$1.4 million of the credit as applied as of October 31, 2009. Additionally, the lease provides for interest on the outstanding credit at a rate of 7.75% to be paid by the Authority. Approximately \$328 thousand in accrued interest associated with his liability is recorded at October 31, 2009. The above increases are offset by decreases in operating and administrative, capital and payroll accruals, due o the timing of vendor payments.
- \$2.2 million decrease in amounts due to the City to \$90.5 million at October 31, 2009. The decrease relates to a decrease in the excess funds available, offset by an increase in the percentage allocable to the City year over year.
- \$13.4 million increase in amounts due to the PANYNJ relating to the Authority's agreement to pay up to \$40 million of Special Fund monies for the construction of a planned pedestrian concourse.
- \$10.7 million increase in deferred revenue from \$219.4 million at October 31, 2008 to \$230.2 million at October 31, 2009 and relates to a \$16 million lease payment received from Site 3 and an additional \$1 million accrued relating to this site. This increase is offset by revenue recognized on this and other upfront lease payments received during prior periods.
- \$10.5 million decrease in security and other deposits to \$23.6 million at October 31, 2009 relating to escrowed deposits held and remitted to the City, approximately \$14.1 million, offset by deposits received from Sites 16/17 and Site 3, \$1.4 million and \$1.8 million, respectively, and interest earnings on funds held.
- \$1.1 million increase in other post employment benefits relating to the annual normal cost incurred for current employees and interest expense, offset by actual costs for retiree benefits paid. In accordance with GASB Statement No. 45, a \$14.9 million net accrued postretirement medical benefit liability for all eligible current and retired employees was recorded at October 31, 2008. The annual required OPEB obligation is increased by normal costs for current employees and interest expense and offset by the actual cost of retiree benefits paid during the period.
- \$19.1 million decrease in bonds outstanding relating to principal paydowns of \$17.9 million on the 2003 Series A and Series C Bonds in November 2008, \$14.6 million and \$3.38 million, respectively, and a \$1.2 million decrease due to the amortization of the net bond premium. In addition, the loss on extinguishment of debt decreased \$1.8 million. The loss is being amortized over the maturity period of the retired debt.

Net Assets (Deficit)

The net deficits at October 31, 2009 and 2008 were \$255.5 million and \$302.7 million, respectively. The net assets (deficit) invested in capital assets; net of related debt was \$9.4 million and (\$280) thousand at October 31, 2009 and 2008, respectively. Although investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate these liabilities. The Organization's \$378.9 million and \$336.5 million at October 31, 2009 and 2008, respectively, of restricted net assets represents resources that are subject to various external restrictions on how they may be used. These assets are generally restricted under bond resolutions and other agreements and for debt service. The remaining balance is classified as an unrestricted deficit totaling approximately \$643.8 million resulting primarily from debt issued for noncapital purposes

totaling approximately \$580 million and upfront lease payments and deferred PILOT revenue, which are transferred to the City annually or held in the Joint Purpose Fund as restricted assets.

The overall change in total net assets from October 31, 2008 represents a positive change in the deficit position of approximately \$47.2 million to \$255.5 million at October 31, 2008.

Bonds, Notes & Refinancing

Schedule of Outstanding Bonds:

The 2003 Revenue Bonds issued in October 2003, \$1.068 billion, included \$433 million (including a net premium) of senior lien and \$635 million on junior lien debt obligations. At October 31, 2009, the Authority was responsible for debt service of \$1.044 billion of the 2003 Revenue Bonds:

<u>2003 Revenue Bonds</u>	<u>Outstanding debt</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard & Poor's (S&P)</u>
2003 Series Senior A Bonds	\$ 411,685,309	AAA	Aaa	AAA
2003 Series Junior B Bonds*	235,000,000	AAA	Aa3	AAA
2003 Series Junior C Bonds*	396,625,000	AA+	Aa3	AA+

* The junior lien debt obligations are insured and also carry underlying Fitch, S&P and Moody's ratings of AA, AA+, and Aa3, respectively.

