

NEW ISSUE

In the opinion of Bond Counsel, assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds will not be includable in the gross income of the owners thereof for Federal income tax purposes. See "Tax Exemption" herein for certain provisions of the Code that may affect the tax treatment of interest on the Bonds for certain Bondholders. Interest on the Bonds will be exempt from personal income taxes imposed by the State of New York or any political subdivision thereof, including the City.

\$250,000,000

The City of New York

General Obligation Bonds

Fiscal 1990 Series F

Dated: Date of Delivery

Due: August 1, as shown below

The Bonds will be issued as registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. Interest will be payable semi-annually, beginning August 1, 1990 and on each February 1 and August 1 thereafter. See "Book-Entry Only System". The Bonds will be subject to redemption prior to maturity as described herein.

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1991	\$14,000,000	6 %	100%	2006	\$4,000,000	7½%	7.65%
1992	14,000,000	6.20	100	2007	5,000,000	7½	7.65
1993	21,000,000	6.40	100	2008	6,000,000	7½	7.65
1994	21,000,000	6.60	100	2009	6,000,000	7½	7.70
1995	12,800,000	6.80	100	2010	4,000,000	7½	7.70
1996	12,800,000	6.90	7.00	2011	4,000,000	7½	7.70
1997	16,000,000	7	7.10	2012	4,000,000	7½	7.70
1998	19,200,000	7⅞	7.20	2013	4,000,000	7½	7.70
1999	19,200,000	6.70	100*	2014	4,000,000	6	7.15*
2000	4,800,000	7⅞	7.40	2015	4,000,000	6	7.15*
2001	4,800,000	7⅞	7.50	2016	4,000,000	6	7.15*
2002	6,000,000	7½	7.55	2017	5,000,000	6	7.15*
2003	7,200,000	7½	7.60	2018	6,000,000	6	7.15*
2004	7,200,000	7½	7.60	2019	6,000,000	6	7.15*
2005	4,000,000	7½	7.65				

* Insured by Financial Guaranty Insurance Company

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the original purchasers, subject to the approval of the legality of the Bonds by Brown & Wood, New York, New York, Bond Counsel to the City, and subject to certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the City by Lord Day & Lord, Barrett Smith, New York, New York. It is expected that the Bonds will be available for delivery in New York, New York, on or about February 23, 1990.

Smith Barney, Harris Upham & Co.
Incorporated

Dean Witter Reynolds Inc.

Prudential-Bache Capital Funding

February 14, 1990

No dealer, broker, salesperson or other person has been authorized by the City or the original purchasers to give any information or to make any representations in connection with the Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the original purchasers. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The original purchasers may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the Cover Page hereof. The offering prices may be changed from time to time by the original purchasers.

The factors affecting the City's financial condition are complex. This Official Statement should be considered in its entirety and no one factor considered less important than any other by reason of its position herein. Where agreements, reports or other documents are referred to herein, reference should be made to such agreements, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

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IN CONNECTION WITH THEIR REOFFERING OF THE BONDS THE ORIGINAL PURCHASERS OF THE BONDS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

**OFFICIAL STATEMENT
OF
THE CITY OF NEW YORK**

This Official Statement provides certain information concerning The City of New York (the "City") in connection with the sale of \$250,000,000 aggregate principal amount of the City's General Obligation Bonds, Fiscal 1990 Series F (the "Bonds") to be issued to the original purchasers.

INTRODUCTORY STATEMENT

The Bonds will be general obligations of the City, for the payment of which the City will pledge its faith and credit. The proceeds from the sale of the Bonds will be used to finance capital projects of the City to be issued to the original purchasers.

The City, with a population of approximately 7 million, has a highly diversified economic base. It is a major seaport, a center for international business, a world center for culture and the arts and an important tourist center. For further information regarding the City's economic base, see "APPENDIX A—ECONOMIC AND SOCIAL FACTORS" and "1990-1993 FINANCIAL PLAN—Assumptions—*Revenues*—1. General Economic Conditions".

For nine consecutive years, the City has achieved balanced operating results when reported in accordance with generally accepted accounting principles ("GAAP"). Pursuant to the laws of the State of New York (the "State"), the City annually prepares a four-year financial plan, which is reviewed on a quarterly basis. Such plans include the City's capital plan which provides for reconstruction and rehabilitation of the City's infrastructure and investment in capital projects to improve the City's operations and to reduce its operating costs. The requirement to submit four-year financial plans and budgets for review and, under certain adverse financial circumstances, approval to various oversight bodies, including the New York State Financial Control Board (the "Control Board"), were in response to the severe financial difficulties and loss of access to the credit markets encountered by the City in 1975. In addition, the Municipal Assistance Corporation for The City of New York ("MAC") was organized in 1975 to provide financing assistance for the City and also to exercise certain oversight and review functions with respect to the City's finances. For additional information regarding State laws which provide for oversight of the City's financial and management practices, see "FINANCIAL EMERGENCY ACT". A loss of market access for City notes and bonds would severely impair the City's ability to pay for its current operations as well as its ongoing capital program. For further information regarding the City's current long-term financing program and capital plan, see "1990-1993 FINANCIAL PLAN—Long-Term Capital and Financing Program".

On February 7, 1990, the City submitted to the Control Board a modification, reflecting results through December 31, 1989, to its four-year financial plan covering the City's 1990 through 1993 fiscal years. Those portions of the financial plan as so modified, relating to the City, the Board of Education ("BOE") and the City University of New York ("CUNY"), are referred to herein as the "1990-1993 Financial Plan" or the "Financial Plan". The 1990-1993 Financial Plan projects revenues and expenditures for the 1990 fiscal year balanced in accordance with GAAP and potential budget gaps for the three subsequent fiscal years before implementation of gap-closing programs. The 1990-1993 Financial Plan reflects substantial reductions in forecast revenues and increases in forecast expenditures since the Financial Plan submitted to the Control Board on July 12, 1989. Such revenue reductions and expenditure increases would have caused a gap of \$1.1 billion in the 1990 fiscal year and \$1.6 billion in the 1991 fiscal year if the City had not initiated the actions described below to balance its budget. The potential gap for the 1990 fiscal year resulted primarily from a reduction of \$626 million in forecast tax revenues and a loss of \$247 million caused by a one year delay in the anticipated sale of the New York City Coliseum site. The potential gap for the 1991 fiscal year resulted primarily from a reduction of \$866 million in forecast tax revenues resulting from a slowing of the regional economy and a net increase in forecast expenditures.

In October and December 1989, the City took actions to maintain a balanced budget for the 1990 fiscal year, including a reduction of \$303 million in expenditures for City services, reduced debt service costs of \$162 million resulting from refunding of certain outstanding City debt, and elimination of an existing subsidy to the water and sewer system of \$102 million, which required an increase in water and sewer rates. The Financial Plan sets forth a program of additional revenue increases and expenditure reductions to restore balance in the 1990 fiscal year and achieve balance in 1991, after implementation of 1991 gap-closing actions. These include for the 1990 fiscal year a reduction of \$63 million in expenditures for City services, productivity savings of \$32 million and \$200 million of revenues to be made available to the City as a result of the sale of bonds by the Battery Park City Authority ("Battery Park City") and a proposed debt refinancing by the New York State Housing Finance Agency (the "HFA"). The sale of bonds by Battery Park City is subject to the approval of the State legislature, and completion of the proposed HFA refinancing is subject to certain governmental approvals. The projected revenue increases and expenditure reductions set forth in the Financial Plan for the 1991 fiscal year include a reduction of \$163 million in expenditures for City services, productivity savings of \$140 million, reduced debt service costs of \$100 million resulting from refunding of certain outstanding City debt, receipt of \$550 million as a result of tax increases, including increases in the real property tax, personal income tax and gasoline tax and \$65 million of reduced mandated expenditures. Authority to levy increased taxes requires action by the State legislature and City Council except for real property taxes which require approval only of the City Council. The Financial Plan sets forth contingency programs to further reduce expenditures for City services by \$150 million in each of the 1990 and 1991 fiscal years if any of the projected revenue increases or expenditure reductions for the 1990 and 1991 fiscal years are not realized. In addition, based on the City's actual revenue collections and expenditures and amounts forecast for the balance of the 1990 fiscal year, the City may require additional seasonal financing in the public credit markets prior to the end of the 1990 fiscal year.

The Financial Plan provides a reserve for an annual 1.5% wage increase in the 1991, 1992 and 1993 fiscal years for all employees. The City estimates that each additional 1% increase in the wage assumption would result in additional expenditures of \$108 million in the first year of the increase and \$133 million, including pension costs, in each year thereafter. For further information regarding the City's labor relations, see "CITY SERVICES AND EXPENDITURES—Employees and Labor Relations" and "1990-1993 FINANCIAL PLAN—Assumptions—*Expenditures*— 1. PERSONAL SERVICE COSTS".

On January 16, 1990, the Governor released his Executive Budget for the State's 1991 fiscal year, which included the third quarterly revision to the 1989-1990 State Financial Plan. For the 1990 fiscal year, the State reported a potential budget deficit of \$700 million, caused primarily by a reduction of \$694 million in estimated tax receipts as compared to the second quarterly revision to the 1989-1990 State financial plan submitted on November 2, 1989. The State expects to close this deficit by issuing \$350 million in short-term notes and using \$350 million in available funds not required to support current governmental operations, including surplus balances in various special revenue funds. The State Executive Budget for 1991 contains both increases in certain revenues, including a proposed continuation of personal income tax rates at current levels, in lieu of a scheduled reduction in such rates, and proposed tax increases, as well as reductions in spending as compared to previous projections. On February 12, 1990, the State announced that tax receipts for the 1990 fiscal year would be \$315 million below the amount forecast by the Executive Budget due to lower than expected receipts from estimated personal income tax payments and business taxes based on January 1990 collections, which might require the State to take further steps to close the budget imbalance for fiscal 1990. These steps could include issuing an additional \$315 million in short-term notes. The State also announced a potential negative budgetary impact of \$565 million in fiscal year 1991 compared to the Executive Budget as issued on January 16, 1990, comprised of \$315 million of receipts to be impounded to repay any additional short-term notes that may be issued in fiscal year 1990 and \$250 million in lower estimated tax receipts for fiscal year 1991. The State has indicated its intention to develop a plan to reduce expenditures for fiscal year 1991 by \$565 million in order to maintain a balanced budget, which may include reductions in State aid to the City. The State has also reported uncertainty concerning projected tax receipts for the remainder of the 1990 fiscal year and for fiscal

year 1991. Further significant reductions in projected State revenues could have an adverse impact on the timing and amounts of State aid payments to the City in the future.

The decrease in forecast revenues reflected in the Financial Plan, and the City's programs of revenue increases and expenditure reductions in response thereto, are substantially larger than in recent years. In order to maintain budget balance in the 1990 fiscal year, the City is assuming that the State legislature will approve the proposed sale of bonds by Battery Park City, that the required governmental approvals for the completion of the proposed HFA refinancing will be obtained and that the sale of such bonds and the proposed HFA refinancing will be completed in the 1990 fiscal year. In addition, the 1990-1993 Financial Plan is based on numerous assumptions and is subject to various other contingencies and uncertainties relating to, among other factors, the strength of the local and national economies, including projected slow economic growth without a national recession in 1990, the effect of the October 1987 stock market crash and declines in employment in the financial services industry since 1987, the amount of State and Federal aid to be received by the City, the impact of any future State revenue shortfalls on the amount and timing of State aid payments to be received by the City, the impact of Federal tax changes, the receipt in the City's 1991 fiscal year of the anticipated proceeds from the sale of the New York City Coliseum site and legislative approval of the proposed tax increases. For information regarding litigation challenging the sale of the New York City Coliseum site and the impact on the resources anticipated from the sale, see "1990-1993 FINANCIAL PLAN—Assumptions" and "LITIGATION—Miscellaneous—Item 2". Although the City has closed substantial gaps in prior fiscal years and has maintained balanced budgets since 1981, there can be no assurance that the City will continue to maintain a balanced budget without additional State aid or without additional tax or other revenue increases or reductions in City services, which could adversely affect the City's economic base. For further information regarding the 1990-1993 Financial Plan and a discussion of various assumptions, contingencies and uncertainties with respect thereto, see "1990-1993 FINANCIAL PLAN".

The factors affecting the City's financial condition and the Bonds are described throughout this Official Statement. Inasmuch as these factors are complex, this Introductory Statement should be regarded as a brief overview and this Official Statement should be read in its entirety.

THE BONDS

The Bonds will be general obligations of the City issued pursuant to the Constitution and laws of the State and the New York City Charter (the "City Charter"). The Bonds will mature and bear interest as described on the cover page of this Official Statement and will contain a pledge of the City's faith and credit for the payment of the principal of, redemption premium, if any, and interest on the Bonds. All real property subject to taxation by the City will be subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, to pay the principal of, redemption premium, if any, and interest on the Bonds.

The Bonds will be defeasible prior to maturity by the deposit in trust with a bank or trust company of sufficient cash or cash equivalents to pay when due all principal of, applicable redemption premium, if any, and interest on the Bonds to be defeased.

Optional Redemption

The Bonds will be subject to redemption prior to maturity at the option of the City on or after August 1, 1998, in whole or in part, by lot within each maturity, on any interest payment date, at the following redemption prices plus accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price as Percentage of Par</u>
August 1, 1998 and February 1, 1999	101 ½%
August 1, 1999 and February 1, 2000	100¾
August 1, 2000 and thereafter	100

The City may select amounts and maturities of Bonds for redemption in its sole discretion.

Certain Covenants and Agreements

The City will covenant that: (i) a separate fund or funds for the purpose of paying principal of and interest on bonds and interest on notes of the City (including required payments into, but not from, City sinking funds) shall be maintained by an officer or agency of the State or by a bank or trust company; and (ii) not later than the last day of each month, there shall be on deposit in a separate fund or funds an amount sufficient to pay principal of and interest on bonds and interest on notes of the City due and payable in the next succeeding month (the "City Covenants"). The City uses the debt service payment mechanism described below to perform these covenants.

The State pledges and agrees in the New York State Financial Emergency Act for the City of New York (the "Financial Emergency Act" or the "Act") that the State will not take any action that will impair the power of the City to comply with the City Covenants or any right or remedy of any owner of the Bonds to enforce the City Covenants (the "State Pledge and Agreement"). The City will include in the Bonds the covenant of the State (the "State Covenant") to the effect, among other things, that the State will not substantially impair the authority of the Control Board in specified respects to be the independent monitor of the fiscal affairs of the City. In the opinion of Bond Counsel, the enforceability of the City Covenants, the State Pledge and Agreement and the State Covenant may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of the State's police powers and of judicial discretion in appropriate cases.

Payment Mechanism

Pursuant to the Financial Emergency Act, a general debt service fund (the "General Debt Service Fund" or the "Fund") has been established for City bonds and certain City notes. Pursuant to the Act, payments of the City real estate tax must be deposited upon receipt in the Fund, and retained under a statutory formula, for the payment of debt service (with exceptions for debt service, such as principal of seasonal borrowings, that is set aside under other procedures). The statutory formula may not necessarily result in retention of sufficient real estate taxes to comply with the City Covenants, particularly because most real estate taxes are now due on different dates from those in effect when the formula was adopted. The City will comply with the City Covenants either by providing for retention of real estate taxes in excess of the statutory requirements or by making payments into the Fund from other cash resources. The principal of and interest on the Bonds will be paid from the Fund until the Act expires on July 1, 2008. Subsequently, principal and interest on the Bonds will be paid from a separate fund or funds maintained in accordance with the City Covenants.

If the Control Board determines that retentions in the Fund are likely to be insufficient to provide for the debt service payable therefrom, it must require that additional real estate tax revenues be retained or other cash resources of the City be paid into the Fund. In addition, the Control Board is required to take such action as it determines to be necessary so that the money in the Fund is adequate to meet debt service requirements. Since its inception, the Fund has been fully funded at the beginning of each payment period.

The rights of the owners of Bonds to receive interest, principal payments and redemption premium, if any, from the City could be adversely affected by a restructuring of the City's debt under Chapter 9 of the Federal Bankruptcy Code. No assurance can be given that any priority of holders of City securities (including the Bonds) to payment from money retained in the Fund or from other cash resources would be recognized if a petition were filed by or on behalf of the City under the Federal Bankruptcy Code or pursuant to other subsequently enacted laws relating to creditors' rights; such money might, under such circumstances, be available for the payment of all City creditors generally. Judicial enforcement of the City's obligation to make payments into the Fund, of the obligation to retain certain money in the Fund, of the rights of holders of bonds and notes of the City to money in the Fund, of the obligations of the City under the City Covenants and of the State under the State Pledge and Agreement and the State Covenant may be within the discretion of a court. For further

information concerning certain rights of owners of Bonds against the City, see “INDEBTEDNESS—City Indebtedness”.

BOND INSURANCE

The following information pertaining to Financial Guaranty Insurance Company (“Financial Guaranty”) has been supplied by Financial Guaranty. The City makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the dates indicated. Summaries of or references to the insurance policy to be issued by Financial Guaranty are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all of such provisions. See “APPENDIX C—SPECIMEN INSURANCE POLICY”.

Financial Guaranty Insured Bonds

Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy (the “Financial Guaranty Policy”) for the Bonds maturing on August 1 in 1999 and in each of the years 2014 through 2019, inclusive (the “Financial Guaranty Insured Bonds”). The Financial Guaranty Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Financial Guaranty Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the City. Financial Guaranty will make such payments to Citibank, N.A., or its successor as its agent (the “Insurer’s Fiscal Agent”), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Financial Guaranty Insured Bonds or the City’s Fiscal Agent of the nonpayment of such amount by the City. The Insurer’s Fiscal Agent will disburse such amount due on any Financial Guaranty Insured Bond to its owner upon receipt by the Insurer’s Fiscal Agent of evidence satisfactory to the Insurer’s Fiscal Agent of the owner’s right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner’s rights to payment of such principal and interest shall be vested in Financial Guaranty. The term “nonpayment” in respect of a Financial Guaranty Insured Bond includes any payment of principal or interest made to an owner of a Financial Guaranty Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Financial Guaranty Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Financial Guaranty Insured Bonds. The Financial Guaranty Policy covers failure to pay principal of the Financial Guaranty Insured Bonds on their respective stated maturity dates, and not on any other date on which the Financial Guaranty Insured Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. Reference is made to Appendix C for a specimen of the Financial Guaranty Policy.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the “Corporation”), a Delaware holding company. The Corporation is a wholly-owned subsidiary of General Electric Capital Corporation (“GECC”). Neither the Corporation nor GECC is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of September 30, 1989, the total capital and surplus of Financial Guaranty was approximately \$421,408,000. Copies of Financial Guaranty’s financial statements, prepared on the basis of statutory accounting principles, and the Corporation’s financial statements, prepared on the basis of generally accepted accounting principles, may be obtained by writing to Financial Guaranty at 175 Water Street, New York, New York 10038, Attention: Communications Department. Financial Guaranty’s telephone number is (212) 607-3000.

Bonds insured to maturity by Financial Guaranty are rated "AAA" by Standard & Poor's Corporation and "Aaa" by Moody's Investors Service.

USE OF PROCEEDS

The proceeds from the sale of the Bonds will be used for various capital projects of the City. For further information concerning the City's capital projects, see "1990-1993 FINANCIAL PLAN—Long-Term Capital and Financing Program".

Certain expenses of the City incurred in connection with the issuance and sale of the Bonds are included in the above purposes.

GOVERNMENT

The City of New York is divided into five counties, which correspond to its five boroughs. The City, however, is the only unit of local government within its territorial jurisdiction with authority to levy and collect taxes, and is the unit of local government primarily responsible for service delivery. On December 15, 1989, the Governor signed into law a bill enacted by the New York State Legislature providing for a November 1990 referendum of the voters of Staten Island on the question of whether Staten Island should secede from the City of New York to become a separate City of Staten Island, creation of a charter commission if the vote is in the affirmative to draft a charter for a City of Staten Island, and a subsequent referendum of the voters of Staten Island in 1993 as to whether the proposed charter should be approved. For a description of certain litigation challenging such legislation, see "LITIGATION—Miscellaneous—Item 11".

Responsibility for governing the City is currently vested by the City Charter in the Mayor, the City Comptroller, the Board of Estimate, the City Council and the President of the Council. On November 7, 1989, the voters of the City approved amendments to the City Charter designed to restructure the City's government.

- The Mayor.* David N. Dinkins, the Mayor of the City, took office on January 1, 1990. The Mayor is elected in a general election for a four-year term and is the chief executive officer of the City. The Mayor has the power to appoint the administrators and commissioners of the City's various administrations and departments. The Mayor is responsible for preparing and administering the City's annual expense and capital budgets (as defined below) and financial plan. The Mayor has the power to veto local laws enacted by the City Council, but such a veto may be overridden by a two-thirds vote of the Council. The Mayor possesses all residual powers of the City government not otherwise delegated by law to some other public official or body. The Mayor is also a member of the Control Board. Under the amended Charter, the Mayor will be given new powers and responsibilities relating to land use and City contracts.
- The City Comptroller.* Elizabeth Holtzman, the Comptroller of the City, took office on January 1, 1990. The City Comptroller is elected in a general election for a four-year term and is the chief fiscal officer of the City. The City Comptroller has extensive investigative and audit powers and responsibilities which include keeping the financial books and records of the City. The City Comptroller's audit responsibilities include a program of performance audits of City agencies in connection with the City's management, planning and control of operations. In addition, the City Comptroller is required to evaluate the Mayor's budget, including the assumptions and methodology used in the budget. The City Comptroller is also a member of the Control Board and is the custodian and the delegated investment manager of the City's five pension systems.
- The City Council.* The City Council is the legislative body of the City and consists of the President of the Council and 35 members elected for four-year terms who represent various geographic districts of the City. Under the Charter, the City Council must annually adopt a resolution fixing the amount of the real estate tax and approve the City's capital and expense budgets. The City Council does not, however, have the power to enact local laws imposing other taxes, unless such taxes have been authorized by State legislation. Under the Charter amendments, the City Council has been given substantial new powers and responsibilities relating to budget adoptions and will be given substantial new powers and responsibilities relating to land use and franchises. In 1991, pursuant to the amended Charter, City Council membership will be increased to 51.
- The President of the Council.* Andrew J. Stein, the President of the Council, took office on January 1, 1986, and was re-elected to a second term which commenced on January 1, 1990. The President of the Council is elected in a general election for a four-year term. The President of the Council may preside at meetings of the City Council without voting power, except in the case of a tie vote. The President of the Council is first in the line of succession to the Mayor in the event of the death or disability of the Mayor or a vacancy otherwise occurring in the office. Under the Charter amendments, the President of the Council will appoint a member of the City Planning Commission and have various responsibilities relating to, among other things, monitoring the activities of City agencies, the investigation and resolution of certain complaints made by members of the public concerning City agencies and ensuring appropriate public access to government information and meetings.

—*The Board of Estimate.* Eight elected officials, consisting of the Mayor, the City Comptroller and the President of the Council (each of whom has two votes) and the five borough presidents (each of whom has one vote), comprise the Board of Estimate. The Board of Estimate has authority to approve zoning changes and other land use actions, grant leases and franchises for the use of City property and approve certain other transactions and contracts entered into by the City. Under the transition timetable set forth in the amended Charter, the Board of Estimate's powers and responsibilities with respect to budget adoption, land use, franchises and contracts will be distributed among the Mayor, the City Council and others over the course of 1990.

CITY FINANCIAL MANAGEMENT, BUDGETING AND CONTROLS

The Mayor is responsible under the City Charter for preparing the City's annual expense and capital budgets (as adopted, the "Expense Budget" and the "Capital Budget", respectively, and collectively, the "Budgets"). The Expense Budget covers the City's annual operating expenditures for municipal services, while the Capital Budget covers expenditures for capital projects, as defined in the City Charter. Operations under the Expense Budget must reflect the aggregate expenditure limitations contained in financial plans. Effective January 1, 1990, the City Council is responsible for adopting an Expense Budget and a Capital Budget. The Mayor has the power to veto any increase or addition to the budget approved by the City Council. The City Council, acting by a two-thirds vote, may override any Mayoral veto.

The City, through the Mayor's Office of Management and Budget ("OMB") and the Office of the Comptroller, has developed and implemented sophisticated accounting, reporting, forecasting and internal control systems. The City believes that these financial systems, among other factors, have contributed materially to its improved financial performance.

OMB, with a staff of 300 professionals, is the Mayor's primary advisory group on fiscal issues and is also responsible for the preparation, monitoring and control of the City's expense, revenue and capital budgets and four-year financial plan. The Office of the Comptroller, with a professional staff of approximately 630, establishes the City's accounting and financial reporting practices and internal control procedures, evaluates all aspects of City operations, including the four-year financial plan projections, and reports on the City's fiscal status to the public.

The Comprehensive Annual Financial Report of the Comptroller for the 1988 fiscal year, which includes, among other things, the City's financial statements for the 1988 fiscal year, has received the Government Finance Officers Association (the "GFOA") award of the Certificate of Achievement for Excellence in Financial Reporting for the tenth consecutive year. The Mayor's Executive Budget for each of the 1986 through 1989 fiscal years received the GFOA Award for Distinguished Budget Presentation.

Financial Reporting and Control Systems

Both OMB and the Office of the Comptroller utilize financial monitoring, reporting and control systems, including the Integrated Financial Management System and a comprehensive Capital Projects Information System, which provide comprehensive current and historical information regarding the City's financial condition. This information, which is independently evaluated by each office, provides a basis for City action required to maintain a balanced budget and continued financial stability.

The City's operating results and forecasts are analyzed, reviewed and reported on by OMB and by the Office of the Comptroller as part of the City's overall system of internal control. Internal control systems are reviewed regularly and the City Comptroller requires an annual report on internal control and accountability from each agency. Comprehensive service level and productivity targets are formulated and monitored for each agency by the Mayor's Office of Operations and reported publicly in a semiannual management report.

The City has developed and utilizes a cash forecasting system which forecasts its daily cash balances. This enables the City to predict more accurately its short-term borrowing needs and maximize its return on the investment of available cash balances. Monthly statements of operating revenues and expenditures, capital revenues and expenditures and cash flow are reported after each month's end, and major variances from the financial plan are identified and explained.

In October 1989, the City completed an inventory of the major portion of its assets and asset systems which have a replacement cost of \$10 million or more and a useful life of at least ten years, as

required by the City Charter. The City is in the process of assessing the condition and preparing a maintenance schedule for the inventoried assets which it expects to complete by October 1990 as required by the City Charter.

Budget and Financial Plan

State law requires the City to maintain its Expense Budget balanced when reported in accordance with GAAP. In addition to the City's annual Expense and Capital Budgets, the City prepares a four-year financial plan which encompasses the City's revenue, expenditure, cash flow and capital projections. Effective July 1, 1988, all Covered Organizations, as hereinafter defined, are also required to maintain GAAP balanced budgets.

To assist in achieving the goals of the financial plan and budget, the City reviews its financial plan periodically and, if necessary, prepares modifications to incorporate actual results and revisions to projections and assumptions to reflect current information. The City's revenue projections are continually reviewed and periodically updated with the benefit of discussions with a panel of private economists analyzing the effects of changes in economic indicators on City revenues and information from various economic forecasting services. The City conforms aggregate expenditures to the limitations contained in the financial plan.

Financial Control Board Oversight

The Control Board, with MAC and the State Deputy Comptroller for The City of New York (the "State Deputy Comptroller"), who is appointed by the Comptroller of the State of New York (the "State Comptroller"), reviews and monitors revenues and expenditures of the City and certain State governmental agencies, public authorities or public benefit corporations ("PBCs") which receive or may receive monies from the City directly, indirectly or contingently (the "Covered Organizations"). The BOE, the New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, the "Transit Authority"), the Health and Hospitals Corporation ("HHC") and the New York City Housing Authority (the "Housing Authority") are examples of Covered Organizations.

The Control Board is required to: (i) review the four-year financial plan of the City and of the Covered Organizations and modifications thereto; (ii) review the operations of the City and the Covered Organizations, including their compliance with the financial plan; and (iii) review long-term and short-term borrowings and certain contracts, including collective bargaining agreements, of the City and the Covered Organizations. The Control Board must reexamine the financial plan on at least a quarterly basis to determine its conformance to statutory standards. If the City were to experience certain adverse financial circumstances the Control Board would resume powers of prior approval of City financial plans, proposed borrowings and certain contracts. For further information regarding the Control Board and the requirements of the Financial Emergency Act, see "FINANCIAL EMERGENCY ACT".

FINANCIAL INFORMATION

Since 1978, the City's financial statements have been audited by independent certified public accountants and presented in accordance with GAAP. The City's General Purpose Financial Statements and the auditors' opinion thereon are presented on pages F-1 through F-50. Further details are set forth in the Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 1989, which is available for inspection at the Office of the Comptroller. For a summary of the City's significant accounting policies, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Note A". Except as otherwise indicated, all of the financial data relating to the City's operations contained in this Official Statement, although derived from the City's books and records, are unaudited. In addition, the City's independent certified public accountants have not compiled or examined, or applied agreed upon procedures to, the forecast of 1990 results or the Financial Plan.

The 1990-1993 Financial Plan has been prepared in accordance with GAAP. The estimates and projections contained in the 1990-1993 Financial Plan and elsewhere in this Official Statement are based on, among other factors, evaluations of historical revenue and expenditure data, analyses of economic trends and current and anticipated Federal and State legislation affecting the City's finances. The City's financial projections are subject to certain contingencies and periodic revision which may involve substantial change. Consequently, the City makes no representation or warranty that these estimates and projections will be realized. Certain agencies have issued reports commenting on the City's Financial Plan which discuss, among other things, the possibility that the City may be underestimating or overestimating various revenues and/or expenditures. See "1990-1993 FINANCIAL PLAN—Assumptions—*Certain Reports*".

1985-1989 STATEMENT OF OPERATIONS

The following table sets forth the City's results of operations for its 1985 through 1989 fiscal years reported in accordance with GAAP. The information has been derived from the City's audited financial statements and should be read in conjunction with the notes accompanying this table and the City's 1988 and 1989 financial statements and notes thereto included in the section "FINANCIAL STATEMENTS". The 1985 through 1987 financial statements are not separately presented in this Official Statement. For further information regarding the City's revenues and expenditures, see "SOURCES OF CITY REVENUES" and "CITY SERVICES AND EXPENDITURES".

	Fiscal Year(1)				
	1985	1986	1987	1988	1989
	(In Millions)				
Revenues and Transfers					
Real Estate Tax	\$ 4,226	\$ 4,600	\$ 4,976	\$ 5,382	\$ 5,943
Other Taxes(2)	6,357	6,637	7,749	7,944	8,454
Miscellaneous Revenues	1,401	1,550	1,647	1,701	2,070
Unrestricted Federal and State Aid	942	899	677	653	713
Federal Categorical Grants	2,489	2,605	2,399	2,464	2,611
State Categorical Grants	3,413	3,736	3,972	4,292	4,716
Less: Disallowances Against Categorical Grants	(20)	(7)	(30)	(10)	(18)
Total Revenues and Transfers.....	18,808	20,020	21,390	22,426	24,489
Expenditures and Transfers					
Social Services	4,493	4,853	4,916	5,015	5,355
Board of Education	4,005	4,391	4,802	5,285	5,786
City University	217	225	243	259	266
Public Safety and Judicial	2,166	2,357	2,632	2,920	3,174
Health Services	958	1,010	1,260	971	1,337
Pensions	1,538	1,650	1,675	1,753	1,742
Debt Service(2)	1,332	1,241	1,249	1,224	1,324
MAC Debt Service Funding(2)	570	235	550	428	515
All Other	3,517	4,051	4,055	4,561	4,984
Total Expenditures and Transfers.....	18,796	20,013	21,382	22,416	24,483
Surplus.....	\$ 12	\$ 7	\$ 8	\$ 10	\$ 6

(1) The City's results of operations refer to the City's General Fund revenues and transfers reduced by expenditures and transfers. The revenues and assets of Public Benefit Corporations (the "PBCs") included in the City's audited financial statements do not constitute revenues and assets of the City's General Fund, and, accordingly, the revenues of such PBCs, other than net New York City Off-Track Betting Corporation ("OTB") revenues, are not included in the City's results of operations. Expenditures required to be made by the City with respect to such PBCs are included in the City's results of operations. For further information regarding the particular PBCs included in the City's financial statements, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Note A".

(2) Revenues include amounts paid and expected to be paid to MAC by the State from sales tax receipts, stock transfer tax receipts and State per capita aid otherwise payable by the State to the City. Pursuant to State statute, these revenues flow directly from the State to MAC, and flow to the City only to the extent not required by MAC for debt service on MAC bonds and notes and for MAC operating expenses and capital reserve fund requirements. The City includes such revenues as City revenues and reports the amount retained by MAC from such revenues as "MAC Debt Service Funding", although the City has no control over the statutory application of such revenues to the extent MAC requires them. Estimates of City "Debt Service" include, and "MAC Debt Service Funding" is reduced by, payments by the City of debt service on City obligations held by MAC. Other taxes include transfers of net OTB revenues. For further information regarding the City's revenues from Other Taxes, see "SOURCES OF CITY REVENUES—Other Taxes".

DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION 1985-1989

Results of Operations

The City has completed nine consecutive fiscal years with a General Fund surplus when reported in accordance with GAAP.

1989 Fiscal Year Compared to 1988 Fiscal Year

Revenues

The real estate tax collection rate for the 1989 fiscal year was 95.3% of the adjusted 1989 fiscal year tax levy of \$6.233 billion. Real estate tax revenues increased to \$5.943 billion from \$5.382 billion in the 1988 fiscal year as a result of the increase in assessed values of \$5.0 billion to \$64.3 billion and an increase in the tax rate for all four classes of property.

Revenues from other taxes in the 1989 fiscal year increased by \$510 million or 6.4% over the 1988 fiscal year. Revenues from the personal income tax grew \$356 million or 17%, the sales tax grew \$107 million or 4.8%, the commercial rent tax grew \$67 million or 11.5%, the unincorporated business tax grew \$41 million or 13% and the utility tax grew \$23 million or 15.9%. The financial corporation tax declined by \$48 million or 14.4%. The remaining taxes showed an aggregate net decline of \$36 million or 1.6%.

Miscellaneous revenues increased by \$369 million or 21.7% over the 1988 fiscal year. This increase is primarily due to a transfer of \$102 million from the Police Officers and Firefighters Variable Supplement Funds to the General Fund in accordance with certain legislation which revised the statutory formula for payments to such Funds and a transfer from the Educational Construction Fund of \$83 million in repayment of loans previously made by the City.

There was an increase of \$147 million or 6.0% in Federal categorical grants over 1988 primarily in welfare aid. The increase in State categorical grants was \$424 million or 9.9% over the previous fiscal year, primarily in education aid.

Expenditures

City expenditures and transfers increased by 9.2% over the 1988 fiscal year. The increase was due in part to the second year cost of the 1988 labor settlement and a growth in full-time City employees of 6,401, an increase of 2.8% over the 1988 level. In addition, higher mandated costs and the impact of inflation on the various other than personal service costs also contributed to the increase in expenditures.

The General Fund surplus for the 1989 fiscal year was \$6 million after discretionary transfers and expenditures, compared to a General Fund surplus of \$10 million for the 1988 fiscal year. The City had General Fund operating surpluses of \$409 million and \$225 million before discretionary transfers and expenditures for the 1989 and 1988 fiscal years, respectively.

1988 Fiscal Year Compared to 1987 Fiscal Year

Revenues

The real estate tax collection rate for the 1988 fiscal year was 96.3% of the adjusted 1988 fiscal year tax levy of \$5.586 billion. The rate of delinquency increased to 2.34% in the 1988 fiscal year from 1.89% in the 1987 fiscal year. Real estate tax revenues increased to \$5.382 billion from \$5.0 billion in the 1987 fiscal year as a result of the increase in assessed values of \$4.0 billion to \$59.2 billion.

Revenues from other taxes in the 1988 fiscal year increased by \$195 million or 2.5% over the 1987 fiscal year. Revenues from the sales tax grew \$179 million or 8.8%, the general corporation tax grew by \$87 million or 7.4%, the commercial rent tax grew \$59 million or 11.2%. There was a decline in the revenues from the personal income tax of \$75 million or 3.5% and the revenue from both the real property transfer tax and mortgage recording tax declined by \$81 million or 16.3%. The remaining taxes grew by \$26 million collectively, or 1.9%.

Miscellaneous revenues increased by \$54 million or 3.3% over the 1987 fiscal year.

There was an increase of \$65 million or 2.7% in Federal categorical aid. The increase in State grants was \$320 million or 8.1% over the previous fiscal year, primarily in education aid.

Expenditures

City expenditures and transfers increased by 4.8% over the 1987 fiscal year. However, debt service costs declined by 8.2%, and if those costs were excluded from the total in both years, expenditures would show an increase of 6.0%. The increase was due in part to the first year cost of the 1988 labor settlement and a growth in full-time City employees of 6,744, an increase of 3.0% over the 1987 level. In addition, higher mandated costs and the impact of inflation on the various other than personal service costs also contributed to the increase in expenditures.

The General Fund surplus for the 1988 fiscal year was \$10 million after discretionary transfers and expenditures, compared to a General Fund surplus of \$8 million for the 1987 fiscal year. The City had General Fund operating surpluses of \$225 million and \$567 million before discretionary transfers and expenditures for the 1988 and 1987 fiscal years, respectively.

1987 Fiscal Year Compared to 1986 Fiscal Year

Revenues

The real estate tax collection rate for the 1987 fiscal year was 96.8% of the adjusted 1987 fiscal year tax levy of \$5.142 billion. The rate of delinquency decreased to 1.89% in the 1987 fiscal year from 2.07% in the 1986 fiscal year. Real estate tax revenues increased to \$4.976 billion from \$4.6 billion in the 1986 fiscal year as a result of the growth of assessed values by \$2.6 billion to \$55.3 billion.

Revenues from other taxes in the 1987 fiscal year increased by \$1.1 billion or 16.8% over the 1986 fiscal year. Revenues from the personal income tax grew \$347 million or 19.1%, sales tax revenues grew \$135 million or 7.1%, the general corporation tax grew by \$184 million or 18.7%, the financial corporation tax grew by \$100 million or 48.3%, the conveyance of real property tax grew by \$94 million or 62.3%, the unincorporated business tax grew by \$57 million or 23.3%, the commercial rent tax grew by \$48 million or 10.1%, the mortgage recording tax grew by \$73 million or 40.8%, the utility tax declined by \$15 million or 8.1% and all the other tax revenues grew by \$86 million or 17.8%.

Miscellaneous revenues increased by \$97 million or 6.2% over the 1986 fiscal year.

The decline in unrestricted Federal and State aid was primarily due to a reduction of \$210 million in general revenue sharing funds.

There was a decrease of \$206 million or 7.9% in Federal categorical aid. The increase in State grants was \$236 million or 6.3% over the previous fiscal year, primarily in education aid.

Expenditures

City expenditures and transfers increased by 6.8% over the 1986 fiscal year. The increase was due in part to the third year cost of the 1985 labor settlement and a growth in full-time City employees of 4,962, an increase of 2.3% over the 1986 level. In addition, higher mandated costs and the impact of

inflation on the various other than personal service costs also contributed to the increase in expenditures.

1986 Fiscal Year Compared to 1985 Fiscal Year

Revenues

The real estate tax collection rate for the 1986 fiscal year was 94.5% of the adjusted 1986 fiscal year tax levy of \$4.867 billion. The rate of delinquency decreased to 2.07% in the 1986 fiscal year from 3.03% in the 1985 fiscal year. Real estate tax revenues increased to \$4.6 billion from \$4.226 billion in the 1985 fiscal year as a result of the growth of assessed values by \$4 billion to \$52.7 billion.

Revenues from other taxes in the 1986 fiscal year increased by \$280 million or 4.4% over the 1985 fiscal year. Revenues from the personal income tax grew 4.4% or \$76 million and sales tax revenues grew 4.4% or \$81 million. The business taxes, including the general corporation, unincorporated business and utility taxes grew by \$55 million or 4.0%. The remaining taxes grew by \$68 million collectively, or 4.8%.

Miscellaneous revenues increased by \$149 million over the 1985 fiscal year primarily due to increases in water and sewer charges and rental income.

There was a net increase of \$116 million in Federal categorical aid, with increases primarily in welfare and education aid offset by a reduction in Community Development grants. The increase in State grants was \$323 million or 9.5% over the previous fiscal year, primarily in welfare and education aid.

Expenditures

City expenditures and transfers increased by 6.5% over the 1985 fiscal year. However, debt service costs declined by 22.4%, and if such costs were excluded from the total in both years, expenditures would show an increase of 9.7%. The increase was due in part to the second year cost of the 1985 labor settlement and a growth in full-time City employees of 8,276, an increase of 3.9% over the 1985 level. In addition, higher mandated costs and the impact of inflation on the various other than personal service costs also contributed to the increase in expenditures.

Capital Expenditures

The City's capital expenditures, including expenditures funded by State and Federal grants, totaled \$10.5 billion during the 1985 through 1989 fiscal years. City-funded expenditures, which have been financed through the issuance of City, MAC and New York City Municipal Water Finance Authority

bonds, totaled \$8.9 billion during the 1985 through 1989 fiscal years. The following table summarizes the major categories of capital expenditures in the past five fiscal years.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>Total</u>
	(In Millions)					
Education	\$ 156	\$ 137	\$ 139	\$ 147	\$ 220	\$ 799
Environmental Protection	498	565	562	567	608	2,800
Transportation	181	209	231	249	382	1,252
Transit Authority(1)	214	110	138	229	449	1,140
Housing	31	36	71	201	340	679
Hospitals	64	81	75	110	117	447
Sanitation	139	174	165	141	197	816
All Other(2).....	405	421	526	587	680	2,619
Total Expenditures(3)	<u>\$1,688</u>	<u>\$1,733</u>	<u>\$1,907</u>	<u>\$2,231</u>	<u>\$2,993</u>	<u>\$10,552</u>
City-funded Expenditures(4)	<u>\$1,304</u>	<u>\$1,421</u>	<u>\$1,534</u>	<u>\$2,017</u>	<u>\$2,652</u>	<u>\$ 8,928</u>

(1) Excludes the Transit Authority's non-City portion of the MTA's Capital Program.

(2) All Other includes, among other things, parks, correction facilities, public structures and equipment.

(3) Total Expenditures for the 1985 through 1989 fiscal years include City, State and Federal funding and represent amounts which include an accrual for work-in-progress and are derived from the Comprehensive Annual Financial Report of the Comptroller.

(4) City-funded Expenditures do not include an accrual and represent actual cash expenditures occurring during the fiscal year.

A continuation of increased capital spending can be expected in the future. For information concerning the City's long-term financing program for capital expenditures, see "1990-1993 FINANCIAL PLAN—Long-Term Capital and Financing Program".

SOURCES OF CITY REVENUES

The City derives its revenues from a variety of local taxes, user charges and miscellaneous revenues, as well as from Federal and State unrestricted and categorical grants. State aid as a percentage of the City's revenues has remained relatively constant over the period from 1980 to 1989, while Federal aid has been sharply reduced. The City projects that local revenues will provide approximately 67.2% of total revenues in the 1990 fiscal year while Federal aid, including categorical grants, will provide 10.3%, and State aid, including unrestricted aid and categorical grants, will provide 22.5%. Adjusting the data for comparability, local revenues provided approximately 60.6% of total revenues in 1980, while Federal and State aid each provided approximately 19.7%. A discussion of the City's principal revenue sources follows. For information regarding assumptions on which the City's revenue projections are based, see "1990-1993 FINANCIAL PLAN—Assumptions". For information regarding the City's tax base, see "APPENDIX A—ECONOMIC AND SOCIAL FACTORS".

Real Estate Tax

The real estate tax, the single largest source of the City's revenues, is the primary source of funds for the City's General Debt Service Fund. The City expects to derive approximately 43.0% of its total tax revenues and 24.8% of its total revenues for the 1990 fiscal year from the real estate tax.

The State Constitution authorizes the City to levy a real estate tax without limit as to rate or amount (the "debt service levy") to cover scheduled payment of the principal of and interest on indebtedness of the City. However, the State Constitution limits the amount of revenue which the City can raise from the real estate tax for operating purposes (the "operating limit") to 2.5% of the average full value of taxable real estate in the City for the current and the last four fiscal years. As shown below, the percentage of the debt service levy to the total levy decreased in each of the 1985 through 1989 fiscal years, but has increased in fiscal year 1990.