At October 31, 2009, the 2003 Series A Bonds consist of the following serial bonds:

	<u>Coupon rates</u>	<u>Principal amounts</u>	<u>Interest</u>
Fiscal year ended October 31:			
2010	2.375 – 5.00%	\$ 12,980,000	19,317,879
2011	2.625 – 5.00	13,645,000	18,821,184
2012	3.00 – 5.50	14,375,000	18,236,211
2013	3.40 – 5.50	15,205,000	17,531,970
2014	3.50 – 5.50	16,140,000	16,735,258
2015 – 2019	3.65 – 5.25	97,335,000	69,626,585
2020 – 2024	4.00 – 5.25	128,305,000	40,528,374
2025 – 2027	4.60 – 5.00	93,795,000	7,168,347
		<u>\$ 391,780,000</u>	<u>207,965,808</u>

The Authority issued certain of the 2003 Series A Bonds at a discount and others at a premium, resulting in an overall net premium of approximately \$27 million, which is being amortized using the straight line basis over the lives of the 2003 Series A Bonds. At October 31, 2009 and 2008, the unamortized net bond premium was approximately \$19.9 million and \$21.1 million, respectively. The Authority paid \$14.57 million in principal payments in November 2008.

The 2003 Series A Bonds maturing after November 1, 2013 are subject to redemption, in whole or in part, at any time on or after November 1, 2013 at the option of the Authority, at a redemption price of par plus interest through the redemption date.

At October 31, 2009, principal and interest payments due on the 2003 Series B Bonds and the 2003 Series C Bonds are as follows:

	Junior B		Junior C		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal year ended October 31:						
2010	\$ —	1,161,207	5,450,000	1,952,447	5,450,000	3,113,654
2011	—	1,161,207	5,450,000	1,925,454	5,450,000	3,086,661
2012	—	1,161,207	5,450,000	1,898,461	5,450,000	3,059,668
2013	—	1,161,207	5,450,000	1,871,468	5,450,000	3,032,675
2014	—	1,161,207	5,450,000	1,844,475	5,450,000	3,005,682
2015 – 2019	—	5,806,035	27,250,000	8,817,481	27,250,000	14,623,516
2020 – 2024	—	5,806,035	29,725,000	8,123,030	29,725,000	13,929,065
2025 – 2029	—	5,806,035	105,825,000	6,971,121	105,825,000	12,777,156
2030 – 2034	600,000	5,804,552	206,575,000	2,382,134	207,175,000	8,186,686
2035 – 2039	191,400,000	3,501,163	—	—	191,400,000	3,501,163
2040	43,000,000	106,238	—	—	43,000,000	106,238
Total	\$ 235,000,000	32,636,093	396,625,000	35,786,071	631,625,000	68,422,164

The 2003 variable rate Junior Revenue Bonds were issued as Auction Rate Securities (ARS) and the principal and interest are insured by municipal bond insurance policies. Interest rates on these bonds are reset periodically through an auction process in the secondary market. The 2003 Series B Bonds reset on a 7-day auction cycle and the 2003 Series C Bonds reset on a 35-day auction cycle. The Authority paid \$3.375 million in principal payments on the 2003 Series C Bonds in November 2008.

Interest in the above table is based on actual auction rates closest to October 31, 2009, which were 0.488%, 0.486%, and 0.488% for the Series B1, B2, and B3 of the 2003 Series B Bonds, respectively, and 0.49%, 0.488%, 0.486%, 0.492%, and 0.488% for the Series C1, C2, C3, C4, and C5 of the 2003 Series C Bonds, respectively.

The 2003 Series B Bonds and \$100 million of the 2003 Series C Bonds are insured by Financial Security Assurance, Inc. (FSA). The remaining \$300 million of the 2003 Series C Bonds are insured by AMBAC Assurance Corporation (AMBAC).

In February 2008, auctions for the Authority's ARS in the secondary market began to fail intermittently due to insufficient investor orders to support the product. On any failed auction date, the reset rate is set at a percentage of the 30-day London Inter-Bank Offered Rate (LIBOR) based on the prevailing rating for the 2003 Series B and C Bonds. The rates applied to the 30-day LIBOR on the 2003 Series B and C Bonds are 175%, 200% or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from November 2008 through October 2009 ranged from a low of 0.486% to a high of 5.549% on the 2003 Series B Bonds and from a low of 0.486% to a high of 8.718% on the 2003 Series C Bonds. The 30day LIBOR rate dropped precipitously beginning November 2008 and remained relatively low for the remainder of the fiscal year.

On October 2, 2003, the Authority executed six interest-rate exchange agreements (Swaps) with three counterparties. The Swaps were executed in conjunction with the Authority's issuance of \$400 million of its 2003 Series C Bonds. The total notional amount of the Swaps was \$400 million. The effective date for the Swaps was October 16, 2003, which coincided with the delivery date of the Bonds. The Authority executed the Swaps in order to effectively convert the variable-rate Bonds to a net fixed rate. Based on the Swap agreements, the Authority owes interest to the Swap counterparties calculated at a fixed rate of 3.452% and paid semiannually. In return, on a monthly basis, the counterparties pay the Authority floating-rate interest equal to 65% of the 30-day LIBOR.

	2003 Series C principal	Interest rate swaps		
		Payment	Receipts	Net payment
Fiscal year ended October 31:				
2010	\$ 5,450,000	(13,597,428)	620,403	(12,977,025)
2011	5,450,000	(13,409,294)	611,760	(12,797,534)
2012	5,450,000	(13,221,160)	603,116	(12,618,044)
2013	5,450,000	(13,033,026)	594,472	(12,438,554)
2014	5,450,000	(12,844,892)	585,829	(12,259,063)
2015 – 2019	27,250,000	(61,402,450)	2,799,488	(58,602,962)
2020 – 2024	29,725,000	(56,562,315)	2,575,149	(53,987,166)
2025 – 2029	105,825,000	(48,533,826)	2,145,937	(46,387,889)
2030 – 2034	206,575,000	(16,565,717)	597,288	(15,968,429)
	<u>\$ 396,625,000</u>	<u>(249,170,108)</u>	<u>11,133,442</u>	<u>(238,036,666)</u>

The above table includes payments based on the Authority's Swap payment obligation fixed at 3.452% of bond principal outstanding while receipts are based on 65% of the 30-day LIBOR on October 31, 2009 (65% of 0.244% or 0.1586%). Receipts are projected based on the latest interest rate at October 31, 2009, but can vary monthly.

The Swaps had a negative fair market value of approximately \$50.7 million at October 31, 2009. The fair market value was provided by the Authority's financial advisor and derived from financial models based upon reasonable estimates about relevant market conditions at the time. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each Swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the Swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the Swaps.

The Authority is exposed to a limited degree of counterparty credit risk associated with the Swaps. However, each of the counterparties carries a rating in the "A" category from at least one of the nationally recognized credit rating agencies. The counterparties are required to post collateral to the extent that they experience an appreciable decline in credit rating and the Swaps have positive fair value for the Authority.

The Swaps expose the Authority to basis risk given interest payments on the 2003 Series C Bonds significantly exceed the 65% of LIBOR receipts for the fiscal year ended October 31, 2009.

Compensation Schedule
(of Employees Earning More than \$1000,000 per year)

Battery Park City Authority

Name	Title	Grade	Salary	Department
Altman, Alexandra	Executive VP/General Counsel	N/A	\$201,903	Legal
Anderson, Gwen	Director, Strategic Planning	N/A	\$109,057	Strategic Planning
Baldwin, Daniel	Senior Development Counsel	N/A	\$135,991	Legal
Cavanaugh, James	President & Chief Executive Officer	N/A	\$223,298	Executive
Druckman, Sidney	Director, Special Projects	N/A	\$106,186	Special Events
Garcia, Luis	Assistant Treasurer	N/A	\$116,291	Finance
Gelb, Stephanie	Vice President, Architecture & Design	N/A	\$120,534	Planning & Design
Harper, Steven	Vice President, Site Management	N/A	\$120,522	Site Management
Holden, Robert	V.P. Human Resources/Admin. Ops.	N/A	\$125,908	Human Resources
Jaffee, Carl	Senior Development Counsel	N/A	\$138,609	Legal
Kaplan, Susan	Director Sustainability Projects	N/A	\$118,387	Construction
Kimball, Wilson	Senior Vice President, Operations	N/A	\$138,555	Operations
Koenig, Karl	Controller	N/A	\$120,000	Finance
Miller, Lisa	Vice President, Internal Audit	N/A	\$128,984	Internal Audit
Molinski, Stan	MIS Director	N/A	\$123,900	MIS
Remauro, Leticia	V.P. Community Relations/Affirm. Action	N/A	\$133,681	Community Relations
Serpico, Robert	Senior V.P. Finance/CFO	N/A	\$179,871	Finance
Villafane, Roy	Director, Internal Audit	N/A	\$100,310	Internal Audit
Woo, Antony	Vice President, Construction	N/A	\$152,345	Construction

<u>Battery Park City Parks Conservancy</u>				
<u>Name</u>	<u>Title</u>	<u>Grade</u>	<u>Salary</u>	<u>Department</u>
Abigail Ehrlich	Director Parks Programming	N/A	\$100,008.71	Parks Programming
Eric Fleisher	Director Horticulture	N/A	\$100,016.05	Horticulture
Tessa Huxley	Executive Director	N/A	\$133,041.09	Administration
Vincent McGowan	Assistant Director	N/A	\$118,592.23	Administration
Bruno Pomponio	Director of Maintenance	N/A	\$100,507.69	Maintenance

Projects Undertaken in 2009

Revenue & Budget

- Exceeded budgeted revenue of \$210,080,000 with actual revenue of \$228,613,591.
- Under spent budget of \$33,369,000 by actually spending only \$32,600,872.