**COMPARISON OF REAL ESTATE TAX LEVIES, TAX LIMITS
AND TAX RATES**

<u>Fiscal Year</u>	<u>Total Levy(1)</u>	<u>Levy Within Operating Limit</u>	<u>Debt Service Levy(2)</u>	<u>Percent of Debt Service Levy to Total Levy</u>	<u>Operating Limit</u>	<u>Percent of Levy Within Operating Limit</u>	<u>Rate Per \$100 of Full Valuation(3)</u>	<u>Weighted Average Tax Rate Per \$100 Assessed Valuation</u>
(Dollars in Millions)								
1985	\$4,475.5	\$3,181.5	\$1,294.0	28.9%	\$3,589.1	88.6%	\$2.59	\$9.26
1986	4,866.8	3,648.9	1,217.9	25.0	4,047.5	90.2	2.45	9.26
1987	5,141.7	3,956.0	1,185.7	23.1	4,432.0	89.3	2.33	9.32
1988	5,586.0	4,432.3	1,153.7	20.7	4,969.5	89.1	2.24	9.43
1989	6,233.0	4,996.3	1,236.7	19.8	6,808.5	73.4	2.29	9.74
1990	6,872.4	5,401.3	1,471.1	21.4	7,789.1	69.3	2.21	9.91

(1) As approved by the City Council.

(2) The debt service levy includes a portion of the total reserve for uncollected real estate taxes.

(3) The rate per dollar of full valuation shown is based on the special equalization ratio and the full valuation (discussed below). Special equalization ratios and full valuations are revised subsequently as a result of surveys by the State Board of Equalization and Assessment.

Acting pursuant to the December 1981 State legislation discussed below, the City Council, beginning in the 1983 fiscal year, adopted a distinct tax rate for each of the four categories of real property established by the State legislation. The rate per full dollar of valuation for the 1985 through 1990 fiscal years is based on the weighted average of these individual rates for such fiscal years, as shown above.

Assessment

The City has traditionally assessed real property at less than market (full) value. The State Board of Equalization and Assessment (the "State Board") is required by law to determine annually the relationship between taxable assessed value and market value which is expressed as the "special equalization ratio". The special equalization ratio is used to compute full value for the purpose of measuring the City's compliance with the operating limit and general debt limit. For a discussion of the City's debt limit, see "INDEBTEDNESS—City Indebtedness—Limitations on the City's Authority to Contract Indebtedness". The ratios are calculated by using either a market value survey or a projection of market value growth based on the four most recent surveys. Ratios, and therefore full values, may be revised when new surveys are completed. The ratios and full values used to compute the 1990 fiscal year operating limit have been established by the State Board and include the results of the calendar year 1986 market value survey.

ASSESSED AND FULL VALUE OF TAXABLE REAL ESTATE(1)

<u>Fiscal Year</u>	<u>Assessed Valuation of Taxable Real Estate(2)</u>	<u>÷</u>	<u>Special Equalization Ratio(3)</u>	<u>=</u>	<u>Full Valuation(2)(3)</u>
1986	\$52,673,812,431		.2321		\$226,944,474,067
1987	55,295,500,070		.2091		264,445,241,846
1988	59,316,861,486		.1933		306,864,260,145
1989	64,342,267,379		.1813		354,893,918,252
1990	70,252,467,843		.1736		404,680,114,303

(1) Also assessed by the City, but excluded from the computation of taxable real estate, are various categories of property exempt from taxation under State law. For the 1990 fiscal year, the assessed value of real estate categorized by the City as exempt is \$47.1 billion, or 40.2% of the \$117.1 billion assessed value of all real estate (taxable and exempt).

(2) These figures are derived from official City Council Tax Resolutions and are in original and unadjusted form. These figures differ from the assessed and full valuation of taxable real estate reported in the Annual Report of the City Comptroller which excludes veteran's property exempted from tax for general purposes but subject to tax for school purposes (the value of such property is approximately \$200 million in each year).

(3) Full valuation for all the fiscal years shown is based on the special equalization ratios.

State law provides for the classification of all real property in the City into one of four statutory classes, of which class one includes one-, two-, and three- family houses. The other three classes include certain other residential property not included in class one, utility real property and all other real property. These laws have no effect upon the constitutional limitations on the City's taxing power. Once the tax levy is determined, each class's share of the levy must be approximately the same proportion of the tax levy as was paid by the four classes in the fiscal year 1982. The tax rate for each class is then fixed by the City Council after taking into account physical changes in properties, the return of exempt properties to the tax rolls, and any changes in classification. Up to and including fiscal year 1991, the City Council is empowered to make discretionary annual adjustments of up to five percent in any class's share of the total tax levy. Beginning in fiscal year 1992 and every year thereafter, the class shares will be subject to limited adjustment by the City Council to reflect changes in the shares of valuation among the four classes since 1989. Individual assessments on class one parcels cannot increase by more than specified annual and five-year percentages.

City real estate tax revenues may be reduced in future fiscal years as a result of tax refund claims asserting overvaluation, inequality of assessment and illegality. For a discussion of various proceedings challenging assessments of real property for real estate tax purposes, see "LITIGATION—*Taxes*". For further information regarding the City's potential exposure in certain of these proceedings, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Note G".

Trend in Taxable Assessed Value

The total assessed valuation of taxable real estate increased in the 1990 fiscal year for the eleventh consecutive year. The City commenced revising its assessment procedures during the 1982 fiscal year to reflect more accurately current real estate values.

Collection of the Real Estate Tax

Real estate tax payments are due each July and January, with the exception of payments by owners of real property assessed at \$40,000 or less and cooperatives whose individual units on average are valued at \$40,000 or less which are paid in quarterly installments. An annual interest rate of 7% is imposed upon late prior year payments on properties for which the annual tax bill does not exceed \$2,750 and an interest rate of 19% is imposed upon late payments on all other properties. Payments for settlement of delinquencies are required on a quarterly schedule.

The real estate tax is accounted for on a modified accrual basis. Revenue accrued is limited to prior year payments received or refunds made within the first two months of the following fiscal year. In deriving the real estate tax revenue estimate, a reserve is provided for cancellations or abatements of taxes and for nonpayment of current year taxes owed and outstanding as of the end of the fiscal year.

The City is entitled to foreclose delinquent tax liens by *in rem* proceedings after one year of delinquency with respect to properties other than one- and two-family dwellings and condominium apartments for which the annual tax bills do not exceed \$2,750, as to which a three-year delinquency rule is in effect.

The following table sets forth the amount of delinquent real estate taxes (owed and outstanding as of the end of the fiscal year of levy) for each of the fiscal years indicated. Delinquent real estate taxes do not include real estate taxes subject to cancellation or abatement under various exemption or abatement programs.

**REAL ESTATE TAX COLLECTIONS AND DELINQUENCIES
AS OF END OF
FISCAL YEAR OF LEVY**

Fiscal Year	Tax Levy(1)	Cancellations and Abatements	Current Year Tax Collections	Delinquent as of end of Fiscal Year(2)	Delinquency as a Percentage of Tax Levy
(Dollars in Millions)					
1985.....	\$4,475.5	\$113.5	\$4,226.5	\$135.5	3.03%
1986.....	4,866.8	166.0	4,600.0	100.8	2.07
1987.....	5,141.7	69.0	4,975.5	97.2	1.89
1988.....	5,586.0	72.7	5,382.4	130.9	2.34
1989.....	6,233.0	175.0	5,943.0	115.0	1.84

(1) As approved by the City Council.

(2) These figures include taxes due on certain publicly-owned property.

Other Taxes

The City expects to derive approximately 57.0% of its total tax revenues for the 1990 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4% sales and compensating use tax, in addition to the State 4¼% retail sales tax imposed by the State upon receipts from retail sales of tangible personal property and certain services in the City; (ii) the personal income tax on City residents and the earnings tax on non-residents; (iii) a general corporation tax levied on the income of corporations doing business in the City; (iv) a financial corporation tax imposed on the income of banking corporations doing business in the City; (v) the State-imposed stock transfer tax (while the economic effect of the stock transfer tax was eliminated as of October 1, 1981, the City's revenue loss is, to some extent, mitigated by State payments to a stock transfer tax incentive fund); and (vi) a number of other taxes.

For local taxes other than the real property tax, the City may adopt and amend local laws for the levy of local taxes to the extent authorized by the State. This authority can be withdrawn, amended or expanded by the State at any time. However, the State cannot restrict the City's authority to levy and collect real estate taxes in the amount necessary to pay principal of and interest on City indebtedness. Payments by the State to the City of sales tax and stock transfer tax revenues are subject to appropriation by the State and are made available first to MAC for payment of MAC debt service, capital reserve fund requirements and operating expenses, with the balance, if any, payable to the City.

The following table sets forth revenues from other taxes by category for each of the City's 1985 through 1989 fiscal years.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	(In Millions)				
Personal Income	\$1,740	\$1,816	\$2,163	\$2,089	\$2,445
General Corporation	957	985	1,169	1,256	1,263
Financial Corporation	252	207	307	333	285
Unincorporated Business Income	204	245	302	315	356
Sales	1,828	1,909	2,044	2,223	2,330
Commercial Rent	435	477	525	584	651
Real Property Transfer	147	151	245	216	207
Mortgage Recording	132	179	253	201	213
Utility	199	185	170	145	168
All Other(1)	463	483	571	582	536
Total	<u>\$6,357</u>	<u>\$6,637</u>	<u>\$7,749</u>	<u>\$7,944</u>	<u>\$8,454</u>

(1) All Other includes, among others, the stock transfer tax, the Off-Track Betting net revenue, cigarette, beer and liquor taxes, the hotel tax and the automobile use tax.

Miscellaneous Revenues

Miscellaneous revenues include revenue sources such as charges collected by the City for the issuance of licenses, permits and franchises, interest earned by the City on the investment of City cash balances, tuition fees at the Community Colleges and fees for various other services, charges for delivery by the City of water and sewer services, rents collected from tenants in City-owned property and from the Port Authority of New York and New Jersey with respect to airports, and the collection of fines. The following table sets forth amounts of miscellaneous revenues for each of the City's 1985 through 1989 fiscal years.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	(In Millions)				
Licenses, Permits and Franchises	\$ 144	\$ 149	\$ 177	\$ 231	\$ 193
Interest Income	172	163	128	129	194
Charges for Services	206	222	241	253	286
Water and Sewer Payments(1)	378	446	438	435	546
Rental Income	141	181	188	202	187
Fines and Forfeitures	227	244	247	265	297
Other	133	145	228	186	367
Total	<u>\$1,401</u>	<u>\$1,550</u>	<u>\$1,647</u>	<u>\$1,701</u>	<u>\$2,070</u>

(1) Beginning July 1, 1985, fees and charges collected from the users of the water and sewer system of the City became revenues of the New York City Water Board (the "Water Board") which holds a lease interest in the water and sewer system. The Water Authority is empowered to issue debt to finance capital investment in the City's water and sewer system. After providing for debt service on Water Authority obligations and certain administrative costs, the Water Board pays the City for operating the water and sewer system and rental for the system. The increase from \$378 million in the 1985 fiscal year to \$446 million in the 1986 fiscal year reflects, in part, a change in accounting recognition of revenues associated with the establishment of the Water Authority.

Unrestricted Federal and State Aid

Unrestricted Federal and State aid has consisted primarily of per capita aid from the State government. These funds, which are not subject to any substantial restriction as to their use, are used by the City as general support for its Expense Budget. State general revenue sharing (State per capita aid) is allocated among the units of local government by statutory formulas which take into account the

distribution of the State's population and the full valuation of taxable real property. For a further discussion of unrestricted State aid, see "1990-1993 FINANCIAL PLAN—Assumptions—Revenues—5. Unrestricted Intergovernmental Aid".

The following table sets forth amounts of unrestricted Federal and State aid received by the City in each of its 1985 through 1989 fiscal years.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	(In Millions)				
Federal Revenue Sharing Aid	\$ 272	\$ 256	\$ 46	\$ —	\$ —
State Per Capita Aid	561	535	535	535	535
State Shared Taxes(1).....	46	49	47	47	47
Other(2)	63	59	49	71	131
Total	\$ 942	\$ 899	\$ 677	\$ 653	\$ 713

(1) State Shared Taxes are taxes which are levied by the State, collected by the State and which, pursuant to aid formulas determined by the State Legislature, are returned to various communities in the State. Beginning on April 1, 1982 these payments were replaced by funds appropriated pursuant to the Consolidated Local Highway Assistance Program, known as "CHIPS".

(2) Included in the 1985, 1986, 1987, 1988 and 1989 fiscal years are \$40 million, \$45 million, \$44 million, \$44 million and \$50 million, respectively, of aid associated with the State takeover of long-term care Medicaid costs.

Federal and State Categorical Grants

The City makes certain expenditures for services required by Federal and State mandates which are then reimbursed through Federal and State categorical grants. State categorical grants are received by the City primarily in connection with City welfare, education, higher education, health and mental health expenditures. The City also receives substantial Federal categorical grants in connection with the Federal Community Development ("Community Development") and the Job Training and Partnership Act ("JTPA"). The Federal government also provides the City with substantial public assistance, social service and education grants as well as reimbursement for costs incurred by the City in maintaining programs in a number of areas, including housing, criminal justice and health. All City claims for Federal and State grants are subject to subsequent audit by Federal and State authorities. Federal grants are also subject to audit under the Single Audit Act of 1984 by the City's independent auditors. The City provides a reserve for disallowances resulting from these audits which could be asserted in subsequent years. For a further discussion of Federal and State categorical grants, see "1990-1993 FINANCIAL PLAN—Assumptions—Revenues—6. Federal and State Categorical Grants".

The following table sets forth amounts of Federal and State categorical grants received by the City for each of the City's 1985 through 1989 fiscal years.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
	(In Millions)				
Federal					
JTPA	\$ 84	\$ 91	\$ 92	\$ 85	\$ 76
Community Development(1)	333	256	201	214	223
Welfare	1,444	1,569	1,434	1,433	1,531
Education	396	440	431	453	512
Other	232	249	241	279	269
Total	<u>\$2,489</u>	<u>\$2,605</u>	<u>\$2,399</u>	<u>\$2,464</u>	<u>\$2,611</u>
State					
Welfare	\$1,203	\$1,338	\$1,255	\$1,283	\$1,350
Education	1,803	1,949	2,227	2,472	2,791
Higher Education	85	92	98	100	110
Health and Mental Health	149	160	174	195	218
Other	173	197	218	242	247
Total	<u>\$3,413</u>	<u>\$3,736</u>	<u>\$3,972</u>	<u>\$4,292</u>	<u>\$4,716</u>

(1) Amounts represent actual funds received and may be lower or higher than the appropriation of funds actually provided by the Federal government for the particular fiscal year due either to underspending or the spending of funds carried forward from prior fiscal years.

CITY SERVICES AND EXPENDITURES

Expenditures for City Services

Three types of governmental agencies provide public services within the City's borders and receive financial support from the City. One category is the mayoral agencies established by the City Charter which include, among others, the Police, Fire and Sanitation Departments. Another is the independent agencies which are funded in whole or in part through the City Budgets but which have greater independence in the use of appropriated funds than the mayoral agencies. Included in this category are certain Covered Organizations such as HHC, the Transit Authority and BOE. A third category consists of certain PBCs which were created to finance the construction of housing, hospitals, dormitories and other facilities and to provide other governmental services in the City. The legislation establishing this type of agency contemplates that annual payments from the City, appropriated through its Expense Budget, may or will constitute a substantial part of the revenues of the agency. Included in this category are, among others, the New York State Housing Finance Agency and the City University Construction Fund. For further information regarding expenditures for City services, see "1985-1989 STATEMENT OF OPERATIONS".

Federal and State laws require the City to provide certain social services for needy individuals and families who qualify for such assistance. Aid to Families with Dependent Children ("AFDC") supports approximately 80% of the City's public assistance caseload and receives approximately 50% Federal and 25% State reimbursement. In addition, Home Relief provides support for those who do not qualify for AFDC but are in need of public assistance. The cost of Home Relief is borne approximately equally by the City and the State. The Federal government directly administers a program of Supplemental Security Income ("SSI") for the aged, disabled and blind which provides recipients with a grant based on a nationwide standard. State law requires that this standard be supplemented. The basic SSI program is entirely Federally funded, and since September 30, 1978, the State has borne the entire cost of the local supplementation to the SSI program in the City. The State legislation

authorizing the State to take over SSI costs previously paid by the City has been extended to June 30, 1990. The City also provides many other social services such as day care, foster care, family planning, services for the elderly and special employment services for welfare recipients.

The City's elementary and secondary school system is operated under the general supervision of BOE, with considerable authority over elementary and junior high schools also exercised by the 32 Community School Boards. BOE is responsible to the State on policy issues and to the City on fiscal matters. The number of pupils in the school system for the 1989-1990 school year is 938,658. Expenditures per pupil have escalated partly due to a significant increase in the number of handicapped and others receiving specialized instruction and related services pursuant to State and Federal mandates. Between fiscal years 1985 and 1989 the percentage of the City's total expenditures allocated to BOE have remained relatively stable at approximately 25%. The City's system of higher education, consisting of its Senior Colleges and Community Colleges, is operated under the supervision of CUNY. Currently, the City provides approximately 43.5% of the costs of the Community Colleges. The State assumed full responsibility for the costs of operating the Senior Colleges beginning July 1, 1982, although the City is still required initially to fund these costs.

The City administers health services programs for the care of the physically and mentally ill and the aged. HHC maintains and operates the City's eleven municipal hospitals, five long-term care facilities, a network of neighborhood health centers and the Emergency Medical Service. HHC is funded primarily by third party reimbursement collections from Medicare, Medicaid, Blue Cross-Blue Shield and commercial insurers, and also by direct patient payments and City appropriations.

Medicaid provides basic medical assistance to needy persons. The City is required by State law to furnish medical assistance through Medicaid to all City residents meeting eligibility requirements established by the State. The State's budget for the 1984 fiscal year appropriated Overburden Aid to localities for the 1983 calendar year and reduced the City's share of Medicaid costs in that period from its previous level of 25%. The State commenced on January 1, 1984 to assume over a three-year period all but 20% of the non-Federal share of long-term care costs and all of the costs of providing medical assistance to the mentally disabled. The Federal government will continue to pay approximately 50% of Federally-participating Medicaid costs.

Employees and Labor Relations

Employees

The following table presents the number of full-time employees of the City, including the mayoral agencies, BOE and CUNY, at the end of each of the City's 1985 through 1989 fiscal years.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Education	76,921	79,760	80,421	82,441	84,754
Police	31,850	32,669	33,962	34,077	33,414
Social Services	24,142	24,759	25,859	27,080	29,227
Higher Education	3,725	3,807	3,876	3,872	3,828
Environmental Protection and Sanitation	16,777	17,421	17,539	17,454	17,812
Fire	13,525	13,673	13,599	13,306	13,321
All Other	45,060	48,187	49,982	53,752	56,027
Total	<u>212,000</u>	<u>220,276</u>	<u>225,238</u>	<u>231,982</u>	<u>238,383</u>

The following table presents the number of full-time employees of certain Covered Organizations, as reported by such Organizations, at the end of each of the City's 1985 through 1989 fiscal years.

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Transit Authority	50,497	51,792	51,631	52,498	52,315
Housing Authority	13,815	14,317	14,655	15,241	14,747
HHC	<u>42,328</u>	<u>43,075</u>	<u>44,209</u>	<u>44,473</u>	<u>45,115</u>
Total(1)	<u>106,640</u>	<u>109,184</u>	<u>110,495</u>	<u>112,212</u>	<u>112,177</u>

(1) The definition of "full-time employees" varies among the Covered Organizations and the City.

The foregoing tables include persons whose salaries or wages are paid by certain public employment programs, principally programs funded under JTPA, which support employees in non-profit and State agencies as well as in the mayoral agencies and the Covered Organizations.

Labor Relations

Substantially all of the City's full-time employees are members of labor unions. The Financial Emergency Act requires that all collective bargaining agreements entered into by the City and the Covered Organizations be consistent with the City's current financial plan, except, under certain circumstances, such as awards arrived at through impasse procedures. Under certain adverse financial circumstances, the Control Board would be required to approve or disapprove collective bargaining agreements using these criteria.

The City's current collective bargaining agreements expire at various times on and after June 30, 1990. Under applicable law, the City may not make unilateral changes during collective bargaining in wages, hours or working conditions under any of the following circumstances: (i) during the period of negotiations between the City and a union representing municipal employees concerning a collective bargaining agreement; (ii) if an impasse panel is appointed, then during the period commencing on the date on which such panel is appointed and ending sixty days thereafter or thirty days after it submits its report, whichever is sooner, subject to extension under certain circumstances to permit completion of panel proceedings; or (iii) during the pendency of an appeal to the Board of Collective Bargaining. Although State law prohibits strikes by municipal employees, strikes and work stoppages by employees of the City and the Covered Organizations have occurred.

For information regarding assumptions with respect to the cost of future labor settlements and related effects on the 1990-1993 Financial Plan, see "1990-1993 FINANCIAL PLAN—Assumptions—Expenditures—1. Personal Service Costs".

Pensions

The City maintains a number of pension systems providing benefits for its employees and employees of various independent agencies (including certain Covered Organizations). For further information regarding the City's pension systems and the City's obligations thereto, see "PENSION SYSTEMS".

FORECAST OF 1990 RESULTS

The following table compares the forecast for the 1990 fiscal year contained in the financial plan submitted to the Control Board on July 12, 1989 (the "July 1989 Forecast") with the City's most recent forecast for the 1990 fiscal year contained in the City's financial plan for the 1990-1993 fiscal years submitted to the Control Board on February 7, 1990 (the "February 1990 Forecast"). These forecasts were prepared on a basis consistent with GAAP.