Travel spending

- Reduced actual travel spending by 32%. Governor's office directive asked for 25% reduction.
- Cut spending in FY 2010 budget by 41% over FY 2009 actual spending.

MWBE

- A total of \$5,383,008.00 was expended for the 2nd quarter.
- MBE utilization was \$932,107.00 or 17.3% for the quarter.
- WBE utilization was \$595,412.00 or 11% for the quarter.
- Total M/WBE utilization was \$1,527,519.00 or 28.3%
- A total of forty two (42) M/WBE firms were utilized.
- Twenty six (26) of these firms were MBE's. Six (6) were utilized as sub-contractors on BPCA projects.
- Sixteen (16) of these firms were WBE's. Five (5) were utilized as sub-contractors on BPCA projects.

Note: BPCA's M/WBE goals are 8% MBE and 10% WBE respectively.

Vehicle Policy

- Reviewed Governor's directive regarding the assignment of vehicles for personnel.
- Revised policy in accordance with October 15, 2009 deadline.

Operations

- Hunger Action Center opened in BPCA-provided public amenity space.
- Poet's House, (a poetry-centered public library) opened in BPCA-provided public amenity space.
- Pier A: Foundation repair completed and deck reconstruction began on \$30 million project to restore and reopen this landmarked structure.

Development/Construction

- Community Center- BPCA is constructing a 55,000 square foot community center, containing a gym, swimming pools, theater, and classroom/meeting room facilities. In 2009, in concert with the developer's progress on the building's core and shell, BPCA selected Asphalt Green as the management company for the center and began the selection process for the fit-out contractors. The center, to be located in the base of the new Millstein towers, is expected to open in 2011.

- Goldman Sachs -This new LEED Gold building is now nearing completion, and will officially open in early 2010. Goldman Sachs has begun to occupy the building, which will eventually house 11,000 Goldman Sachs employees. BPCA completed numerous site improvements and roadway reconfigurations in 2009 to accommodate the addition of this new office building. Goldman Sachs is paying a lump sum land rent of \$160 million.
- School- BPCA partnered with the School Construction Authority to build New York City's first Green School, located in Battery Park City. This K-8 school has been designed to have photo-voltaics as part of the structure, not only to generate power, but as an on-site enhancement to a curriculum that will highlight environmental issues. The school is now 50% completed and will open in September 2010.

Real Property Listing and Disposition

BPCA disposed of no real property having a value of more than \$15,000 in FY 2009. BPCA does not intend to dispose of any real property having a value of more than \$15,000 in FY 2010.

Code of Ethics

V. GUIDELINES REGARDING CONFLICTS OF INTEREST AND ETHICAL STANDARDS

As a public entity, the Authority has a responsibility for maintaining the highest level of honesty, ethical conduct, and public trust in all of its activities. To meet this responsibility, this Conflict of Interest Policy has been adopted concerning important aspects of ethical conduct.

This policy states in specific form the Authority's position on conflicts of interest. Personal integrity is the cornerstone of this policy. Each employee has the primary responsibility for avoiding financial and other interests, which create a conflict or the appearance of a conflict with his or her job.

When an employee, regardless of level or job assignment, is in a position where his or her financial interest or involvement in a transaction may present a conflict of interest or the appearance of such a conflict, the employee must immediately notify the Ethics Officer and disqualify himself or herself from participation in the transaction until advised in writing that he or she may continue to participate in the transaction.

Any person who has a question as to whether a prospective personal or business transaction, or relationship with a contractor, vendor, or consultant, may be a violation of this policy or of the Public Officers Law should consult with the Ethics Officer and may also request in writing, where appropriate, a formal or informal opinion of the State Ethics Commission.

Each State agency has an obligation under the Public Officer's Law, to appoint an Ethics Officer (the E.O.). The E.O. has numerous duties such as, providing agency personnel with opinions regarding ethical issues, the acceptance of gifts, invitations, etc. The E.O. is responsible for ensuring that all employees required to do so file their financial disclosure forms with the State Ethics Commission. The E.O. must also inform the State Ethics Commission of all new hires at the agency who are required to file financial disclosure forms. In addition to this, the E.O. reviews all applications for outside activities/employment and makes recommendations to the President/CEO about whether such activity/employment should be allowed pursuant to Ethics Commission Rules and Regulations. The E.O. is also required to report the receipt of honoraria by employees to the State Ethics Commission.

Violations of any provisions of this policy may be cause for disciplinary action up to and including termination, as well as criminal prosecution and/or fines up to (\$10,000) ten thousand dollars.

A. Application

1. Public Officers Law

The Authority guidelines, as they relate to employees, are divided into three basic categories:

- General ethical standards;
- Issues arising during the course of employment; and
- Issues arising in connection with termination of employment and post-employment activities.

The guidelines in these areas are drawn from and based on Sections 73 and 74 of the Public Officers Law. While the guidelines in some instances may go further than the underlying statutory provisions, the statute is paramount and controlling to the extent, if any, that it is more limiting or restrictive than the guidelines. In view of the strong identification of the guidelines with the statute, staff should also be aware of the possibility that in violating the guidelines, a statutory provision may be violated as well, with potentially serious consequences, because the legislation creating the Authority makes its officers and employees subject to Section 73 and 74 of the Public Officers Law. Moreover, certain employees are subject to the financial disclosure and reporting requirements of Section 73-a of the Public Officers Law. Copies of these sections of the Public Officers Law may be obtained from the Human Resources Department. Any questions that arise regarding the Public Officers Law should be addressed to the Authority's Ethics Officer.

B. Guidelines

1. Guidelines of General Application

- a. No employee should have any interest, financial or otherwise, direct or indirect, or engage in any activity, including any business transaction, professional activity or incur any obligation of any nature, which is in substantial conflict with the proper discharge of his or her duties in the public interest, whether such conflicts be real or apparent, existing or potential.
- b. Each employee should pursue a course of conduct, which will avoid encouraging the public to assume or believe that he or she is likely to engage in acts that would violate his or her trust.

2. Ethical Standards

It shall be a breach of ethical standards for any employee to:

- a. Use his or her position as an employee of the Authority to secure unwarranted privileges or exemptions for him or herself or another.
- b. Disclose, or use to further his or her personal interest or the interest of another (including, without limitation, the purchase or sale of property or securities), information acquired by him or her during the course of his or her official duties, which would not otherwise be a matter of public knowledge or information.

3. Issues During Employment

a. General Standards

In connection with any activities outside of the performance of the employee's official duties at the Authority, no outside activity whether or not for compensation (including any such activity for or before any public agency) should be undertaken nor should any employee engage in any conduct, which would:

- i. Impair or appear to impair the independent judgment of the employee in the exercise of his or her duties;
- ii. Require an allocation of an amount of time sufficient to impair the performance of the employee's obligation to the Authority;
- iii. Result in an identification of the employee's outside activities with those of the Authority;
- iv. Result in transaction as representative of the Authority with any business entity in which he or she has a direct or indirect financial interest that might reasonably tend to conflict with the proper discharge of his or her official duties;
- v. Create the impression, reasonably inferable, that any person may improperly influence him or her or unduly enjoy his or her favor in the performance of his or her official duties, or that he or she is affected by the kinship, rank position or influence of any party or person.

b. Investment Guidelines

No employee should have any:

- i. Direct or indirect financial interest which conflicts or appears to conflict with his or her responsibilities to the Authority; or

- ii. Financial interest, direct or indirect, or engage in any business or transaction or professional activity or incur any obligation of any nature, which is in substantial conflict with the proper discharge of his or her duties in the public interest.

Investments in municipal bonds or other governmental obligations, including obligations of the Federal government, the State, or any of their agencies or subdivisions, including the Authority, are permitted. Caution must be exercised in making such investments where the employee is privy to information by reason of his or her employment activities, which is not public information at the time of his or her investment, in order to avoid possible infractions of Federal Securities laws.

For the purpose of determining whether an indirect investment exists, employees are urged to disclose any financial interests or investments held by members of their families on their Financial Disclosure form, so that the facts may be analyzed to ascertain whether it is of sufficient magnitude to require preventive action.

c. Outside Employment and Activities

Employees should be aware that as a condition of their employment they are expected to devote full business time to their official responsibilities at the Authority. While outside activities are not precluded (see part 930 and part 932 of the regulations of the State Ethics Commission), employees should take care to avoid any outside employment or activity, which would:

- i. Require or induce the employee to disclose confidential information gained from Authority employment;
- ii. Involve the employee on behalf of parties who have a substantial business relationship with the Authority, or should have any business relationship with the Authority where the performance of the employee's duties directly involves him or her in such relationship;
- iii. Result in the engagement of the employee to perform regular and substantial outside consulting or professional activities, including serving as , regular teaching, any business other than a passive investment activity, or any legal practice, or result in the maintenance of any publicly-listed place of business;

- iv. Lead the public to associate the personal business or activities of the employee with the Authority, rather than the employee individually. In performing personal business activities, care should be exercised to avoid the implication of any endorsement of such activities on the part of the Authority. Authority stationery should not be used in conducting the personal affairs or business of any employee, nor should office space be used to such end.