	July 1989 Forecast	February 1990 Forecast	Increase (Decrease) from July 1989 Forecast
	(In Millions)		
REVENUES			
Taxes			
General Property Tax	\$ 6,593	\$ 6,563	\$ (30)(1)
Other Taxes	8,896	8,300	(596)(2)
Tax Audit Revenue	357	390	33
Miscellaneous Revenues	2,589	2,869	280 (3)
Unrestricted Intergovernmental Aid	660	643	(17)
Inter-Fund Revenues	206	203	(3)
Less: Intra-City Revenues	(475)	(530)	(55)(3)
Disallowances Against Categorical Grants	—	—	—
Total City Funds	18,826	18,438	(388)
Federal Categorical Grants	2,508	2,747	239 (4)
State Categorical Grants	5,293	5,310	17 (4)
Total Revenues	\$26,627	\$26,495	\$(132)
EXPENDITURES			
Personal Service	\$14,453	\$14,220	\$(233)(5)
Other Than Personal Service	10,450	10,837	387 (6)
Debt Service	1,525	1,349	(176)(7)
MAC Debt Service Funding	574	544	(30)
General Reserve	100	75	(25)
	27,102	27,025	(77)
Less: Intra-City Expenses	(475)	(530)	(55)
Total Expenditures	\$26,627	\$26,495	\$(132)
GAP TO BE CLOSED	\$ —	\$ —	\$ —

- (1) The reduction in the General Property Tax forecast is primarily due to a reestimate of the components of the reserve for uncollectable taxes.
- (2) The current forecast for Other Taxes reflects decreased collections for the general corporation tax of \$215 million, the personal income tax of \$90 million, the sales tax of \$70 million, the real property transfer tax of \$83 million and the mortgage recording tax of \$56 million.
- (3) The forecast for Miscellaneous Revenues (net of Intra-City Revenues) has increased by \$225 million from the July 1989 projection. Revenues of \$169 million associated with the sale of the New York City Coliseum site have been eliminated from the current forecast. Offsetting this reduction is \$74 million in increased revenues from water and sewer payments, \$35 million in repayments from the Housing Assistance Corporation and \$200 million to be made available to the City as a result of a proposed bond sale by Battery Park City and a proposed debt refinancing by the HFA.
- (4) The change in the forecast for both Federal and State Categorical Grants reflects budget modifications processed from July through December, as well as revisions to forecasted expenditures.
- (5) The decrease in Personal Service reflects the expenditure reductions in each of the October, December and February financial plans modifications.
- (6) The increase in the OTPS forecast is in part due to projected increases in Public and Medical Assistance costs of \$215 million, an additional payment of \$77 million to the Transit Authority as a result of the delay in the sale of the New York City Coliseum site and expenditure adjustments associated with the budget modifications relating to Federal and State Categorical Grants that were processed from July through December.
- (7) The reduction in Debt Service costs is primarily due to a refunding of certain City general obligation bonds.

1990-1993 FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 1990 through 1993 fiscal years as contained in the 1990-1993 Financial Plan. This table should be read in conjunction with the accompanying notes, "Actions to Close the Gaps" and "Assumptions", below.

	1990-1993 Fiscal Years(1)(2)			
	1990	1991	1992	1993
	(In Millions)			
REVENUES				
Taxes				
General Property Tax	\$ 6,563	\$ 7,046	\$ 7,406	\$ 8,095
Other Taxes(3)	8,300	8,668	9,354	10,048
Tax Audit Revenue	390	329	306	303
Miscellaneous Revenues	2,869	2,632	2,537	2,598
Unrestricted Intergovernmental Aid	643	646	650	654
Inter-Fund Revenues(4)	203	212	212	212
Less: Intra-City Revenues	(530)	(509)	(516)	(516)
Disallowances Against Categorical Grants	—	(15)	(15)	(15)
Total City Funds	<u>\$18,438</u>	<u>\$19,009</u>	<u>\$19,934</u>	<u>\$21,379</u>
Federal Categorical Grants	2,747	2,573	2,591	2,634
State Categorical Grants(5)	5,310	5,656	5,978	6,298
Total Revenues(6)	<u><u>\$26,495</u></u>	<u><u>\$27,238</u></u>	<u><u>\$28,503</u></u>	<u><u>\$30,311</u></u>
EXPENDITURES				
Personal Service(7)	\$14,220	\$14,807	\$15,096	\$15,449
Other Than Personal Service	10,837	11,459	12,159	12,828
Debt Service(3)	1,349	1,788	2,280	2,721
MAC Debt Service Funding(3)	544	611	706	663
General Reserve	75	100	100	100
Total Expenditures	<u>\$27,025</u>	<u>\$28,765</u>	<u>\$30,341</u>	<u>\$31,761</u>
Less: Intra-City Expenses	(530)	(509)	(516)	(516)
Total Expenditures(6)	<u><u>\$26,495</u></u>	<u><u>\$28,256</u></u>	<u><u>\$29,825</u></u>	<u><u>\$31,245</u></u>
GAP TO BE CLOSED	<u><u>\$ —</u></u>	<u><u>\$ (1,018)</u></u>	<u><u>\$ (1,322)</u></u>	<u><u>\$ (934)</u></u>
GAP-CLOSING PROGRAM				
City Actions	\$ —	\$ 953	\$ 992	\$ 873
State Mandate Relief	—	65	230	275
Federal Actions	—	—	100	100
Reserve for Service Enhancements, Tax Reductions and Other Contingencies	—	—	—	(314)
TOTAL GAP-CLOSING PROGRAM	<u><u>\$ —</u></u>	<u><u>\$ 1,018</u></u>	<u><u>\$ 1,322</u></u>	<u><u>\$ 934</u></u>

(1) The four-year financial plan for the 1989 through 1992 fiscal years, as submitted to the Control Board on July 5, 1988, contained the following projections for the 1989-1992 fiscal years: (i) for 1989, total revenues of \$25.163 billion and total expenditures of \$25.163 billion; (ii) for 1990, total revenues of \$26.474 billion and total expenditures of \$27.135 billion with a gap to be closed of \$661 million; (iii) for 1991, total revenues of \$27.375 billion and total expenditures of \$28.320 billion with a gap to be closed of \$945 million; and (iv) for 1992, total revenues of \$28.598 billion and total expenditures of \$29.416 billion with a gap to be closed of \$818 million.

(Footnotes continued on following page)

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The four-year financial plan for the 1988 through 1991 fiscal years, as submitted to the Control Board on July 2, 1987, contained the following projections for the 1988-1991 fiscal years: (i) for 1988, total revenues of \$22.945 billion and total expenditures of \$22.945 billion; (ii) for 1989, total revenues of \$23.872 billion and total expenditures of \$24.510 billion with a gap to be closed of \$638 million; (iii) for 1990, total revenues of \$25.027 billion and total expenditures of \$25.412 billion with a gap to be closed of \$385 million; and (iv) for 1991, total revenues of \$26.164 billion and total expenditures of \$26.292 billion with a gap to be closed of \$128 million.

The four-year financial plan for the 1987 through 1990 fiscal years, as approved by the Control Board on June 30, 1986, contained the following projections for the 1987-1990 fiscal years: (i) for 1987, total revenues of \$21.360 billion and total expenditures of \$21.360 billion; (ii) for 1988, total revenues of \$22.111 billion and total expenditures of \$22.616 billion with a gap to be closed of \$505 million; (iii) for 1989, total revenues of \$23.193 billion and total expenditures of \$23.442 billion, with a gap to be closed of \$249 million; (iv) for 1990, total revenues of \$24.186 billion and total expenditures of \$24.239 billion with a gap to be closed of \$53 million.

- (2) The Financial Plan combines the operating revenues and expenditures of the City and certain Covered Organizations, including BOE and CUNY. The Financial Plan does not include the total operations of HHC, but does include the City's subsidy to HHC and the City's share of HHC revenues and expenditures related to HHC's role as a Medicaid provider. Certain other Covered Organizations which provide governmental services to the City, such as the Transit Authority, are separately constituted, and their accounts are not included; however, City subsidies and certain other payments to these organizations are included. Revenues and expenditures are presented net of intra-City items, which are revenues and expenditures arising from transactions between City agencies.
- (3) Revenues include amounts paid and expected to be paid to MAC by the State from sales tax receipts, stock transfer tax receipts and per capita aid otherwise payable by the State to the City. Pursuant to State statute, these revenues flow directly from the State to MAC, and flow to the City only to the extent not required by MAC for debt service on MAC bonds and notes and for MAC operating expenses and capital reserve fund requirements. The City includes such revenues as City revenues and reports the amount retained by MAC from such revenues as "MAC Debt Service Funding", although the City has no control over the statutory application of such revenues to the extent MAC requires them. Estimates of City "Debt Service" include, and estimates of "MAC Debt Service Funding" are reduced by, anticipated payments by the City of debt service on City obligations held by MAC.
- (4) Inter-fund revenues represent General Fund expenditures, properly includable in the Capital Budget, made on behalf of the Capital Projects Fund pursuant to inter-fund agreements.
- (5) State categorical grants for the City's 1990 fiscal year are forecast at a level consistent with the State budget for the State's 1989-1990 fiscal year. For the 1991 through 1993 fiscal years, projections provide for increases in State categorical grants to compensate for the increased cost of maintaining the level of State funded City services provided for in fiscal year 1990.
- (6) The City's operations refer to the City's General Fund revenues reduced by expenditures. The revenues and assets of PBCs included in the City's audited financial statements do not constitute revenues and assets of the City's General Fund, and, accordingly, the revenues of such PBCs, other than net OTB revenues, are not included in the City's operations. Expenditures required to be made by the City with respect to such PBCs are included in the City's operations. For further information regarding the particular PBCs included in the City's financial statements, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Note A."
- (7) For an explanation of projected expenditures for personal service costs, see CITY SERVICES AND EXPENDITURES—Employees and Labor Relations.

Actions to Close the Gaps

The 1990-1993 Financial Plan reflects a program of proposed actions by the City, the State and the Federal government to close the gaps between projected revenues and expenditures for the 1991, 1992 and 1993 fiscal years.

City gap-closing actions total \$953 million in the 1991 fiscal year, \$992 million in the 1992 fiscal year and \$873 million in the 1993 fiscal year. For the 1991 fiscal year these actions include productivity and cost containment initiatives of \$303 million, a proposed tax program totalling \$550 million and debt service reductions totalling \$100 million resulting from the refunding of certain outstanding City debt.

State actions proposed in the gap-closing program total \$65 million, \$230 million and \$275 million, in each of the 1991, 1992 and 1993 fiscal years, respectively. They comprise a number of State legislative and administrative actions which would, if enacted, restructure certain mandated City responsibilities which would reduce City expenditures. City proposals for changes in mandates could more than satisfy the State action gap-closing program in the 1991 fiscal year without cost to the State.

In addition, the gap-closing programs for each of the 1992 and 1993 fiscal years include \$100 million of proposed federal actions.

The City's projected budget gaps for the 1991, 1992 and 1993 fiscal years do not reflect the savings expected to result from prior years' programs to close the gaps. Thus, for example, recurring savings

anticipated from the actions which the City proposes to take to balance the 1991 budget are not taken into account in projecting the budget gaps for the 1992 and 1993 fiscal years. No assurance can be given that planned actions will in fact be taken or that the savings which the City projects will result from these actions will be realized.

Although the City has maintained balanced budgets in each of its last nine fiscal years, there can be no assurance that the City will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

Assumptions

The decreases in forecast revenues since the Financial Plan submitted to the Control Board on July 12, 1989, and the City's programs of revenue increases and expenditure reductions in response thereto reflected in the Financial Plan, are substantially larger than in recent years. In order to maintain budget balance in the 1990 fiscal year, the City is assuming that the State legislature will approve the proposed sale of bonds by Battery Park City, that the required governmental approvals for the completion of the proposed HFA refinancing will be obtained and that the sale of such bonds and the proposed HFA refinancing will be completed in the 1990 fiscal year. In addition, authority to levy the increased taxes contemplated by the Financial Plan for the 1991 through 1993 fiscal years requires action by the State legislature and the City Council, except for real property taxes which require approval of only the City Council. The 1990-1993 Financial Plan is based on numerous assumptions and is subject to various other uncertainties and contingencies relating to, among other factors, the consummation of the sale of the New York City Coliseum site in the 1991 fiscal year which would provide approximately \$303 million and \$35 million in the 1991 and 1992 fiscal years, respectively; the extent, if any, to which labor costs exceed the annual increases assumed for the 1990 through 1993 fiscal years; assumed slow economic growth without a recession in the 1990 fiscal year; the effect of the October 1987 stock market crash and declines in employment in the financial services industry since 1987; the willingness and ability of the State to provide State aid or take various actions, including the enactment of legislation to assist the City in maintaining a balanced budget; the effects of Federal budget actions and tax legislation; the success with which the City controls expenditures and implements productivity programs; additional expenditures which may be incurred due to the requirements of certain legislation requiring levels of funding for education; additional expenditures which may be incurred as a result of deterioration in the condition of the City's infrastructure; and certain litigation involving or affecting the City. Litigation is pending which challenges the validity of several aspects of the Coliseum site sale. Under the terms of the sale, no closing can occur until such litigation, including all appeals, is finally decided or otherwise disposed of. The proceeds of such sale assumed in the Financial Plan will not be received until such final decision or disposition, which may not occur for a substantial period of time. Delay in reaching such final decision or disposition is likely to require the City to take action to increase revenue, decrease expenditures and obtain additional seasonal financing. For additional information regarding this litigation, see "LITIGATION—Miscellaneous—Item 2".

On January 16, 1990, the Governor released his Executive Budget for the State's 1991 fiscal year, which included the third quarterly revision to the 1989-1990 State Financial Plan. For the 1990 fiscal year, the State reported a potential budget deficit of \$700 million, caused primarily by a reduction of \$694 million in estimated tax receipts as compared to the second quarterly revision to the 1989-1990 State financial plan submitted on November 2, 1989. The State expects to close this deficit by issuing \$350 million in short-term notes and using \$350 million in available funds not required to support current governmental operations, including surplus balances in various special revenue funds. The State Executive Budget for 1991 contains both increases in certain revenues, including a proposed continuation of personal income tax rates at current levels, in lieu of a scheduled reduction in such rates, and proposed tax increases, as well as reductions in spending as compared to previous projections. On February 12, 1990, the State announced that tax receipts for the 1990 fiscal year would be \$315 million below the amount forecast by the Executive Budget due to lower than expected receipts from estimated personal income tax payments and business taxes based on January 1990 collections, which might require the State to take further steps to close the budget imbalance for fiscal 1990. These steps could include issuing an additional \$315 million in short-term notes. The State also

announced a potential negative budgetary impact of \$565 million in fiscal year 1991 compared to the Executive Budget as issued on January 16, 1990, comprised of \$315 million of receipts to be impounded to repay any additional short-term notes that may be issued in fiscal year 1990 and \$250 million in lower estimated tax receipts for fiscal year 1991. The State has indicated its intention to develop a plan to reduce expenditures for fiscal year 1991 by \$565 million in order to maintain a balanced budget, which may include reductions in State aid to the City. The State has also reported uncertainty concerning projected tax receipts for the remainder of the 1990 fiscal year and for fiscal year 1991. Further significant reductions in projected State revenues could have an adverse impact on the timing and amounts of State aid payments to the City in the future.

The projections and assumptions contained in the 1990-1993 Financial Plan are subject to revision which may involve substantial change, and no assurance can be given that these estimates and projections, which include actions which the City expects will be taken but which are not within the City's control, will be realized. The principal projections and assumptions described below are based on information available in December 1989.

Revenues

1. GENERAL ECONOMIC CONDITIONS

In recent years, forecasting business and individual income taxes has been complicated by the difficulty of estimating the effects of Federal tax reform and new State and local laws, as well as the difficulty of assessing the repercussions of the 1987 stock market crash and the declines in employment in the financial services industry since 1987 on the receipt of tax revenues. Since the stock market crash, the City's tax revenues have been below expected levels, and the revised local employment data available since January 1989 have confirmed that the City's economy has been severely affected by the stock market crash, and that the impact of layoffs in the finance, insurance and real estate sector is greater than had been believed earlier.

The following table presents a forecast of the key economic indicators for the calendar years 1989 through 1993. This forecast is based upon information available in December 1989.

FORECAST OF KEY ECONOMIC INDICATORS

<u>U.S. ECONOMY</u>	<u>Calendar Years</u>				
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
<i>Economic Activity and Income</i>					
Real GNP (\$ billions of 1982 dollars).....	4,142.7	4,226.8	4,332.1	4,453.0	4,573.2
Percent Change	2.9	2.0	2.5	2.8	2.7
Pre-tax Corporate Profits (\$ billions).....	285.8	297.6	336.3	346.0	387.2
Percent Change	(6.8)	4.1	13.0	2.9	11.9
Personal Income (\$ billions)	4,423.8	4,717.6	5,041.9	5,432.2	5,798.7
Percent Change	8.8	6.6	6.9	7.7	6.7
Nonagricultural Employment (millions)	108.6	110.3	112.1	114.2	116.0
Percent Change	2.8	1.6	1.6	1.9	1.6
Unemployment Rate	5.3	5.7	5.6	5.2	4.9
CPI-All Urban (1982-84=100)	124.0	129.0	134.6	141.5	148.3
Percent Change	4.8	4.0	4.4	5.1	4.8
3 Month T-Bill Rate	8.1	7.6	7.9	7.9	7.8
<u>CITY ECONOMY</u>					
Personal Income (\$ billions)	150.9	158.6	169.5	181.2	193.2
Percent Change	5.8	5.1	6.9	7.0	6.6
Nonagricultural Employment (thousands)	3,614.3	3,622.8	3,647.6	3,675.9	3,706.0
Percent Change	0.2	0.2	0.7	0.8	0.8
Retail Sales (\$ billions)	36.5	38.1	40.3	42.9	45.6
Percent Change	0.0	4.3	5.8	6.5	6.4
CPI-All Urban NY-NJ Area (1982-84=100)	130.6	136.2	142.6	150.4	158.1
Percent Change	5.6	4.3	4.7	5.4	5.2

SOURCE: New York City Office of Management and Budget model for the City economy.

2. REAL ESTATE TAX

Projections of real estate tax revenues are based on a number of assumptions, including, among others, the tax rate, the assessed valuation of the City's taxable real estate, the delinquency rate, debt service needs, a reserve for uncollectible taxes and projected growth in the operating limit. See "SOURCES OF CITY REVENUES—Real Estate Tax".

The 1990-1993 Financial Plan projects that the delinquency rate will be an estimated 2% during the 1990 through 1993 fiscal years. For a description of proceedings seeking real estate tax refunds from the City, see "LITIGATION—Taxes".

3. OTHER TAXES

The following table sets forth amounts of revenues (net of refunds) from taxes other than the real estate tax projected to be received by the City in the 1990-1993 Financial Plan. The amounts set forth below include projected Tax Audit revenues and Tax Program revenues.

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
	(In Millions)			
Personal Income	\$2,535	\$ 2,720	\$ 2,965	\$ 3,241
General Corporation	1,179	1,199	1,266	1,348
Financial Corporation	280	266	268	281
Unincorporated Business Income	394	432	497	559
Sales	2,439	2,511	2,661	2,841
Commercial Rent	700	752	810	873
Real Property Transfer	215	230	260	285
Mortgage Recording	171	181	204	217
Utility	176	134	120	122
All Other(1).....	601	572	609	584
Total	<u>\$8,690</u>	<u>\$ 8,997</u>	<u>\$ 9,660</u>	<u>\$10,351</u>

(1) All Other includes, among others, Stock Transfer, the Off-Track Betting net revenues, cigarette, beer and liquor taxes, the hotel tax and the automobile use tax. Stock transfer is \$86 million in 1990 through 1993.

The 1990-1993 Financial Plan reflects the following assumptions regarding projected revenues from Other Taxes: (i) a downward revision of the personal income tax attributed primarily to lower than expected estimated payments; (ii) a substantial downward revision of the general corporation tax resulting from declining payments from both calendar and fiscal year filers; (iii) a downward revision of the banking corporation tax due to weak collections from clearing house banks and a lowered estimate of liability from other banks; (iv) a downward revision of the projected unincorporated business tax; (v) a downward revision of the sales tax reflecting lower job and income growth; (vi) a downward revision of both the mortgage recording and real property transfer taxes as the result of weakness in real estate market activity; (vii) a downward revision of the commercial rent tax due to minimal rental rate growth and an increased vacancy rate; and (viii) changes in the All Other category attributable to the current general economic forecast. The 1990-1993 Financial Plan also assumes revenues of \$54 million per year from four special sales taxes, which have been subject to periodic extensions by the State Legislature for several years. The authority for these taxes has been extended to December 31, 1990.

4. MISCELLANEOUS REVENUES

The following table sets forth amounts of miscellaneous revenues projected to be received by the City in the 1990-1993 Financial Plan.

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
	(In Millions)			
Licenses, Permits and Franchises	\$ 190	\$ 191	\$ 196	\$ 197
Interest Income	174	160	160	160
Charges for Services	286	284	286	290
Water and Sewer Payments(1).....	637	687	733	801
Rental Income.....	193	165	151	137
Fines and Forfeitures	300	303	308	313
Other	559	333	187	184
Intra-City Revenues	530	509	516	516
Total	<u>\$2,869</u>	<u>\$2,632</u>	<u>\$2,537</u>	<u>\$2,598</u>

(1) Received from the New York City Water Board. For further information regarding the New York City Water Board, see "1990-1993 FINANCIAL PLAN—Long-Term Capital and Financing Program".

The 1990-1993 Financial Plan projects that miscellaneous revenues will remain relatively stable compared to the 1990 fiscal year except in Water and Sewer Payments, Rental Income and Other. Rental Income is estimated to decrease in 1991 and 1993 due to the increased debt service requirements for the Port Authority's planned capital improvements at airports, which will reduce net rental payments to the City. Revenues in the Other category in fiscal year 1990 reflect the receipt of non-recurring revenue of \$35 million of excess funds from the Housing Assistance Corporation, \$22 million from the Financial Services Corporation and \$39 million from the release of certain pension assets resulting from a change from a variable to a fixed pension supplement, which is subject to State legislation, the implementation of certain collective bargaining agreements and ratification by union memberships. The other category also includes \$200 million of revenues to be made available to the City as a result of the proposed sale of bonds by Battery Park City, which is subject to the approval of the State legislature, and a proposed debt refinancing by the HFA, which is subject to certain governmental approvals. For information concerning litigation and threatened litigation that could affect the variable supplement funds, see "LITIGATION—Miscellaneous—Items 5 and 6". The City has included \$169 million of revenues from the sale of the New York City Coliseum site in fiscal year 1991. Litigation is pending which challenges the validity of several aspects of the Coliseum site sale. Under the terms of the sale, no closing can occur until such litigation, including all appeals, is finally decided or otherwise disposed of. Such revenues will not be received until such final decision or disposition, which may not occur for a substantial period of time. For further information regarding the sale see, "1990-1993 FINANCIAL PLAN—Assumptions" and "LITIGATION—Miscellaneous—Item 2". For the 1990-1993 fiscal years, the Financial Plan provides that water and sewer payments levied and collected by the New York City Water Board will fully reimburse the City for the debt service associated with general obligation bonds issued by the City for water and sewer system purposes.

5. UNRESTRICTED INTERGOVERNMENTAL AID

The following table sets forth amounts of unrestricted intergovernmental aid projected to be received by the City in the 1990-1993 Financial Plan.

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
	(In Millions)			
State Revenue Sharing	\$535	\$535	\$535	\$535
Other Aid	108	111	115	119
Total	<u>\$643</u>	<u>\$646</u>	<u>\$650</u>	<u>\$654</u>

The projection for State revenue sharing in the 1990 through 1993 fiscal years reflects the continuation of the level of revenue sharing monies contained in legislation enacted in 1987.

The "Other Aid" category consists of \$47 million annually of Highway Assistance Program Aid and approximately \$52 to \$67 million primarily from the Lombardi long-term care program (Chapter 816, Laws of 1983). This State legislation provides, beginning January 1, 1984, for the State to assume all the costs of providing medical assistance to the mentally disabled and over a three-year period, all but 20% of the non-Federal share of long-term care costs. The additional State aid anticipated as a result of the State's assumption of most long-term care costs is not treated as "unrestricted intergovernmental aid", but appears in the 1990-1993 Financial Plan as a reduction in the City's Expense Budget.

For information concerning recent shortfalls in projected State tax revenues and the possible impact on State aid to the City, see "1990-1993 FINANCIAL PLAN—Assumptions".

6. FEDERAL AND STATE CATEGORICAL GRANTS

The following table sets forth amounts of Federal and State categorical grants projected to be received by the City in the 1990-1993 Financial Plan.

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
	(In Millions)			
Federal				
JTPA	\$ 68	\$ 61	\$ 61	\$ 61
Community Development ⁽¹⁾	274	241	208	210
Welfare	1,595	1,606	1,658	1,698
Education	496	482	482	482
Other	314	183	182	183
Total	<u>\$2,747</u>	<u>\$2,573</u>	<u>\$2,591</u>	<u>\$2,634</u>
State				
Welfare	\$1,497	\$1,668	\$1,773	\$1,860
Education	3,002	3,194	3,398	3,617
Higher Education	296	295	301	307
Health and Mental Health	262	262	269	276
Other	253	237	237	238
Total	<u>\$5,310</u>	<u>\$5,656</u>	<u>\$5,978</u>	<u>\$6,298</u>

(1) This amount represents the projected annual level of new funds. Unspent Community Development grants from prior fiscal years could increase the amount actually received.

The 1990-1993 Financial Plan assumes that all existing Federal and State categorical grant programs will continue, unless specific legislation provides for their termination or adjustment, and assumes increases in aid where increased costs are projected for existing grant programs. For information concerning recent shortfalls in projected State tax revenues and the possible impact on State aid to the City, see "1990-1993 FINANCIAL PLAN—Assumptions".

A major component of Federal categorical aid to the City is the Community Development program. Pursuant to Federal legislation, Community Development grants are provided to cities primarily to aid low and moderate income persons by improving housing facilities, parks and other capital improvements, by providing certain social programs and by promoting economic development. These grants are based on a formula that takes into consideration such factors as population, housing overcrowding and poverty.

As of December 31, 1989, approximately 8.4% of the City's full-time employees (consisting of employees of the mayoral agencies and BOE) were paid by JTPA funds, Community Development funds and from other sources not funded by unrestricted revenues of the City.

The City's receipt of categorical aid is contingent upon the satisfaction of certain statutory conditions and is subject to subsequent audits and possible disallowances by the State or Federal

governments. The general practice of the State and Federal governments has been to deduct the amount of any disallowances against the current year's payment. While it may be legally possible for substantial disallowances of aid claims to be asserted during the course of the 1990-1993 Financial Plan, the City believes, based on past administrative and legislative actions, that it is unlikely that disallowances on such a scale would occur. The amounts of such disallowances attributable to prior years declined from \$124 million in the 1977 fiscal year to \$24 million in the 1989 fiscal year. This decrease reflects improved claims control procedures and favorable experience with the level of disallowances in recent years. As of June 30, 1989, the City had accumulated a reserve of \$189 million for future disallowances of categorical aid. The 1990-1993 Financial Plan contains a provision for aid disallowances of \$15 million for each of the City's 1991 through 1993 fiscal years.

On January 29, 1990, President Bush presented his budget proposals for Federal fiscal year 1991 to Congress. President Bush's budget contains reductions in Federal funding, including reductions in the Community Development Block Grant and foster care administrative expenses, and restrictions in the use of Emergency Aid to Families which would adversely affect the City. The Financial Plan assumes no reduction in Federal aid to the City for 1991. The City will continue to evaluate all budget proposals as they are released for their potential impact on the City's budget, and will make any necessary changes in the Financial Plan.

Expenditures

1. PERSONAL SERVICE COSTS

The following table sets forth projected expenditures for personal service costs contained in the 1990-1993 Financial Plan.

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
	(In Millions)			
Wages and Salaries	\$10,406	\$10,492	\$10,666	\$10,795
Pensions	1,771	1,861	1,760	1,710
Other Fringe Benefits	1,931	2,084	2,230	2,415
Reserve for Collective Bargaining ⁽¹⁾	<u>112</u>	<u>370</u>	<u>440</u>	<u>529</u>
Total	<u>\$14,220</u>	<u>\$14,807</u>	<u>\$15,096</u>	<u>\$15,449</u>

(1) The Reserve for Collective Bargaining is contained in the Miscellaneous Budget and provides funding for the proposed labor settlement for all agencies except BOE and HHC. The funds for these organizations are provided in their base-line estimates.

The 1990-1993 Financial Plan projects that the authorized number of City-funded employees whose salaries are paid directly from City funds, as opposed to Federal or State funds, will increase from a level of 225,702 on June 30, 1990 to an estimated level of 231,399 by June 30, 1993.

The 1990-1993 Financial Plan reflects the costs associated with settlements reached with various collective bargaining units representing approximately 94% of those City employees subject to collective bargaining. The Financial Plan provides for similar increases for those collective bargaining units which have not yet reached settlement with the City. The 1990-1993 Financial Plan provides for a compounded annual increase of 1.50% for all employees after termination of the current collective bargaining agreements which expire at various times on and after June 30, 1990. The terms of the eventual settlements could be determined through the impasse procedure in the New York City Collective Bargaining Law. The City estimates that each additional 1% increase in the wage assumption would result in additional expenditures of \$108 million in the first year of the increase and \$133 million, including pension costs, in each year thereafter.

For a discussion of the City's pension costs, see "PENSION SYSTEMS" and "FINANCIAL STATEMENTS—Notes to Financial Statements—Note Q".

2. OTHER THAN PERSONAL SERVICE ("OTPS") COSTS

The following table sets forth projected OTPS expenditures contained in the 1990-1993 Financial Plan.

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
	(In Millions)			
Administrative OTPS	\$ 5,309	\$ 5,713	\$ 6,114	\$ 6,585
Public Assistance	1,977	1,989	2,022	2,043
Medical Assistance (Excluding City Medicaid Payments to HHC)	1,304	1,392	1,465	1,557
HHC Support	944	979	1,033	1,060
Other	1,303	1,386	1,525	1,583
Total	<u>\$10,837</u>	<u>\$11,459</u>	<u>\$12,159</u>	<u>\$12,828</u>

Administrative OTPS

The 1990-1993 Financial Plan contains estimates of the City's administrative OTPS expenditures for general supplies and materials, equipment and selected contractual services in the 1990 fiscal year. Thereafter, to account for inflation, selected OTPS expenditures are projected to rise by approximately 5.0% in fiscal year 1991, 5.2% in fiscal year 1992, and 5.3% in fiscal year 1993.

Energy

The 1990-1993 Financial Plan assumes different rates of inflation for energy costs for each of the 1991 through 1993 fiscal years. For the balance of the 1990 fiscal year, the Financial Plan assumes no inflation for energy costs. Inflation rates for each of the 1991 through 1993 fiscal years are set forth in the following table.

	<u>1991</u>	<u>1992</u>	<u>1993</u>
Gasoline and Fuel Oil	5.4%	6.0%	6.0%
Electricity	4.0	5.0	5.0
Natural Gas	5.0	6.1	6.3

Total energy expenditures are projected at \$383 million in the 1990 fiscal year, rising to \$449 million in the 1993 fiscal year. These estimates assume a constant level of energy usage, with the exception of varying annual workload and consumption increases from additional buildings taken by the City through *in-rem* tax proceedings and the annualization of fiscal year 1990 adjustments, where applicable.

Public Assistance

The average number of persons receiving income benefits under public assistance is projected to be 813,603 per month in the 1990 fiscal year. The 1990-1993 Financial Plan projects that the average number of recipients will decrease by 0.3% in the 1991 fiscal year. The 1990-1993 Financial Plan assumes that past trends of increases in the public assistance grant level will continue during the 1991 fiscal year, with a projected annual increase of 0.5%. Of total public assistance expenditures in the City for the 1990 fiscal year, the City-funded portion is projected to be \$529 million. The City-funded portion of public assistance expenditures is projected to be \$535 million in the 1991 fiscal year, rising to \$545 million in the 1993 fiscal year.

Medical Assistance

Medical assistance payments projected in the 1990-1993 Financial Plan consist of payments to voluntary hospitals, skilled nursing facilities, intermediate care facilities, home care and physicians and other medical practitioners. The City-funded portion of medical assistance payments is estimated at \$1.274 billion for the 1990 fiscal year and is expected to increase to \$1.506 billion in the 1993 fiscal year. Such payments include, among other things, City-funded Medicaid payments, but exclude City-

funded Medicaid payments to HHC, as discussed below. City Medicaid costs (including City-funded Medicaid payments to HHC) assumed in the 1990-1993 Financial Plan are reduced due to the State's assumption of all Medicaid costs for the mentally disabled and all but 20% of the non-Federal share of long-term care costs. The City expects savings from this State assumption of \$389.9 million in the 1990 fiscal year, and projects such savings will rise to \$459.3 million in the 1993 fiscal year.

Health and Hospitals Corporation

The 1990-1993 Financial Plan anticipates a decrease in 1990 of \$162.5 million in the City subsidy portion of the total City funds provided to HHC from the 1989 fiscal year.

Support for HHC in the 1990-1993 Financial Plan includes City-funded Medicaid payments to HHC as well as other subsidies to HHC. City-funded Medicaid payments to HHC are estimated at approximately \$503.2 million in the 1990 fiscal year and are projected to be approximately \$529.2 million in the 1993 fiscal year.

HHC operates under its own section of the 1990-1993 Financial Plan as a Covered Organization. HHC's financial plan projects City-funded expenditures of \$943.9 million for the 1990 fiscal year (excluding debt service and lease payments), rising to \$1,060.4 million in the 1993 fiscal year. The City-funded expenditures in the 1990 fiscal year include \$339.4 million of general City support, \$503.2 million of Medicaid payments to HHC and \$72.8 million for certain mental health payments. The HHC plan projects total expenditures of \$2.7 billion in the 1990 fiscal year, increasing to \$2.9 billion in the 1993 fiscal year. The plan projects no gaps between revenues and expenditures in the 1990 through 1993 fiscal years. These projections assume: (i) a 5.0% increase in wage costs in the 1990 fiscal year and a 1.5% increase in wage costs in each of the 1991 through 1993 fiscal years; (ii) a 5.0% increase in the 1990 fiscal year in the cost of contracts with affiliated medical schools (which provide the professional staff for City hospitals) and a 2.0% increase in such costs in each of the 1991 through 1993 fiscal years; (iii) increases in pension costs; (iv) an increase of 5.5% in fiscal year 1990, 5.6% in fiscal year 1991, 5.4% in fiscal year 1992 and 4.8% in fiscal year 1993 in other than personal service costs (excluding fuel and per diem nursing costs); and (v) a weighted Medicaid in-patient rate increase of 7.3% in 1990 and 2.9% in 1991 through 1993. See "1990-1993 FINANCIAL PLAN—Assumptions—Certain Reports".

Other

The projections set forth in the 1990-1993 Financial Plan for "Other" OTPS include the City's contributions to the Transit Authority, the Housing Authority, CUNY and subsidies to libraries and various cultural institutions. They also include projections for the cost of future judgments and claims which are discussed separately below, under "Judgments and Claims". In the past, the City has provided additional assistance to certain Covered Organizations which had exhausted their financial resources prior to the end of the fiscal year. No assurance can be given that similar additional assistance will not be required in the future.

Transit Authority

On February 7, 1990, the City submitted to the Control Board a financial plan for the Transit Authority (the "TA") covering its 1990 through 1994 fiscal years (the "Transit Authority Financial Plan"). The TA's fiscal year is the calendar year. The Transit Authority Financial Plan projects for its 1990 fiscal year, among other things, a surplus of \$8.1 million, a City subsidy to the Transit Authority of \$571.3 million and accrued expenditures of \$3.7 billion. The Transit Authority Financial Plan forecasts a surplus of \$13.7 million in 1991 and a balanced budget in 1992 after implementation of gap-closing actions. The gaps are not funded in the City's own financial plans. The gaps projected in the Transit Authority Financial Plan for its 1991 to 1994 fiscal years occur, in part, because expenditures are expected to increase by 17.0% between fiscal years 1990 and 1994 while revenues are expected to decrease by 3.3% between fiscal years 1990 and 1994. The plan assumes the gaps will be

closed through restoration in 1991 of certain State taxes which are available to the Metropolitan Transportation Authority ("MTA") as part of a multiyear financing program which the New York State Legislature participated in that addressed the TA's operational and capital needs, and additional management actions.

The MTA's 1987-1991 Capital Program amendment authorizes commitments of \$8.5 billion, of which \$6.5 billion is to be used to fund Transit Authority and Staten Island Rapid Transit Operating Authority capital projects. The 1987-1991 Capital Program is comprised of various funding sources including: TBTA bonds; uncommitted funds from the 1982-1986 capital program; Federal, State and City subsidies; funds to be obtained from the trade-in of the Westway highway project; funds contingent upon the sale of the New York City Coliseum site, which is subject to various uncertainties, and proceeds from the sale of the New York City East Side Airline Terminal; State service contract bonds; MAC funds; Commuter Revenue Bonds; funds transferred from the operating budgets of the commuter railroads; developer contributions and other sources. Current Federal funding levels for Federal mass transit capital assistance are assumed to remain constant.

Board of Education

In fiscal year 1990 the City has provided in the Financial Plan sufficient funds to comply with the Stavisky-Goodman Act, which requires the City to allocate to BOE an amount of funds from the total budget equal to the average proportion of the total budget appropriated for BOE in the three preceding fiscal years.

Judgments and Claims

The 1990-1993 Financial Plan includes provisions for judgments and claims of \$191 million, \$178 million, \$185 million and \$191 million for the 1990 through 1993 fiscal years, respectively. The City is a party to numerous lawsuits and is the subject of numerous claims and investigations. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 1989 amounted to approximately \$2.3 billion. This estimate was made by categorizing the various claims and applying a statistical model, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and by supplementing the estimated liability with information supplied by the City's Corporation Counsel. For further information regarding certain of these claims, see "LITIGATION".

In addition to the above claims, numerous real estate tax *certiorari* proceedings involving allegations of inequality of assessment, illegality and overvaluation are currently pending against the City. The City's 1989 Financial Statements estimate that the potential exposure to the City in the *certiorari* proceedings, as of June 30, 1989, could amount to approximately \$155 million. Provision has been made in the 1990-1993 Financial Plan for estimated refunds for overpayments of real estate taxes in the amount of \$75 million for each of the 1990 through 1993 fiscal years, based on an analysis of claims settled within recent fiscal years and pending *certiorari* proceedings. For further information concerning these claims, certain remedial legislation related thereto and the City's estimates of potential liability, see "LITIGATION—Taxes" and "FINANCIAL STATEMENTS—Notes to Financial Statements—Note G".

In November 1988, Federal legislation was enacted (the "Sludge Legislation") requiring the payment of sludge disposal fees during calendar years 1989 through 1991, inclusive, for localities, including the City, which will continue disposing of sewage sludge at a site in the Atlantic Ocean 106 miles offshore as previously authorized. The Sludge Legislation also provides for the payment of penalties for any continued ocean disposal of sludge after December 31, 1991. The Sludge Legislation provides that a large portion of such fees and penalties will be deposited in trust funds maintained by certain Federal and State agencies. Subject to certain exceptions, it is estimated that 85% of such fees and penalties will ultimately be available to pay for the construction, operation and maintenance of alternative sludge disposal systems and measures to be taken by the City with respect to improvement

in the pretreatment of sewage. The Financial Plan includes \$15.5 million, \$25.6 million, \$58.4 million and \$92.4 million in fiscal years 1990 through 1993, respectively, to cover the estimated cost of sludge disposal. The United States Environmental Protection Agency and the City have entered into a consent decree which includes the agreement by the City to adopt interim measures to cease ocean disposal of sludge by June 30, 1992, and to have a permanent disposal plan by December 31, 1998. The implementation of such interim measures and a permanent disposal alternative to ocean disposal will result in substantial additional capital costs to the City. The City's capital commitment plan for fiscal years 1990 through 1993 includes \$693 million for the construction of sludge dewatering facilities, which are considered the first stage of land-based sludge disposal. All costs associated with sludge disposal are expected to be funded by increased user charges paid by the users of the water and sewer systems of the City. Such increased user charges are currently assumed in the Financial Plan.

In the fiscal year ended June 30, 1989, the City expended \$155 million for judgments and claims. From the 1978 fiscal year to the 1989 fiscal year, the City's expenditures for judgments and claims increased over sixfold. Although a certain amount of these increases is beyond the City's control, the City has been undertaking measures both to monitor and to reduce the growth of these costs.

3. DEBT SERVICE

Debt service estimates for the 1990 through 1993 fiscal years include estimates of debt service costs on outstanding City bonds and notes and future debt issuances based on current and projected future market conditions.

4. MAC DEBT SERVICE FUNDING

MAC debt service funding estimates are reduced by anticipated payments by the City of debt service on City obligations held by MAC.

During fiscal years 1984 through 1988, MAC made \$1.075 billion of revenues available to the City, pursuant to an agreement among the City, MAC and the State in March 1984. In April 1986, MAC, the City and the State agreed to the availability and use of approximately \$1.6 billion in additional revenues in the 1987 through 1995 fiscal years. Such monies will be applied as follows: \$925 million for capital improvements for the New York City Transit Authority, \$375 million for City operating purposes and \$300 million for the redemption of certain MAC bonds prior to maturity. In May 1989, MAC entered into an agreement with the City and the State which provides for an additional \$600 million of revenues for capital projects relating to the City's public school system and an additional \$150 million in revenues available for certain City operating purposes over the fiscal years 1990 through 1997. Officials of MAC have stated that \$50 million of these revenues will be made available to the City for criminal justice system purposes in three equal annual installments in fiscal years 1991 through 1993.

5. GENERAL RESERVE

The 1990-1993 Financial Plan includes a reserve of \$75 million in the 1990 fiscal year and \$100 million in the 1991 through 1993 fiscal years.

Certain Reports

From time to time, the Control Board staff, MAC, the Office of the State Deputy Comptroller ("OSDC"), various Federal agencies and others issue reports regarding the City's financial condition, commenting on, among other matters, the City's financial plans, projected revenues and expenditures and actions by the City to eliminate projected operating deficits. Some of these reports have warned that the City may have underestimated certain expenditures and overestimated certain revenues and have suggested that the City may not have adequately provided for future contingencies. Certain of these reports have analyzed the City's future economic and social conditions and have questioned whether the City has the capacity to generate sufficient revenues in the future to meet the costs of its

expenditure increases and to provide necessary services. It is reasonable to expect that such reports will continue to be issued and to engender public comment. It is expected that the staff of the Control Board and OSDC will issue reports in February and March 1990 reviewing the 1990-1993 Financial Plan. The 1990-1993 Financial Plan contains projections of revenues and expenditures which have been substantially revised since the City submitted its first quarter modification to its 1990-1993 financial plan to the Control Board on October 24, 1989.

On January 20, 1989 and March 21, 1989, OSDC issued reports on the City's financial plan for HHC covering fiscal years 1989 through 1992 as submitted to the Control Board on February 2, 1989. The reports warned of the potential for intense pressure for higher City subsidies to HHC due to a number of factors which together have created a hospital crisis in New York City. These factors include: (i) a rising number of AIDS, psychiatric and drug abuse patients which have caused occupancy rates of over 90 percent; (ii) overcrowded emergency rooms; and (iii) a severe shortage of nurses and lack of alternative care settings to which to discharge patients. Other uncertainties mentioned in these reports included the impact on the City of State and Federal budget proposals for reducing Medicaid and Medicare reimbursements. On June 29, 1989, OSDC issued a report on the City's financial plan for HHC covering fiscal years 1990 through 1993. This report warned that the City is likely to remain under pressure to increase its subsidy to HHC in the years ahead.

On November 16, 1989, OSDC issued a report (the "OSDC Report") reviewing the City's financial plan for fiscal years 1990 through 1993 as submitted to the Control Board on October 24, 1989. The OSDC Report concluded that the actions taken in the October modification may not be sufficient to ensure a balanced budget in fiscal year 1990, reflecting the potential for a further tax revenue shortfall of \$170 million for the 1990 fiscal year. OSDC also projected potential budget gaps of \$1,488 million in fiscal year 1991, \$2,146 million in fiscal year 1992 and \$2,374 million in fiscal year 1993, and noted that these gaps are significantly larger than those projected in the City's modification. The larger gap estimates resulted primarily from using the inflation rate projected by the City (about 5 percent annually) as the assumed rate of annual wage increases for City employees over fiscal years 1991-1993, rather than the 1.5 percent rate of annual wage increases assumed in the modification. The larger gap estimates were also driven by OSDC's projections of higher expenditures unrelated to the wage increase and of lower revenues due to the City's slowing economy, and by OSDC's assumption that proceeds from the sale of the New York City Coliseum site totaling \$338 million may not be available in fiscal years 1991 and 1992. The OSDC Report noted that these projected budget gaps are larger than any faced since 1981. While the 1981 gaps were successfully closed, it was with the help of a rapidly expanding economy and substantial increases in State aid, whereas, the OSDC Report noted, circumstances are now quite different, given a marked slowdown in the local economy and the State's own fiscal problems, which threaten to constrain future increases in aid. As a result, the OSDC Report indicated that the City may have little choice but to increase the property tax in fiscal year 1991. OSDC expressed concern about the limited budget options available to the City in light of the weakening local economy, state fiscal problems, the already high local tax burden, the reluctance of the State legislature to authorize City-proposed tax increases and the deepening problems of the City in such areas as education, homelessness, health care, crime, drug abuse, infrastructure maintenance and capital construction needs. The OSDC Report criticized the City for its debt refunding plans, wherein, according to OSDC, the City is rolling over debt coming due to achieve budgetary savings of \$262 million in the near term at the expense of future years.