An employee may attend and participate in political functions without violating Section 3.a. (iii) or 3.c. (iv) above provided that he or she makes a good faith effort to make it clear that he or she is doing so in his or her personal capacity and not on behalf of the Authority and mere mention of or reference to his or her affiliation or title with the Authority will not of itself constitute a violation of those sections.

d. Gifts and Outside Compensation

All employees are prohibited from accepting gifts or gratuities of more than nominal value where the circumstances would permit the inference that: (a) the gift was intended to influence the individual in the performance of official business; or (b) the gift constituted a tip, reward, or sign of appreciation for any official act by the employee. This prohibition shall apply notwithstanding Public Officers Law § 73(5), which provides that gifts up to \$75 may be allowed in certain circumstances.

e. Political Activity Policy

While Authority employees are free to participate in the political process on their own time, there must be a clear separation between political activities and the discharge of their duties as Authority employees. No Authority employee is to conduct political activities during work hours. Any political activity must be performed after normal work hours or while on vacation or personal leave. In addition, Authority equipment, vehicles and office space are to be used for official Authority business only.

f. Receipt of Honorarium

The receipt of honorarium or outside speaking fees must be approved in advance by the President and Chief Executive Officer and a fee cannot be received from an organization, which is regulated by or negotiates with Authority employees acting in their official capacity. A fee cannot be received by an Authority employee from an individual or organization, which attempts to influence Authority positions or actions. An employee receiving approvals to accept such a fee cannot also be paid by the

Authority for delivering a speech or rendering a service. Authority personnel, equipment and time cannot be used to prepare for delivery of a speech or to render a service for which an honorarium is to be received unless the honorarium is paid to the Authority. No honorarium is permitted when the Authority sends an employee as its representative to an event to make a speech or perform a service. If an employee is required to file a Financial Disclosure form under the Ethics in Government Act, he or she must disclose the receipt of honorarium in excess of \$1,000 from any source.

4. Post Authority Employment

- a. Pre-departure Negotiations – No employee, while involved in dealings with a private firm on the Authority's behalf, may discuss with representatives of that firm possible future employment with the firm, nor should employees participate in any activity on behalf of the Authority with respect to an entity with which they are negotiating or have made arrangements for post-Authority employment. All employees should immediately notify the Ethics Officer of the Authority of any understanding or arrangement for employment upon leaving the Authority as promptly as possible after such arrangement is made.
- b. Two-year Prohibition – No person who has served as an Authority officer or employee shall for a period of two years after the termination of such service or employment appear or practice before the Authority or receive compensation for any services rendered by such former officer or employee on behalf on any person, firm corporation or association in relation to any case, proceeding application, or other matter before the Authority. The only exception to this law is that former Authority employees may become employees (not consultants) to federal, state or local government entities.
- c. Lifetime Prohibition – No person who has served as an Authority officer or employee shall after the termination of such service or employment appear, practice, communicate or otherwise render services before any state agency or receive compensation for any such services rendered by such former officer or employee on behalf of any person, firm, corporation or other entity in relation to any case, proceeding, application or transaction with respect to which such person was directly concerned and in which he or she personally participated during the period of his or her services or employment, or which was under his or her active consideration.

C. Administrative Procedures

1. Administrative Responsibility

- a. Subject to the power of the President and Members ultimately to determine all matters encompassed by these guidelines and to designate any other or further officers of the Authority to administer same, the officer of the Authority responsible for administering these guidelines shall be the:

- Ethics Officer, in consultation with the General Counsel

Such officer is hereby authorized, in consultation with the General Counsel, to establish appropriate procedures to implement these guidelines, including procedures for disclosure of actual or potential problems and appropriate review of such problems by individuals designated by him or her.

- b. It is recognized that the guidelines set forth herein are, by their nature, general in scope and do not take account of the many factual circumstances which can arise and to which their application may be unclear or, in some case, inappropriate. At the same time it is also recognized that disclosure of potential conflicts or ethical problems to the Ethics Officer of the Authority and the State Ethics Commission is occurring or, at least, that their effects are limited. In view of the foregoing, it shall be the obligation of each employee to bring any circumstances believed to present a potential violation of these guidelines (including any circumstances to which the employee is unsure whether or not the guidelines apply) to the attention of the Ethics Officer and obtain the advice of the State Ethics Commission where there may be a violation of the Public Officers Law.