On November 21, 1989, the staff of the Control Board issued a report (the "FCB Report") reviewing the financial plan of the City for fiscal years 1990 through 1993 as submitted to the Control Board on October 24, 1989. The staff noted that further deterioration in tax receipts have occurred since the financial plan was submitted on October 24, 1989. By its estimates, revenues would be lower and spending would be higher than estimated by the City in the plan, which could result in a budget gap in fiscal year 1990 of \$130 million. In addition, the staff projected a possible budget gap for fiscal year 1991 of over \$300 million, which would increase to the extent a new labor agreement were to incorporate wage increases greater than the 1.5% assumed in the plan. The Control Board staff also

noted the following areas of concern: (i) rapid growth of the City work force at more than three times the rate of private sector job growth over the last nine years; (ii) the State's shortfall of almost \$300 million for its current fiscal year, which may imperil the City's State aid projection; (iii) the bond refunding program included in the financial plan, that provides short-term budget relief but little economic benefit over the long term; and (iv) the implementation and interpretation of the new City Charter which may complicate the budget adoption process and delay the ability of the City to implement budget modifications on a timely basis.

Long-Term Capital and Financing Program

The City's long-term financing program is designed to provide the City with adequate funds to carry out its capital spending plan to reconstruct and rehabilitate the City's infrastructure and physical assets, including City mass transit facilities, sewers, streets, bridges and tunnels, and to make capital investments that will improve productivity in City operations. For additional information regarding the City's infrastructure and physical assets, see "APPENDIX A—ECONOMIC AND SOCIAL FACTORS".

The City utilizes a three-tiered capital planning process consisting of the Ten-Year Capital Plan, the Four-Year Capital Program and the Current-Year Capital Budget. The Ten-Year Plan is a long-term planning tool designed to reflect fundamental allocation choices and basic policy objectives. The Four-Year Capital Program translates mid-range policy goals into specific projects. The Current-Year Capital Budget defines specific projects and the timing of their initiation, design, construction and completion.

The Ten-Year Capital Plan was first developed in 1982 and was subject to biennial review. Pursuant to the new City Charter, there will be no review in 1990; instead, the Mayor is required to publish a Ten-Year Capital Plan in conjunction with the Executive Budget, biannually, starting in 1991. Not later than the first day of November of each preceding year, starting in 1990, OMB and the Department of City Planning will jointly submit to the Mayor a draft Ten-Year Capital Plan. On May 9, 1988, the City announced a Ten-Year Plan for fiscal years 1989-1998 totalling \$57.3 billion, of which approximately 70% will be financed with City funds and the remainder primarily with State and Federal funds. The 1989-1998 Ten-Year Plan includes: (i) \$5.2 billion to construct new schools and improve existing educational facilities; (ii) investment of \$5.1 billion to expand the City's housing stock and rehabilitate 86,000 occupied and 39,000 vacant *in-rem* housing units and construct 37,000 new housing units; (iii) \$750 million to modernize the City's court facilities; (iv) \$2.6 billion for the continued reconstruction of all four East River bridges and over 300 other bridges; (v) \$3.3 billion for continued City funded investment in mass transit; (vi) \$2.4 billion for the construction of six resource recovery facilities; (vii) \$1 billion for the reconstruction of Kings County and Elmhurst hospitals; and (viii) \$500 million to expand current jail capacity by 3,575 beds. The 1989-1998 Ten-Year Plan contemplated several new financing initiatives, including the creation of the New York City Bridge Corporation (the "Bridge Corporation") to carry out the \$2.7 billion bridge reconstruction program to be funded in part from revenue increases relating to vehicle use. The plan also provided for the creation of a Highway Finance Authority to undertake \$5.1 billion of financing supported by a pledge of existing personal income tax revenues and a waste disposal authority to undertake \$2 billion of waste disposal and resource recovery financing beginning in fiscal year 1991 supported by waste disposal fees. In the City's updated Capital Plan and financing program for fiscal years 1990 through 1993, the City no longer anticipates the creation of the Bridge Corporation, but does assume the creation of a Transportation Finance Authority modeled on the previous proposal for a Highway Finance Authority, as well as a Waste Disposal Authority. Thus the bridge reconstruction program is currently expected to be funded from the issuance of general obligation bonds and other sources.

City-funded commitments, which were \$344 million in 1979 are projected to reach \$4.8 billion in 1990. City-funded expenditures, which more than tripled between fiscal years 1980 and 1985, are forecast at \$3.3 billion in the 1990 fiscal year; total expenditures are forecast at \$3.6 billion in 1990.

The following table sets forth the major areas of capital commitment projected for the 1990-1993 fiscal years, as of January 1990, and represents the most current forecasts for the second through fifth years of the 1989-1998 ten year capital plan.

	1990		1991		1992		1993	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
	(In Millions)							
Mass Transit(1)	\$ 515	\$ 527	\$ 622	\$ 622	\$ 481	\$ 481	\$ 207	\$ 207
Roadway, Bridges	360	632	448	845	593	809	516	782
Water and Sewer(2)	1,172	1,144	1,393	1,522	1,735	1,740	792	803
Education	952	957	690	693	912	914	913	916
Housing	579	746	461	538	387	549	261	308
Hospitals	365	379	211	224	317	317	234	234
Sanitation	314	791	192	196	196	201	519	520
City Operations/Facilities	944	1,033	1,363	1,487	1,296	1,312	431	448
Economic and Port Development	163	169	78	81	37	43	28	28
Reserve For Unattained Commitments	(567)	(567)	(44)	(44)	(501)	(501)	381	381
Total Commitments(3)	<u>\$4,798</u>	<u>\$5,812</u>	<u>\$5,415</u>	<u>\$6,164</u>	<u>\$5,453</u>	<u>\$5,867</u>	<u>\$4,282</u>	<u>\$4,628</u>
Total Expenditures(4)	<u>\$3,268</u>	<u>\$3,637</u>	<u>\$4,742</u>	<u>\$5,402</u>	<u>\$4,952</u>	<u>\$5,627</u>	<u>\$4,964</u>	<u>\$5,443</u>

- (1) Excludes the Transit Authority's non-City portion of the MTA's \$8.6 billion five-year Capital Program.
- (2) Includes water supply, water mains, water pollution control and sewer projects.
- (3) Commitments represent contracts registered with the City Comptroller, except for certain projects which are undertaken jointly by the City and State. Totals may not add due to rounding.
- (4) Expenditures represent cash payments.

The following table sets forth the planned sources and uses of City funds to be raised through issuances of long-term debt and transfers of monies from the City's General Fund during the City's 1990 through 1993 fiscal years.

1990-1993 FINANCING PROGRAM

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>Total</u>
	(In Millions)				
SOURCES OF FUNDS:					
City General Obligation Bonds(1)	\$4,053	\$3,855	\$3,755	\$3,458	\$15,121
Water Authority Revenue Bonds(2)	540	632	920	1,322	3,414
Other Sources(3)	217	332	390	276	1,215
Total(4)	<u>\$4,810</u>	<u>\$4,819</u>	<u>\$5,065</u>	<u>\$5,056</u>	<u>\$19,750</u>
USES OF FUNDS:					
City-Capital Improvements(1).....	\$3,268	\$4,737	\$4,945	\$4,884	\$17,834
City Refunding(5)	1,464	—	—	—	1,464
Reserve Funds and Other(6)	78	82	120	172	452
Total	<u>\$4,810</u>	<u>\$4,819</u>	<u>\$5,065</u>	<u>\$5,056</u>	<u>\$19,750</u>

- (1) Includes financing of \$1.146 billion, \$1.215 billion and \$1.191 billion in the 1991-1993 fiscal years by a proposed Transportation Finance Authority which, if established would issue revenue bonds secured by the City's existing personal income tax. Excludes \$92 million of resource recovery and waste disposal financing during the 1991-1993 fiscal years which is expected to be financed by a new authority issuing revenue bonds secured by waste disposal fees. The establishment of the new financing authorities is subject to the enactment of enabling legislation by the State legislature. To date in the 1990 fiscal year, the City has issued \$2,415,525,000 in general obligation bonds.
- (2) The New York City Municipal Water Finance Authority (the "Water Authority") issues water and sewer revenue bonds which are secured solely by a pledge of and a first lien on the fees and charges paid to the New York City Water Board by the users of the water and sewer system of the City. Such obligations are not a debt of the City nor is the City liable for such debt.
- (3) Other Sources is comprised of changes in City restricted cash balances and other MAC resources and include MAC funds available for transit and education capital programs.
- (4) While no provision has been made in the 1990-1993 Financing Program for MAC financings, MAC has indicated to the City that it may refund certain of MAC's outstanding obligations when favorable market conditions exist.
- (5) While no provision has been made in the 1990-1993 Financing Program for future refundings other than planned City refundings during the 1990 fiscal year, such financings may be undertaken when favorable market conditions exist.
- (6) Reserve Funds and Other is comprised of amounts necessary to fund certain reserves in connection with the issuance of Water Authority Revenue Bonds and amounts to provide for certain costs of the issuance of securities.

Currently, if all City capital project requests were implemented, expenditures would exceed the City's financing projections in the current fiscal year and subsequent years. The City has therefore established capital budgeting priorities to maintain capital expenditures within the available long-term financing. Due to the size and complexity of the City's capital program, it is difficult to forecast precisely the timing of capital project activity so that actual capital expenditures may vary from the planned annual amounts.

The City's current four-year financing program and capital plan includes the issuance of water and sewer revenue bonds. The Water Authority is authorized to issue bonds to finance capital investment in the City's water and sewer system. Pursuant to State law, debt service on this indebtedness is secured by water and sewer fees paid by users of the water and sewer system. As of July 1, 1985, such fees became revenues of the New York City Water Board (the "Board") and the Board holds a lease interest in the City's water and sewer system. After providing for debt service on obligations of the Water Authority and certain incidental costs, the revenues of the Board are paid to the City to cover the City's cost for operating the water and sewer system or as rental for the system. The City's current ten-year capital plan covering fiscal years 1989-1998 projects water and sewer investment at approximately \$8.1 billion of the \$40 billion City-funded portion of the plan. The City retains the legal authorization to fund any portion of the \$8.1 billion plan with the proceeds of sales of its general obligation bonds.

Implementation of the capital plan is dependent upon the City's ability to market its securities successfully in the public credit markets. The terms and the success of projected public sales of City general obligation bonds and Water Authority revenue bonds will be subject to prevailing market conditions at the times of sale. The capital plan also assumes receipt of approximately \$3.6 billion in the next four years from proceeds of revenue bonds secured by revenues from the City's existing personal income tax and issued by a proposed Transportation Finance Authority. No assurance can be given that the credit markets will absorb the projected amounts of public bond sales. The need of the City to fund future debt service costs from current operations may also limit the City's capital program. Changes in Federal tax law which place greater restrictions on the purposes for which tax-exempt bonds may be issued may limit the ability of the City to finance certain projects through the issuance of tax-exempt bonds.

The capital plan assumes the receipt of \$11.9 billion of non-City funds for mass transit. Potential sources include intergovernmental assistance, dedicated State or regional taxes and other financing instruments.

Seasonal Financing Requirements

The City since 1981 has fully satisfied its seasonal financing needs in the public credit markets, repaying all short-term obligations within their fiscal year of issuance. To date in the 1990 fiscal year, the City has issued \$1.55 billion of notes. In addition, based on the City's actual revenue collections and expenditures and amounts forecast for the balance of the 1990 fiscal year, the City may require additional seasonal financing in the public credit markets prior to the end of the 1990 fiscal year. Seasonal financing requirements for the 1989 fiscal year increased to \$1.2 billion from \$925 million in 1988. Seasonal financing requirements were \$1.0 billion, \$900 million and \$850 million in the 1987, 1986 and 1985 fiscal years, respectively. Over the 1985-1989 period, seasonal financing requirements remained relatively stable as a proportion of the City's budget, representing approximately 4.5% of the City's operating revenues.

At the time of the City's fiscal crisis in 1975, the City had approximately \$6 billion of short-term debt outstanding. As part of a program to deal with this crisis, the State passed the Moratorium Act. This law provided that, subject to certain conditions, for three years no judgments and liens could be enforced on account of outstanding City notes and no action could either be commenced or continued upon outstanding City notes which matured during 1975 or 1976. City notes in an aggregate principal amount of \$2.4 billion were subject to the Moratorium Act. In November 1976, the New York State Court of Appeals declared the Moratorium Act unconstitutional under the State Constitution. All of the City's short-term debt outstanding at the time of the Moratorium Act was either exchanged for MAC bonds or repaid by the City. In the 1975 through 1978 fiscal years, the City was assisted by the Federal and State governments in meeting its seasonal financing needs.

INDEBTEDNESS

City Indebtedness

Outstanding Indebtedness

The following table sets forth outstanding indebtedness having an initial maturity greater than one year from the date of issuance of the City, MAC and the PBCs as of December 31, 1989.

(In Thousands)		
Gross City Long-Term Indebtedness	\$12,703,195	
Less: Assets Held for Debt Service(1)	<u>1,914,028</u>	
Net City Long-Term Indebtedness		\$10,789,167
Gross MAC Long-Term Indebtedness(2)	7,306,608	
Less: Assets Held for Debt Service(2)	<u>1,243,796</u>	
Net MAC Long-Term Indebtedness		6,062,812
PBC Indebtedness(3)		
Bonds Payable	549,035	
Capital Lease Obligations	<u>418,426</u>	
Gross PBC Indebtedness(4)	967,461	
Less: Assets Held for Debt Service	<u>183,307</u>	
Net PBC Indebtedness		<u>784,154</u>
Combined Net City, MAC and PBC Indebtedness		<u><u>\$17,636,133</u></u>

- (1) With respect to City long-term indebtedness, "Assets Held for Debt Service" consists of sinking fund assets, General Debt Service Fund assets, and \$1,635.3 million principal amount of City serial bonds held by MAC. At December 31, 1989, \$177 million (or 66.5%) of the invested assets of the City's sinking funds were invested in City obligations.
- (2) With respect to MAC indebtedness, "Assets Held for Debt Service" consists of assets held in MAC's debt service funds less accrued liabilities for interest payable on MAC long-term indebtedness plus amounts held in capital reserve funds for payment of principal and interest on MAC bonds. Other MAC funds, while not specifically pledged for the payment of principal and interest on MAC bonds, are also available for these purposes. For further information regarding MAC indebtedness and assets held for debt service, see "Municipal Assistance Corporation Indebtedness" below and "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes C and G".
- (3) "PBC Indebtedness" refers to City obligations to PBCs. For further information regarding the indebtedness of certain PBCs, see "Public Benefit Corporation Indebtedness" below and "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes F, G and O". "PBC Indebtedness" does not include the indebtedness of individual PBCs which are Enterprise Funds. For further information regarding the indebtedness of Enterprise Funds PBCs, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes I, J, K, L and M".
- (4) Amount does not include \$292.0 million principal amount of Housing Development Corporation bonds subject to capital reserve fund arrangements with the City.

Trend in Outstanding Net Indebtedness

The following table shows the trend in the outstanding net long-term and net short-term debt of the City and MAC and in net PBC indebtedness as of June 30 of each of the years 1984 through 1989 and as of December 31, 1989.

	City(1)		MAC(4)		Component Unit and City Guaranteed Debt(2)	Total
	Long-Term Debt(2)	Short-Term Debt(3)	Long-Term Debt(5)	Short-Term Debt(6)		
	(In Millions)					
1984	\$5,023	—	\$6,294	\$243	\$683	\$12,243
1985	5,219	—	6,394	243	652	12,508
1986	6,079	—	6,716	—	629	13,424
1987	6,645	—	6,613	—	644	13,902
1988	7,820	—	6,470	—	714	15,004
1989	9,332	—	6,082	—	780	16,194
December 31, 1989	10,789	1,550	6,063	—	784	19,186

- (1) Amounts do not include debt of the City held by MAC. See "Outstanding Indebtedness—Note 1".
- (2) Net of sinking funds assets and other reserves. Component Units are PBCs included in the City's financial statements other than PBCs which are Enterprise Funds. For more information concerning Component Unit PBCs, see "Public Benefit Corporation Indebtedness" below and "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes F, G and O". Component Units do not include PBCs which are Enterprise Funds. For more information concerning Enterprise Funds PBCs, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes I, J, K, L and M".
- (3) The City issued \$300 million of TANs and \$950 million of RANs on August 10, 1989, and \$300 million of RANs on December 15, 1989, all of which mature on June 29, 1990.
- (4) MAC reported outstanding long-term indebtedness without reduction for reserves, as follows: \$7,508 million, \$7,688 million, \$7,996 million, \$7,900 million, \$7,636 million and \$7,307 million as of June 30 of each of the years 1984 through 1989 and \$7,307 million as of December 31, 1989.
- (5) Calculations of net MAC indebtedness include the total bonds outstanding under MAC's First and Second General Bond Resolutions and accrued interest on those bonds less the amounts held by MAC in its debt service and capital reserve funds.
- (6) Amounts represent tax-exempt commercial paper.

Rapidity of Principal Retirement

The following table details, as of January 1, 1990, the cumulative percentage of total City general obligation debt outstanding that is scheduled to be retired in accordance with its terms in each prospective five-year period.

Period	Cumulative Percentage of Debt Scheduled for Retirement
5 years	23.42%
10 years	49.31
15 years	68.44
20 years	84.44
25 years	92.81
30 years	99.34

City, MAC and City-guaranteed PBC Debt Service Requirements

The following table summarizes future debt service requirements as of December 31, 1989 on City and MAC term and serial bonds outstanding and City-guaranteed debt of and capital lease obligations to certain PBCs.

Fiscal Years	City Long-Term Debt			Component Unit and City Guaranteed Debt(3)	MAC Funding Requirements	Total
	Principal		Interest(1)			
	Serial Bonds(1)	Sinking Fund Bonds(2)				
(In Thousands)						
1990	\$ 29,961	\$ 27,300	\$ 325,593	\$ 25,091	\$ 696,023	\$ 1,103,968
1991	514,702	26,400	805,856	91,856	912,449	2,351,263
1992	612,564	33,000	756,012	94,544	896,447	2,392,567
1993	632,830	—	711,632	93,860	816,739	2,255,061
1994	629,130	—	663,991	94,967	866,382	2,254,470
1995	530,870	—	623,514	94,960	700,658	1,950,002
1996	536,133	—	584,778	94,988	517,556	1,733,455
1997	554,228	9,800	544,142	95,352	580,374	1,783,896
1998	570,963	—	502,207	94,593	592,065	1,759,828
1999	526,082	—	461,013	95,605	610,578	1,693,278
2000	449,907	—	425,029	95,601	545,992	1,516,529
2001 through 2147 ...	<u>5,135,565</u>	<u>249,925</u>	<u>3,249,462</u>	<u>870,336</u>	<u>4,317,099(4)</u>	<u>13,876,387</u>
Total	<u>\$10,722,935</u>	<u>\$346,425</u>	<u>\$9,653,229</u>	<u>\$1,841,753</u>	<u>\$ 12,106,362</u>	<u>\$ 34,670,704</u>

- (1) Excludes debt service payments on \$1,635.3 million principal amount of serial bonds held by MAC.
- (2) Amounts are stated maturities. Sinking fund bonds will be paid from assets held or to be held in the City's sinking funds either prior to or at the respective maturity dates.
- (3) Component Units are PBCs included in the City's financial statements other than PBCs which are Enterprise Funds. For additional information concerning these PBCs, see "Public Benefit Corporation Indebtedness" below and "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes F, G and O". Component Units do not include PBCs which are Enterprise Funds. For more information concerning Enterprise Funds PBCs, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes I, J, K, L and M".
- (4) Amount shown is for fiscal years 2001 through 2009.

Certain Debt Ratios

The following table sets forth information, as of June 30, for each of the fiscal years 1985 through 1989, with respect to the approximate ratio of the City's debt to certain economic factors. As used in this table, debt includes net City, MAC and PBC debt.

Fiscal Year	Debt Per Capita	Debt as % of Total Taxable Real Property By	
		Assessed Valuation	Estimated Full Valuation
1985	\$1,723	25.9%	7.0%
1986	1,833	25.5	6.7
1987	1,893	25.1	6.3
1988	2,041	25.3	6.0
1989	2,202	25.4	4.6

Source: Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 1989.

Ratio of Debt to Personal Income

The following table sets forth, for each of fiscal years 1983 through 1987, debt per capita as a percentage of personal income per capita in current dollars. As used in this table, debt includes net City, MAC and PBC debt.

<u>Fiscal Year</u>	<u>Debt per Capita</u>	<u>Personal Income per Capita(1)</u>	<u>Debt per Capita as % of Personal Income per Capita</u>
1983	\$1,698	\$13,860	12.25%
1984	1,695	15,136	11.20
1985	1,723	15,983	10.78
1986	1,833	16,910	10.84
1987	1,893	18,191	10.41

Source: Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 1989.
(1) Personal income is measured before the deduction of personal income taxes and other personal taxes.

Certain Provisions for the Payment of City Indebtedness

The State Constitution requires the City to make an annual appropriation for: (i) payment of interest on all City indebtedness; (ii) redemption or amortization of bonds; (iii) redemption of other City indebtedness (except bond anticipation notes ("BANs"), tax anticipation notes ("TANs"), revenue anticipation notes ("RANs"), and urban renewal notes ("URNs")) contracted to be paid in that year out of the tax levy or other revenues; and (iv) redemption of short-term indebtedness issued in anticipation of the collection of taxes or other revenues, such as TANs, RANs and URNs, and renewals of such short-term indebtedness which are not retired within five years of the date of original issue. If this appropriation is not made, a sum sufficient for such purposes must be set apart from the first revenues thereafter received by the City and must be applied for these purposes.

Under the Financial Emergency Act, the proceeds of each City bond issue are required to be used in the following order: (i) they are to be held for the payment at maturity of any BANs issued in anticipation thereof; (ii) they are to be paid into the City's General Fund in repayment of any advance made therefrom for purposes for which the bonds were issued; and (iii) any balance is to be held for future expenditures for the object or purpose for which the bonds were issued.

Pursuant to the Act, the General Debt Service Fund has been established for the purpose of paying Monthly Debt Service, as defined in the Act. For information regarding the Fund, see "THE BONDS—Payment Mechanism". In addition, as required under the Act, a TAN Account has been established by the State Comptroller within the Fund to pay the principal of outstanding City TANs. After notification by the City of the date when principal due or to become due on an outstanding issue of TANs will equal 90% of the "available tax levy", as defined in the Act, with respect to such issue, the State Comptroller must pay into the TAN Account from the collection of real estate tax payments (after paying amounts required to be deposited in the General Debt Service Fund for Monthly Debt Service) amounts sufficient to pay the principal of such TANs. Similarly, a RAN Account has been established by the State Comptroller within the Fund to pay the principal of outstanding City RANs. Revenues in anticipation of which RANs are issued must be deposited in the RAN Account. If revenue consists of State or other revenue to be paid to the City by the State Comptroller, the State Comptroller must deposit such revenue directly into the RAN Account on the date such revenue is payable to the City. Under the Act, after notification by the City of the date when principal due or to become due on an outstanding issue of RANs will equal 90% of the total amount of revenue against which such RANs were issued on or before the fifth day prior to the maturity date of the RANs, the State Comptroller must commence on such date to retain in the RAN Account an amount sufficient to pay the principal of such RANs when due. Revenues required to be deposited in the RAN Account vest immediately in the State Comptroller in trust for the benefit of the holders of notes issued in anticipation of such

revenues. No person other than a holder of such RANs has any right to or claim against revenues so held in trust. Whenever the amount contained in the RAN Account or the TAN Account exceeds the amount required to be retained in such Account, the excess, including earnings on investments, is to be withdrawn from such Account and paid into the General Fund of the City.

Limitations on the City's Authority to Contract Indebtedness

The Financial Emergency Act imposes various limitations on the issuance of City indebtedness. No TANs may be issued by the City which would cause the principal amount of such issue of TANs to exceed 90% of the "available tax levy", as defined in the Act, with respect to such issue; TANs and renewals thereof must mature not later than the last day of the fiscal year in which they were issued. No RANs may be issued by the City which would cause the principal amount of RANs outstanding to exceed 90% of the "available revenues", as defined in the Act, for that fiscal year; RANs must mature not later than the last day of the fiscal year in which they were issued; and in no event may renewals of RANs mature later than one year subsequent to the last day of the fiscal year in which such RANs were originally issued. No BANs may be issued by the City in any fiscal year which would cause the principal amount of BANs outstanding, together with interest due or to become due thereon, to exceed 50% of the principal amount of bonds issued by the City in the twelve months immediately preceding the month in which such BANs are to be issued; BANs must mature not later than six months after their date of issuance and may be renewed for a period not to exceed six months. Budget Notes may only be issued to fund projected expense budget deficits; no Budget Notes, or renewals thereof, may mature later than sixty days prior to the last day of the fiscal year next succeeding the fiscal year during which the Budget Notes were originally issued.

The MAC Act contains two limitations on the amount of short-term debt which the City may issue. As of December 31, 1989, the maximum amount of additional short-term debt which the City could issue was approximately \$2.0 billion under the first limitation. The second limitation does not prohibit any issuance by the City of BANs or short-term debt issued and payable within the same fiscal year, such as TANs and RANs.

The State Constitution also provides that, with certain exceptions, the City may not contract indebtedness in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years (the "general debt limit"). Certain indebtedness ("excluded debt") is excluded in ascertaining the City's authority to contract indebtedness within the constitutional limit. TANs, RANs, BANs, URNs and Budget Notes and certain types of long-term indebtedness issued generally for public improvements and capital projects are considered excluded debt. The State Constitution also provides that the City may contract indebtedness for low-rent housing, nursing homes for persons of low income and urban renewal purposes in an amount not to exceed 2% of the average assessed valuation of the taxable real estate of the City for the most recent five years (the "2% debt limit"). Excluded from the 2% debt limit, after approval by the State Comptroller, is indebtedness for certain self-supporting programs aided by City guarantees or loans. Neither MAC indebtedness nor the City's commitments with other PBCs (other than certain guaranteed debt of the New York City Housing Authority) are chargeable against the City's constitutional debt limits.

The following table sets forth the current calculation of the debt-incurring power of the City within the general debt limit and the 2% debt limit as of December 31, 1989.

GENERAL DEBT LIMIT		
Total Debt-Incurring Power		\$31,156,560,172
Gross Debt—Funded	\$12,515,095,019	
Less: Excluded Debt	<u>1,522,286,579</u>	
	10,992,808,440	
Less: Assets of Sinking Funds and General Debt Service Fund and Balance of Appropriations for Redemption of Debt	<u>168,499,190</u>	
Net Debt	10,824,309,250	
Add: Net Contracts and Other Liabilities	<u>4,044,097,180</u>	<u>14,868,406,430</u>
Remaining Debt-Incurring Power Within Limit.....		<u><u>\$16,288,153,742</u></u>
TWO PERCENT DEBT LIMIT		
Total Debt-Incurring Power		\$ 1,207,523,637
Charges:		
New York City Housing Authority Indebtedness.....	\$ 1,578,000	
Limited Profit Housing Program	17,866,470	
Housing and Industrial Urban Renewal Programs	<u>166,351,405</u>	<u>185,795,875</u>
Remaining Debt-Incurring Power Within Limit.....		<u><u>\$ 1,021,727,762</u></u>

The Comptroller's "Unencumbered Margin" Analysis

The City Comptroller traditionally reports not only on the general debt limit, but also on the "unencumbered margin". The unencumbered margin equals the general debt limit minus certain "reserves" of debt-incurring capacity for certain items, such as Capital Budget appropriations and commitments to certain Public Benefit Corporations, which are not required to be charged against the general debt limit. At December 31, 1989, when the debt-incurring capacity under the general debt limit was \$16.288 billion, the unencumbered margin was \$4.19 billion. The unencumbered margin represents the amount available to the City for additional appropriations for capital expenditures that can be made by the City without exceeding the general debt limit. The unencumbered margin analysis has no impact on the City's legal debt-incurring capacity.

Enforceability of City Obligations

As required by the State Constitution and applicable law, the City pledges its faith and credit for the payment of the principal of and interest on all City indebtedness. Holders of City debt obligations have a contractual right to full payment of principal and interest at maturity. If the City fails to pay principal or interest, the holder has the right to sue and is entitled to the full amount due, including interest to maturity at the stated rate and at the rate authorized by law thereafter until payment. Under the General Municipal Law, if the City fails to pay any money judgment, it is the duty of the Board of Estimate of the City to assess, levy and cause to be collected amounts sufficient to pay the judgment. Decisions indicate that judicial enforcement of statutes such as this provision in the General Municipal Law is within the discretion of a court. Other judicial decisions also indicate that a money judgment against a municipality may not be enforceable against municipal property devoted to public use.

Federal Bankruptcy Code

Under the Federal Bankruptcy Code, a petition may be filed in the Federal bankruptcy court by a municipality which is insolvent or unable to meet its debts as they mature. The filing of such a petition

would operate as a stay of any proceeding to enforce a claim against the City. The Code requires the municipality to file a plan for the adjustment of its debts, which may modify or alter the rights of creditors and would authorize the Federal bankruptcy court to permit the municipality to issue certificates of indebtedness, which could have priority over existing creditors and which could be secured. Any plan of adjustment confirmed by the court must be approved by the requisite majority of creditors. If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it. The City or the Control Board, acting on behalf of the City, each has the legal capacity to file a petition under the Federal Bankruptcy Code.

Municipal Assistance Corporation Indebtedness

Since its creation, MAC has provided, among other things, financing assistance to the City by refunding maturing City short-term debt and paying or lending to the City funds received from sales of MAC bonds and notes. MAC is authorized to issue bonds and notes payable from certain State sales tax and stock transfer tax revenues and State per capita aid otherwise payable by the State to the City. These revenues flow directly from the State to MAC to the extent they are needed for MAC debt service, MAC capital reserve fund requirements or MAC operating expenses; revenues which are not needed are paid by the State to the City.

As of December 31, 1989, MAC had outstanding an aggregate of approximately \$7.307 billion of its bonds. MAC continues to be authorized to issue bonds and notes only to refund its outstanding bonds and notes, without limitation as to principal amount. For additional information regarding MAC indebtedness, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes C and G".

MAC bonds and notes constitute general obligations of MAC and do not constitute an enforceable obligation or debt of either the State or the City. Since MAC has no taxing power, pursuant to the MAC Act and subject to appropriation by the State, the special State sales tax imposed within the City, the State stock transfer tax and aid revenues formerly paid to the City are paid directly to MAC to the extent needed to meet MAC's debt service, capital reserve fund requirements and operating expenses. Failure by the State to continue the imposition of such taxes, the reduction of the rate of such taxes to rates less than those in effect on July 2, 1975, failure by the State to pay such aid revenues and the reduction of such aid revenues below a specified level are included among the events of default in the resolutions authorizing MAC's long-term debt. The occurrence of an event of default may result in the acceleration of the maturity of all or a portion of MAC's debt.

As of December 31, 1989, the City had received an aggregate of approximately \$4.85 billion from MAC for certain authorized uses by the City exclusive of capital purposes. In addition, the City had received an aggregate of approximately \$2.352 billion from MAC for capital purposes in exchange for serial bonds in a like principal amount, of which \$1.642 billion was held by MAC as of December 31, 1989. MAC has also exchanged \$1.839 billion principal amount of MAC bonds for City debt, of which approximately \$123.2 million was held by MAC on December 31, 1989.

Public Benefit Corporation Indebtedness

City Financial Commitments to PBCs

PBCs are corporate governmental agencies created by State law to finance and operate projects of a governmental nature or to provide governmental services. Generally, PBCs issue bonds and notes to finance construction of housing, hospitals, dormitories and other facilities and receive revenues from the collection of fees, charges or rentals for the use of their facilities, including subsidies and other payments from the governmental entity whose residents have benefited from the services and facilities provided by the PBC. These bonds and notes do not constitute debt of the City unless expressly guaranteed or assumed by the City.

The City has undertaken various types of financial commitments with certain PBCs which, although they generally do not represent City indebtedness, have a similar budgetary effect. During a Control Period as defined by the Financial Emergency Act, neither the City nor any Covered Organization may enter into any arrangement whereby the revenues or credit of the City are directly or indirectly pledged, encumbered, committed or promised for the payment of obligations of a PBC unless approved by the Control Board. The principal forms of the City's financial commitments with respect to PBC debt obligations are as follows:

1. *Guarantees*—PBC indebtedness may be directly guaranteed by the City.
2. *Capital Lease Obligations*—These are leases of facilities by the City or a Covered Organization, entered into with PBCs, under which the City has no liability beyond monies legally available for lease payments. State law generally provides, however, that in the event the City fails to make any required lease payment, the amount of such payment will be deducted from State aid otherwise payable to the City and will be paid to the PBC.
3. *Executed Leases*—These are leases pursuant to which the City is legally obligated to make the required rental payments.
4. *Capital Reserve Fund Arrangements*—Under these arrangements, State law requires the PBC to maintain a capital reserve fund in a specified minimum amount to be used solely for the payment of the PBC's obligations. State law further provides that in the event the capital reserve fund is depleted, State aid otherwise payable to the City may be paid to the PBC to restore such fund.

The City's financial statements include MAC and certain PBCs, such as the New York City Educational Construction Fund, the City University Construction Fund and the New York City Housing Development Corporation. For further information regarding indebtedness of these PBCs, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes F, G and Q". Certain other PBCs appear in the financial statements as Enterprise Funds. For information regarding Enterprise Funds PBCs, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Notes I, J, K, L and M".

New York City Educational Construction Fund ("ECF")

As of December 31, 1989, approximately \$135 million principal amount of ECF bonds to permanently finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF's leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

New York City Housing Authority ("HA")

As of December 31, 1989, the City had guaranteed \$48.62 million principal amount of HA bonds. The Federal government has agreed to pay debt service on \$67.7 million principal amount of additional HA indebtedness guaranteed by the City. The City has also guaranteed the repayment of \$292.9 million principal amount of HA indebtedness to the State, of which the Federal government has agreed to pay debt service on \$154.6 million. The City also pays subsidies to the HA to cover operating expenses. Exclusive of the payment of certain labor costs, such subsidies amounted to \$106.2 million in the 1989 fiscal year and are projected by the City to amount to approximately \$102.1 million in the 1990 fiscal year.

New York State Housing Finance Agency ("HFA")

As of December 31, 1989, \$354.33 million principal amount of HFA bonds relating to hospital and family care facilities leased to the City was outstanding. HFA does not receive third party revenues to offset the City's capital lease obligations with respect to these bonds. Lease payments, which are made by the City seven months in advance of payment dates of the bonds, are intended to cover

development and construction costs, including debt service, of each facility plus a share of HFA's overhead and administrative expenses. The Financial Plan contemplates that all of the outstanding HFA bonds will be refunded prior to June 30, 1990.

City University Construction Fund ("CUCF")

As of December 31, 1989, \$621.2 million principal amount of bonds, relating to Community College facilities, of the Dormitory Authority of the State of New York subject to capital lease arrangements was outstanding. The City and the State are each responsible for approximately one-half of the CUCF's annual rental payments to the Dormitory Authority which are intended to cover debt service on the Authority's bonds issued to finance the leased projects plus related overhead and administrative expenses of the Authority. As of December 31, 1989, approximately \$85.7 million was held in certain reserve funds to meet the reserve requirements of the Dormitory Authority for its bonds relating to Community College facilities. CUCF does not receive third party revenues to offset the City's obligations under the rental agreements.

New York State Urban Development Corporation ("UDC")

As of December 31, 1989, \$68.8 million principal amount of UDC bonds subject to executed or proposed lease arrangements was outstanding. This amount differs from the amount calculated by UDC (\$80.3 million) because UDC has included certain interest costs relating to Public School 50 and Intermediate School 229 in Manhattan in its calculation. The City leases schools and certain other facilities from UDC.

New York City Housing Development Corporation ("HDC")

As of December 31, 1989, \$291.4 million principal amount of HDC bonds was subject to a capital reserve fund arrangement with the City. This amount is not included in the amount of gross PBC indebtedness included in the table on Outstanding Indebtedness above. Of the total principal amount of outstanding HDC bonds, \$31.9 million relating to the 1982 Multi-Family Housing Bond Program is required to be secured by a separate \$4.78 million capital reserve fund, and \$259.5 million relating to the General Housing Program is required to be secured by a separate \$19.3 million capital reserve fund. The combined reserve requirement for both programs amounts to \$24.1 million. HDC receives substantial third party revenues, and to date the City has not been required to make any payment to HDC's capital reserve fund. Although no such payments are contemplated during the 1990 fiscal year, no assurance can be given that such payments will not be required as a result of shortfalls in mortgage payments, subsidies or otherwise. As of December 31, 1989, HDC's combined capital reserve funds amounted to approximately \$30.0 million.

FINANCIAL EMERGENCY ACT

The Financial Emergency Act requires that the City submit to the Control Board, at least 50 days prior to the beginning of each fiscal year (or on such other date as the Control Board may approve), a financial plan for the City and the Covered Organizations covering the four-year period beginning with such fiscal year. The Act requires that the City's four-year financial plans conform to a number of standards. Unless otherwise permitted by the Control Board under certain conditions, the City must prepare and balance its budget covering all expenditures other than capital items so that the results of such budget will not show a deficit when reported in accordance with GAAP. Provision must be made, among other things, for the payment in full of the debt service on all City securities. The Control Board is to determine whether the plan or any modification is complete and complies with the Act. The budget and operations of the City and the Covered Organizations must be in conformance with the financial plan then in effect.

From 1975 to June 30, 1986 the City was subject to a Control Period, as defined in the Financial Emergency Act, which was terminated upon the satisfaction of the statutory conditions for termination, including the termination of all Federal guarantees of obligations of the City, a determination by the Control Board that the City had maintained a balanced budget in accordance with GAAP for each of the three immediately preceding fiscal years and a certification by the State and City Comptrollers that sales of securities by or for the benefit of the City satisfied its capital and seasonal financing requirements in the public credit markets and was expected to satisfy such requirements in the 1987 fiscal year. With the termination of the Control Period, certain Control Board powers were suspended including, among others, its power to approve or disapprove certain contracts, long-term and short-term borrowings, and the four-year financial plan of the City and the Covered Organizations. After the termination of the Control Period but prior to the statutory expiration date of the Financial Emergency Act on July 1, 2008, the City will still be required to develop a four-year financial plan each year and to modify the plan as changing circumstances require. During this period, the Control Board will also continue to have certain review powers and must reimpose the Control Period upon the occurrence or substantial likelihood of the occurrence of certain events specified in the Act. These events are (i) failure by the City to pay principal of or interest on any of its notes or bonds when due or payable, (ii) the existence of a City operating deficit of more than \$100 million, (iii) issuance by the City of notes in violation of certain restrictions on short-term borrowing imposed by the Act, (iv) any violation by the City of any provision of the Act which substantially impairs the ability of the City to pay principal of or interest on its bonds or notes when due and payable or its ability to adopt or adhere to an operating budget balanced in accordance with the Act, and (v) joint certification by the State and City Comptrollers that they could not at that time make the joint certification required to terminate a Control Period. For further information regarding the Control Board and the requirements of the Financial Emergency Act, see "CITY FINANCIAL MANAGEMENT, BUDGETING AND CONTROLS—Financial Control Board Oversight".

The members of the Control Board are: Mario M. Cuomo, Governor of the State of New York (Chairman); Edward V. Regan, Comptroller of the State of New York; David N. Dinkins, Mayor of The City of New York; Elizabeth Holtzman, Comptroller of The City of New York; and three members appointed by the Governor, currently Donald D. Kummerfeld, President of the Magazine Publishers Association; Heather L. Ruth, Executive Director of the Public Securities Association; and Stanley S. Shuman, Executive Vice President of Allen & Company, Incorporated. The Executive Director of the Control Board, who is appointed jointly by the Governor and the Mayor, is Allen Proctor. The Control Board is assisted in the exercise of its responsibilities and powers under the Financial Emergency Act by the State Deputy Comptroller who is currently Elinor B. Bachrach.

PENSION SYSTEMS

The City maintains a number of pension systems providing benefits for its employees and employees of various independent agencies (including certain Covered Organizations). The systems combine features of a defined benefit pension plan with those of a defined contribution pension plan. Membership in the City's five major actuarial systems on June 30, 1989 consisted of approximately 352,000 active members, of whom approximately 95,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations, and approximately 191,000 retired members. The City also contributes to three other actuarial systems, maintains seven non-actuarial retirement systems for approximately 13,000 retired individuals not covered by the five major actuarial systems, provides other supplemental benefits to retirees and makes contributions to certain union annuity funds.

Each of the City's five major actuarial pension systems is managed by a board of trustees which includes representatives of the City and the employees covered by such system. The City Comptroller is the custodian of, and has been delegated investment responsibilities for, the major actuarial systems, subject to the policies established by the boards of trustees of the systems and State law.

The City's pension expenditures are expected to approximate \$1.8 billion in each of fiscal years 1990 through 1993. Certain of the systems provide pension benefits of 50% to 55% of "final pay" after 20 to 25 years of service with additional benefits for further years of service. For the 1990 fiscal year, the City's total annual pension costs, including the City's pension costs not associated with the five major actuarial systems, plus Federal Social Security tax payments by the City for the year, will approximate 23% of total payroll costs. In addition, contributions are also made by certain component units of the City and other government units directly to the New York City Employees' Retirement System ("NYCERS"), one of the five major actuarial systems. The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired.

The City makes pension contributions to the five major systems in amounts equivalent to the pension costs as determined in accordance with GAAP. Pension costs incurred with respect to the other actuarial systems to which the City contributes and the City's non-actuarial retirement systems and supplemental pension programs for participants in these non-actuarial systems are recorded and paid currently.

The five major actuarial systems are not fully funded. The excess of the present value of future pension benefits accrued on account of services already rendered (with salary projections to retirement to determine final salary) over the value of the present assets of the pension systems for the five major actuarial pension systems (including that which is attributable to independent agencies) as calculated by the City's Chief Actuary, on the basis of the actuarial assumptions then in effect, are set forth in the following table.

<u>June 30,</u>	<u>Amount(1)</u> (In Billions)
1985	\$10.44
1986	10.88
1987	9.93
1988	7.79
1989	6.51

(1) For purposes of making these calculations, accrued pension contributions receivable from the City were not treated as assets of the system.

The five major actuarial systems are now being funded on a basis which is designed to gradually reduce the unfunded accrued liability of those systems. Additionally, the City Actuary estimated that, as of June 30, 1989, there was approximately \$487 million of unfunded liability on account of the non-actuarial retirement systems and supplemental pension programs for participants in these nonactuarial programs.

In an opinion dated May 31, 1988, the State Court of Appeals held that certain part-time doctors are eligible for membership in NYCERS and declared that under the applicable statutory language all employees of the City and related entities including part-timers could become members of the system. At this date it is unclear how the decision will be implemented. The City's Financial Plan includes provisions to accommodate the increased pension contributions for part-time employees which eventually amount to \$26 million annually.

For further information regarding the City's pension systems see "FINANCIAL STATEMENTS—Notes to Financial Statements—Note Q".

LITIGATION

The following paragraphs describe certain material legal proceedings and claims involving the City and Covered Organizations other than routine litigation incidental to the performance of their governmental and other functions and certain other litigation arising out of alleged constitutional violations, torts, breaches of contract and other violations of law and condemnation proceedings. While the ultimate outcome and fiscal impact, if any, on the City of the proceedings and claims described below are not currently predictable, adverse determinations in certain of them might have a material adverse effect upon the City's ability to carry out the 1990-1993 Financial Plan.