2. Administrative Remedies

In addition to any remedies, civil or otherwise, which the Authority may have against any employee who shall breach these guidelines, and any applicable penalties under the Public Officers Law, the Authority may impose any one or more of the following:

- a. Oral or written warnings;
- b. Suspension with or without pay for a specified period of time;
- c. Termination of employment

XLII. TELEPHONE USAGE/ USE OF STATE PROPERTY

Authority telephones may not be used for non-governmental long-distance calls except for toll-free calls, collect calls, and calls billed to a personal telephone number. Authority telephones may be used for incidental and necessary personal local calls that are of limited number and duration and do not conflict with the proper exercise of the duties of the employee. Authority employees who do not live within the five boroughs of New York City may make brief, incidental and necessary personal calls to their home area code which are of limited number and duration and do not conflict with the proper exercise of the duties of the State employee.

In addition, the Authority retains the right to, and may monitor any and all incoming or stored phone or electronic transmissions.

All employees are required to submit their most current phone/voicemail password to the Administration department, so that voicemail messages can be retrieved in the event that the employee is absent.

XLIV. COMPUTER AND E-MAIL USAGE/ USE OF STATE PROPERTY

Computers, computer files, the e-mail system, and software furnished to employees are Authority property intended for business use. Employees cannot load personal software or use outside programs, use a password, access a file, or retrieve any stored communication without authorization. To ensure compliance with this policy, computer and e-mail usage may be monitored or accessed. All Authority employees are required to submit their most current computer password(s) to the MIS unit so that computers (Authority property) can be accessed in the event that the employee is not present.

Authority computers may be used for incidental and necessary personal purposes, such as sending personal electronic mail messages, provided that such use is in a limited amount and duration and does not conflict with the proper exercise of the duties of the employee.

The Authority strives to maintain a workplace free of harassment and sensitive to the diversity of its employees. Therefore, the Authority prohibits the use of computers and the e-mail system in ways that are disruptive, offensive to others, or harmful to morale.

For example, the display or transmission of sexually explicit images, messages, and cartoons is not allowed. Other such misuse includes, but is not limited to, ethnic slurs, racial comments, off-color jokes, or anything that may be construed as harassment or showing disrespect for others.

E-mail may not be used to solicit others for commercial ventures, religious or political causes, outside organizations, or other non-business matters. E-mail must not be used to supplant the use of the phone especially in urgent or emergency situations.

The Authority purchases and licenses the use of various computer software for business purposes and does not own the copyright to this software or its related documentation. Unless authorized by the software developer and the Authority, employees do not have the right to reproduce such software for use on more than one computer.

Employees may only use software on local area networks or on multiple machines according to the software license agreement. The Authority prohibits the illegal duplication of software and its related documentation. The installation, alteration, and removal of any software without authorization is strictly prohibited. Employees should notify their immediate supervisor, the Human Resources Department or any member of management upon learning of violations of this policy. Employees who violate this policy will be subject to disciplinary action, up to and including termination of employment. Any unauthorized software will be uninstalled without prior notification. MIS resources will not be used to support any non-Authority equipment. This includes home PCs, software, printers, internet connections, PDA, etc. Consultation with MIS personnel regarding non-Authority computers matters is also prohibited.

MIS service level agreement covers Authority related computing services only during normal business hours unless in the case of mission critical outages.

LII. PROHIBITION AGAINST THE USE OF STATE PROPERTY

Battery Park City Authority supplies, equipment, computers, personnel and other resources may not be utilized for non-governmental purposes, including for personal purposes or for outside activities of any kind. This prohibition includes but is not limited to the following:

- a. Official stationery may not be used for non-governmental purposes, nor may Authority resources be used to mail personal correspondence. The designation "personal" on Authority stationary means only that the contents are meant for the personal viewing of the addressee and not that the sender is acting unofficially. All letters and other written materials printed on such official stationery are considered official, and thus the designation "unofficial" has no meaning and may not be used.
- b. Under no circumstances may Authority mail, postage, internal office mail, or inter-city couriers be used for non-governmental purposes.
- c. Authority vehicles shall be used for only official business or incidental use associated with official business away from an employee's work station. Individuals who are authorized to use an Authority vehicle for personal purposes shall keep records of such use, and the value of such personal use shall be calculated and reported as personal income to such individual for tax purposes.

LIII. PROHIBITION AGAINST NEPOTISM IN HIRING AND CONTRACTING

No employee may take part in any hiring or employment decision relating to a family member. If a hiring or employment matter arises relating to a family member, then the employee must advise his or her supervisor of the relationship, and must be recused from any and all discussions or decisions relating to the matter.

No employee may take part in any contracting decision: (i) relating to a family member; or (ii) relating any entity in which a family member is an officer, director or partner, or in which a family member owns or controls 10% or more of the stock of such entity.

If a contracting matter arises relating to a family member, then the employee must advise his or her supervisor of the relationship, and must be recused from any and all discussions or decisions relating to the matter.

For the purposes of this paragraph, the term "family member" shall mean any person living in the same household as the employee, and any person related to the employee within the third degree of consanguinity or affinity.

Assessment of Internal Controls

BPCA has a robust system of internal controls. Measures instituted to sustain the effectiveness of the internal control program during 2008-09 include: regular meetings of the Internal Control Group, e-mails to the staff about new policies, procedures and updates to the Employee handbook, Procurement Guidelines and MIS policies and procedures. The President & CEO has held regular meetings regarding Internal Controls if and when issues have come to his attention via staff. Staff is encouraged to speak with the Board, the Audit Committee, the Internal Audit Department, the Internal Control Officer or the President & CEO through an open-door policy routinely referenced in All-staff meetings and reiterated in the Employee Handbook. Staff can also leave suggestions, comments or issues anonymously in a staff suggestion box in the staff kitchen. Any writing left in the box is read by the President to the entire staff at the all-staff meeting and addressed by the appropriate department.

The annual risk assessments/reviews commenced March 31, 2009. The result of these assessments/reviews will better enable the Internal Control Group to strategically plan for short term and long term goals. Internal Audit will once again review the assessments/reviews and develop its auditing plan for presentation to the audit committee based on a mix of high-dollar value contracts, compliance, regulatory requirements, Executive Orders, requests from the Board, Audit Committee or staff, and follow-up audits.

The President & CEO regularly (monthly) communicates with the staff at All-staff meetings in which he raises new issues, including internal control issues, that have arisen since the previous meeting. After each Internal Control Group meeting, a list of recommendations is presented to the President for approval before being sent out via e-mail to the entire staff to put them on notice. Issues of compliance are posted by Human Resources on the Authority bulletin board. New internal control policies are also included by Human Resources in the Employee Handbook and MIS policies and procedures manual. New employees must read and attest to reviewing both documents: The Employee Handbook is read and signed by every staff member on an annual basis. Audit Committee and regular Board meetings, in which new policies and procedures are discussed and adopted (Procurement Guidelines) are broadcast in compliance with Executive Order 3 and the Open Meetings Law. All material is available either on the employee intranet or on the Authority's public website.

An Authority-wide review of job descriptions occurred. Every staff member was asked to review, update and edit their job descriptions by Operations and Human Resources, which clarified controls needed for basic Authority work functions.

Legal, Internal Audit, Finance and the Internal Control Officer extensively reviewed the Procurement Guidelines before their annual presentation to the Board in February 2009. The document was largely reorganized to make it clearer and more concise.

Managerial policies and procedures for the performance of specific functions are articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. All employees are provided with, and have access to, applicable policies and procedures for their position.

The ICO works with appropriate personnel within the agency or authority to coordinate the internal control activities and to help ensure that the internal control program meets the requirements established by BPRM Item B-350. Although the ICO evaluates the adequacy of

the internal control reviews performed by agency or authority staff, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and analyzing and improving control systems. The ICO acts on behalf of the agency head in implementing and reviewing the agency's internal control program. With a broad knowledge of agency operations, personnel and policy objectives at BPCA, the Senior Vice President of Operations serves as the Authority's Internal Control Officer ("ICO").

The ICO works with the Contract Selection Committee to prepare documents for the review of the voting members (Finance, Affirmative Action, Human Resources, and Legal). The ICO also prepares the annual Procurement Guidelines for adoption by the Board in February and is a voting member of the Internal Control Group. The ICO works with Internal Audit to oversee the annual risk assessments/reviews and with Human Resources and MIS to update internal control issues in the Employee Handbook and MIS Policy and Procedure manual. At the direction of the President & CEO, the ICO conducts assessments of internal control issues that have been brought to the President & CEO's attention; in many instances reporting to the President via memo with recommendations for improvements of the Authority's internal controls if needed. The ICO also reports changes to internal controls and the work of the ICG to the Audit Committee.