Civil Rights

Numerous legal and administrative actions have been commenced and claims asserted against the City and Covered Organizations in which it is alleged that the City and the Covered Organizations have discriminated on the basis of race, color, national origin, sex, age, handicapped status or religion or on other bases in violation of the United States Constitution, numerous Federal statutes, the State Constitution, the State Human Rights Law, the City Administrative Code, certain Mayoral Executive Orders and other provisions of law. Certain of these claims are before agencies which provide funds to the City and which have notified the City that they are reviewing these claims. Findings of unlawful discrimination or of noncompliance with any of the City's compliance agreements could result in the suspension or termination of aid payments to the City or the Covered Organizations. In certain cases, the City or a Covered Organization could be required to repay funds previously received.

Taxes

Numerous real estate tax *certiorari* proceedings alleging overvaluation, inequality and illegality are pending against the City. In response to these actions, State legislation was enacted in December 1981 which, among other things, authorizes the City to assess real property according to four classes and provides for certain evidentiary changes in tax *certiorari* proceedings. Based on historical settlement activity, and including an estimated premium for inequality of assessment, the City estimates its potential future liability for outstanding *certiorari* proceedings to be \$155 million at June 30, 1989. For a discussion of the City's accounting treatment of its inequality and overvaluation exposure, see "FINANCIAL STATEMENTS—Notes to Financial Statements—Note G".

Environmental

1. The City is currently a party to a consent decree governing the operation of the landfill at Fresh Kills to which 90% of the City's residential waste is brought. On November 9, 1989, an administrative enforcement action was commenced by the State Department of Environmental Conservation against the City seeking \$81 million in penalties for alleged violations by the City of the consent decree and further seeking to close the landfill as early as 1991. A suit brought by a citizen of Staten Island is also pending in the United States District Court for the Eastern District of New York seeking an injunction against future use of the landfill and fines.

2. The State has received a letter from the EPA stating that the New York City metropolitan area has failed to attain certain air pollution standards established under the Clean Air Act and notifying it that its State Implementation Plan established pursuant to such act (the "SIP") is substantially inadequate to achieve such standards for such area and therefore requires revision. In addition, in accordance with the order of the Southern District issued in an action commenced by NRDC and others, the EPA has set a date of September 30, 1991 by which time the SIP must be revised. The EPA has also published a proposed rule which would disapprove certain programs that have been submitted by the State pursuant to the SIP. Failure to revise the SIP in accordance with the requirements of the EPA or to comply with the rule, if promulgated, could result in, among other things, a moratorium on the construction of facilities that are a source of certain pollutants and the cutoff of substantial Federal

funds, including the withholding of approximately \$200 million in Federal highway funds that are received annually.

Miscellaneous

1. Approximately 50 actions apparently seeking \$1.5 billion in damages, one of which purports to be a class action, are pending in the State Supreme Court, New York County, against the City alleging damages arising out of a water main break and electrical blackout that occurred on August 10, 1983.

2. On May 19, 1987, an action was commenced in the State Supreme Court, New York County, against the City, the MTA, the TBTA and other parties seeking to enjoin the proposed sale of the New York City Coliseum site (the "Coliseum"), based on, among other things, the City's determination that submitting the proposed sale of the Coliseum to competitive bidding was not required under applicable law. On June 16, 1988, the State Supreme Court, New York County, granted the City's motion for summary judgment dismissing the complaint. On August 19, 1988, the plaintiff filed a notice of appeal of this decision and the appeal was argued on November 9, 1989. In addition, two other actions were commenced on June 5, 1987 in the same Court seeking similar relief, but based on alleged violations of applicable zoning laws and other grounds. These additional actions were consolidated and, in a decision rendered on December 7, 1987, the Court set aside the approval of the sale on the grounds that the contract of sale would violate applicable zoning laws. On April 7, 1988, the City filed an amended notice of appeal from this decision to the Appellate Division, First Department. The appeal was argued on November 10, 1988.

On May 4, 1989, an amended contract of sale was approved by the Board of Estimate. On September 5, 1989, an action was commenced by the Coalition Against Columbus Center and other plaintiffs in the Southern District against the City, the MTA, the TBTA and other parties alleging violations of the Clean Air Act, other federal statutes and state statutes in connection with the amended contract of sale. Plaintiffs seek a declaration that the Board of Estimate's approval, as well as other approvals, of the new contract is null and void and that further action on development of the site be enjoined. On February 5, 1990, the court dismissed plaintiff's federal claim on technical grounds with leave to refile, and ruled that jurisdiction on the state claims was not retained. Plaintiffs have indicated that they intend to refile. In addition, on September 20, 1989, an action was commenced against the City and others in the State Supreme Court, New York County, alleging that earlier actions by the City taken in connection with the contract of sale violated provisions of the Charter of the City requiring the Comptroller of the City to approve all settlements and provisions of the State Constitution prohibiting gifts of public funds. Plaintiffs seek that the amended contract of sale be set aside and that further action on development of the site be enjoined. The 1990-1993 Financial Plan includes the receipt of approximately \$303 million in revenue receipts and expenditure reductions in fiscal year 1991 and \$35 million in revenue receipts and expenditure reductions in fiscal year 1992 from the sale of the Coliseum.

3. On June 20, 1988, an action was commenced in the State Supreme Court, New York County, against the City, the Landmarks Commission, the City Planning Commission and the Board of Estimate seeking rescission of the designations of numerous theatres in the midtown area of Manhattan as landmarks and alleging that the City should have performed environmental reviews prior to such designations. Plaintiffs also allege that the zoning resolution requirement for a special demolition permit for listed theatres is not statutorily authorized. In addition, the complaint seeks damages of at least \$200 million to compensate the theatre owners for their alleged inability to develop their property because of the landmark designations. On December 7, 1989, the Court granted the City's motion to dismiss the complaint. On February 6, 1990, plaintiffs filed a notice of appeal.

4. On November 14, 1988, Kalikow 78/79 Company, a real estate partnership, commenced an action in the State Supreme Court, New York County, against the State, the City, the State Division of Housing and Community Renewal ("DHCR") and one of its officials, challenging a provision of the

City's Administrative Code which prevents a landlord from obtaining a certificate of eviction permitting him to evict the tenant of a rent controlled apartment, unless DHCR finds that there is no reasonable possibility that the landlord can obtain a net annual return of 8½% of the assessed value of the property. Plaintiff alleges that the provision's use of a property's assessed value, which is fixed substantially below the purchase price or fair market value of the property, has rendered it unable to qualify for a certificate of eviction which is sought for certain properties on which plaintiff wishes to construct a new residential building. Plaintiff further alleges that application of the contested provision is irrational, arbitrary and capricious, and results in a denial of due process and a taking without just compensation in violation of the Fifth Amendment of the United States Constitution. Plaintiff seeks damages against the City in excess of \$600 million. On February 2, 1990, the Court ruled that the complaint failed to state a cause of action and dismissed the complaint.

5. In March 1989, parties representing members of the New York City Transit Police Department (the "Transit Police") Policemen's Benevolent Association brought an action in the State Supreme Court, New York County, against the City and other defendants. Plaintiffs allege that they were fraudulently led to believe that the benefits available to them were equivalent to those benefits available to members of the New York City Police Department ("NYPD"). Plaintiffs claim that the NYPD provides additional benefits to its members, such as that of the Police Officers' Variable Supplement Fund, which are not available to the members of the Transit Police. On January 24, 1990, the Court issued a memorandum decision granting the defendants' motions to dismiss the complaint. If the plaintiffs are ultimately successful in this suit, it could result in substantial costs to the City.

6. On May 12, 1989, plaintiffs, representing former police officers who retired on either accident or ordinary disability pensions and those who retired with less than 20 years of allowable police service but with vested pension rights, filed an action in the Southern District against the City and the Boards of Trustees for the PVSF and the Police Superior Officers' Variable Supplement Fund ("SOVSF"). Plaintiffs allege that because they were ineligible for benefits under either the PVSF or the SOVSF they have been deprived of equal protection of the law and of property without just compensation and without due process of law under the Fifth and Fourteenth Amendments to the United States Constitution. They also allege that their contractual rights in their pension benefits have been impaired in violation of the United States and State Constitutions.

7. In an action commenced in State Supreme Court, New York County in June 1989, the Coalition for The Homeless, a not-for-profit corporation which provides services to the homeless, and certain individuals who are drug abusers, including homeless drug abusers, are challenging the adequacy of care available for persons who abuse drugs. Plaintiffs are seeking declaratory and injunctive relief requiring the defendants (various officials of the State and the City) to provide them and all other persons similarly situated with immediate treatment for drug abuse. On December 15, 1989, the Court granted the defendants' motions to dismiss the complaint. On February 5, 1990, plaintiffs filed a notice of appeal.

8. Eleven actions have been commenced in State Supreme Court, New York County, and four Notices of Claim have been filed against the City seeking damages in connection with the provisions of Local Law No. 9 which prohibits the demolition, alteration or conversion of single room occupancy properties, or refunds from a fund established in accordance with such law. Local Law No. 9 has been declared unconstitutional by the State Court of Appeals. On November 27, 1989, the United States Supreme Court denied the City's petition for certiorari seeking review of the decision of the Court of Appeals.

9. On October 30, 1989, a lawsuit was commenced in State Supreme Court, New York County, against the City and others by 383 Madison Associates alleging, among other things, that the City's denial of plaintiff's application for a special permit to transfer development rights associated with Grand Central Terminal to a property owned by plaintiff is a taking without just compensation in

violation of the United States and the State Constitutions. Plaintiff seeks declaratory and injunctive relief and damages in the amount of \$480 million.

10. The City has received in excess of 450 notices of claims seeking damages for personal injuries and property damage in connection with an explosion of a Con Edison steam pipe which occurred in Gramercy Park on August 19, 1989. While not all of the claims specify a dollar amount sought, claims which do indicate an amount for damages seek in the aggregate in excess of \$1.3 billion.

11. On December 15, 1989, the Governor signed into law a bill enacted by the New York State Legislature providing for a November 1990 referendum of the voters of Staten Island on the question of whether Staten Island should secede from the City of New York to become a separate City of Staten Island, creation of a charter commission if the vote is in the affirmative to draft a charter for a City of Staten Island, and a subsequent referendum of the voters of Staten Island in 1993 as to whether the proposed charter should be approved. On December 28, 1989, the City commenced an action in the State Supreme Court, New York County, challenging the new legislation on the ground that it violates (a) the home rule provisions of the State Constitution and (b) the right of the residents of the Bronx, Brooklyn, Manhattan, and Queens to Equal Protection of the Laws under the State Constitution and the Fourteenth Amendment to the Constitution of the United States by denying them the right to vote on these questions. In such action, the City alleges that secession of Staten Island would remove from the City vacant land available for further development, would place outside its boundaries many properties of substantial value that have been built, improved and maintained by the City, would deprive the City of revenues from property, sales, income and other taxes, would impact upon the City's fiscal affairs, since Staten Island has an obligation to bear a portion of the City's long-term bonded debt, and would require a revision of the Charter of the City of New York to change existing governmental structures.

TAX EXEMPTION

In the opinion of Brown & Wood, New York, New York, as Bond Counsel, based on existing statutes, regulations and court decisions and assuming continuing compliance by the City with certain covenants of the City and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding use, expenditure and investment of its bond proceeds and the timely payment of certain investment earnings to the United States Treasury, interest on the Bonds will not be includable in the gross income of the owners of the Bonds for purposes of Federal income taxation. Interest on the Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

Interest on the Bonds will not be a specific preference item for purposes of the Federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which Brown & Wood renders no opinion, as a result of ownership of such Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax and environmental tax) of interest that is excluded from gross income. Interest on the Bonds owned by a corporation will be included in the calculation of the corporation's Federal alternative minimum tax liability and Federal environmental tax liability.

Ownership of tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirements benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The initial public offering price of the Bonds due in 1996 through 1998, inclusive, and in 2000 and thereafter (the "OID Bonds") is less than the amount payable at maturity. The difference between the initial public offering price to the public (excluding bond houses and brokers) at which price a substantial amount of the OID Bonds was sold and the amount payable at maturity constitutes original issue discount, which will be excludable from gross income for Federal, New York State and New York City income tax purposes. The Code provides that the amount excludable accrues on an actuarial basis, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of such Bonds will be increased by such amount. A portion of the original issue discount that accrues in each year to an owner of an OID Bond which is a corporation will be included in the calculation of the corporation's Federal alternative minimum tax liability and Federal environmental tax liability. Consequently, corporate owners of any OID Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability or an environmental tax liability although the owner of such OID Bond has not received cash attributable to such original issue discount in such year. Owners of OID Bonds should consult their personal tax advisors with respect to the determination for Federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Bonds, other tax consequences of owning Bonds with original issue discount, and with respect to the other state and local tax consequences of holding such Bonds.

Legislation affecting municipal bonds is constantly being considered by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status or market price of the Bonds.

BOOK-ENTRY ONLY SYSTEM

The Bonds will be issued as registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

DTC holds securities and facilitates the clearance and settlement of securities transactions through electronic book-entry changes in accounts of its participants (the "DTC Participants"), thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of which (and/or their representatives) own DTC. Access to the DTC system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

DTC Participants will be credited in the records of DTC with the amount of such Participants' interests in the Bonds. Beneficial ownership interests in the Bonds in the amount of \$5,000 or any integral multiple thereof may be purchased by or through DTC Participants. A purchaser of such an interest (a "Beneficial Owner") will not receive a certificate representing his beneficial ownership interest. The ownership interest of each Beneficial Owner will be recorded through the records of the DTC Participant from which he purchased his Bonds. Transfers of ownership interests in the Bonds will be accomplished by book entries made by DTC and, in turn, by DTC Participants acting on behalf of Beneficial Owners. It is anticipated that each Beneficial Owner will receive a written confirmation of the ownership interests acquired by him in the Bonds from a DTC Participant.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the owners of Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. Beneficial Owners may desire to make arrangements with a DTC Participant so that all notices of

redemption or other communications to DTC, which affect such Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the DTC Participant.

Payments of principal of, redemption premium, if any, and interest on the Bonds will be paid by the City or by a fiscal agent of the City (the "Fiscal Agent") directly to DTC or its nominee, Cede & Co. DTC will remit such payments to DTC Participants and such payments will thereafter be paid by DTC Participants to the Beneficial Owners. No assurance can be given by the City that DTC and DTC Participants will make prompt transfer of payments to Beneficial Owners. The City is not responsible or liable for payment by DTC or DTC Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or DTC Participants.

For every transfer and exchange of the Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

DTC may discontinue providing its services with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law, or the City may terminate its participation in the system of book-entry transfers through DTC at any time. In the event that the book-entry-only system is discontinued, the City will authenticate and make available for delivery replacement Bonds in the form of registered certificates. In addition, the following provisions would apply: principal of the Bonds and redemption premium, if any, will be payable in lawful money of the United States of America at the office of the Fiscal Agent, The Chase Manhattan Bank, N.A., Municipal Paying Agency Services Division, One New York Plaza—14th floor, New York, New York 10081, or any successor fiscal agent designated by the City, and interest on the Bonds will be payable by wire transfer or by check mailed to the respective addresses of the registered owners thereof as shown on the registration books of the City as of the close of business on the fifteenth day of the calendar month immediately preceding the applicable interest payment date.

RATINGS

Moody's Investors Service ("Moody's") has rated the Bonds A. Standard & Poor's Corporation ("Standard & Poor's") has rated the Bonds A-. These ratings do not reflect any bond insurance relating to any portion of the Bonds. The City expects that ratings on the Financial Guaranty Insured Bonds will be received prior to February 23, 1990. The ratings on the Financial Guaranty Insured Bonds will be based on the insurance policies to be issued by Financial Guaranty. Such ratings reflect only the views of Standard & Poor's and Moody's from which an explanation of the significance of such ratings may be obtained. There is no assurance that either or both of such ratings will continue for any given period of time or that either or both will not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of the Bonds.

In 1975, Standard & Poor's suspended its "A" rating of City bonds. This suspension remained in effect until March 1981, at which time the City received an investment grade rating of BBB from Standard & Poor's. On July 2, 1985, Standard & Poor's revised its rating of City bonds upward to BBB+ and on November 19, 1987, to A-. Moody's ratings of City bonds were revised in November 1981 from "B" (in effect since 1977) to "Ba1", in November 1983 to "Baa", in December 1985 to "Baa1" and again in May 1988 to A.

LEGAL OPINIONS

The legality of the authorization and issuance of the Bonds will be covered by the approving legal opinion of Brown & Wood, New York, New York, Bond Counsel to the City. Reference should be made to the form of such opinion set forth in Appendix B hereto for the matters covered by such opinion and the scope of Bond Counsel's engagement in relation to the issuance of the Bonds. Such firm is also acting as counsel for and against the City in certain other unrelated matters.

Certain legal matters will be passed upon for the City by its Corporation Counsel.

Lord Day & Lord, Barrett Smith, New York, New York, Special Counsel to the City, will pass upon certain legal matters in connection with the preparation of this Official Statement. A description of those matters and the nature of the review conducted by that firm is set forth in its opinion and accompanying memorandum which are on file at the office of the Corporation Counsel.

FINANCIAL ADVISOR

The City retains The First Boston Corporation ("First Boston") to act as financial advisor with respect to the City's financing program. First Boston is acting in this capacity for the issuance of the Bonds.

REOFFERING BY THE ORIGINAL PURCHASERS

The Bonds are being purchased from the City at an aggregate purchase price of \$241,346,198.00 for reoffering by the original purchasers. A portion of the spread between the aggregate purchase price and the aggregate initial offering price of the Bonds will be used to pay for the insurance on the Bonds which the original purchasers will purchase.

FURTHER INFORMATION

The references herein to, and summaries of, Federal, State and local laws, including but not limited to the State Constitution, the Financial Emergency Act, the Moratorium Act, the MAC Act and the City Charter, and documents, agreements and court decisions, including but not limited to the Financial Plans, are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or decisions, copies of which are available for inspection during normal business hours at the office of the Corporation Counsel.

Neither this Official Statement nor any statement which may have been made orally or in writing shall be construed as a contract or as a part of a contract with the original purchasers or any holders of the Bonds.

THE CITY OF NEW YORK

By /s/ David N. Dinkins
DAVID N. DINKINS, *Mayor*

By /s/ Elizabeth Holtzman
ELIZABETH HOLTZMAN, *Comptroller*

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OF
THE CITY OF NEW YORK
June 30, 1989 and 1988
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Certified Public Accountants

Peat Marwick Main & Co.

345 Park Avenue
New York, NY 10154

Independent Auditors' Report

To The People of The City of New York

We have audited the general purpose financial statements of The City of New York (City) as of and for the years ended June 30, 1989 and 1988, as listed in the accompanying index. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits. We did not audit the financial statements of the Housing and Economic Development enterprise funds and the Municipal Assistance Corporation For The City of New York debt service fund and general long-term obligations account group. These financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the general purpose financial statements expressed herein, insofar as it relates to the amounts included for such funds and account group is based solely upon the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of The City of New York at June 30, 1989 and 1988, and the results of its operations and the cash flows of its proprietary fund type for the years then ended, in conformity with generally accepted accounting principles.

Peat Marwick Main & Co.

October 27, 1989



THE CITY OF NEW YORK
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1989
(in thousands)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total Memorandum Only)
	General	Capital Projects	Debt Service			Enterprise	Trust and Agency	
ASSETS:								
Cash and cash equivalents	\$ 190,321	\$ -	\$ 90,313	\$ 126,449	\$ 84,592	\$ -	\$ -	\$ 491,675
Investments, including accrued interest	1,744,214	464,994	2,267,463	1,162,898	38,649,284	-	-	44,288,853
Accounts receivable:								
Real estate taxes (less allowance for uncollectible amounts of \$13,799)	71,845	-	-	-	-	-	-	71,845
Federal, State and other aid	1,848,097	182,691	-	-	-	-	-	2,030,788
Patient service, net	-	-	-	450,465	-	-	-	450,465
Other, net	308,315	-	-	191,167	205,648	-	-	705,130
Mortgage loans and interest receivable, net	-	-	303,607	1,625,972	-	-	-	1,929,579
Due from other funds	647,244	207,299	186,908	4,435	2,521	-	-	1,048,407
Property, plant and equipment	-	-	-	10,947,698	-	-	-	20,887,065
Accumulated depreciation and amortization	-	-	-	(3,250,805)	-	-	-	(6,781,042)
Restricted assets	-	-	-	465,137	-	-	-	465,137
Other assets	-	25,405	-	92,290	8,836	-	-	126,531
Amounts available in Debt Service Funds	-	-	-	-	-	-	2,809,282	2,809,282
Amounts to be provided for general long-term obligations	-	-	-	-	-	-	-	-
Total assets	\$4,810,036	\$880,389	\$2,848,291	\$11,815,706	\$38,950,881	\$6,409,130	21,800,485	\$90,324,200

See accompanying notes to financial statements.

THE CITY OF NEW YORK

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1989
(in thousands)

	Governmental Fund Types			Proprietary Fund Type		Fiduciary Fund Types		Account Groups		Total Memorandum (Only)
	General	Capital Projects	Debt Service	Enterprise	Trust and Agency	General Fixed Assets	General Long-term Obligations			
LIABILITIES:										
Accounts payable and accrued liabilities	\$3,791,584	\$ 691,869	\$ 35,633	\$ 329,538	\$ 1,001,583	\$ -	\$ -	\$ -	\$ 5,850,207	
Bonds and notes payable	-	-	-	3,886,479	-	17,514,175	-	-	21,400,654	
Capital lease obligations	-	-	-	-	-	-	-	488,695	488,695	
Accrued real estate tax refunds	19,087	-	-	-	-	-	-	155,000	174,087	
Accrued tax refunds—other	118,133	-	-	-	-	-	-	-	118,133	
Accrued judgments and claims	71,378	67,063	-	-	-	-	-	-	2,438,441	
Accrued vacation and sick leave	-	-	-	125,723	-	-	-	2,300,000	1,485,723	
Deferred wages	19,690	-	-	2,742	-	-	-	30,992	53,424	
Accrued pension liability	-	-	-	120,400	-	-	-	2,760,905	2,881,305	
Accrued interest payable	-	-	-	68,018	-	-	-	-	68,018	
Deferred revenues	378,342	525,507	-	101,847	-	-	-	-	1,005,696	
Due to other funds	153,929	519,400	3,376	342,181	29,521	-	-	-	1,048,407	
Estimated disallowances of Federal, State and other aid	189,601	-	-	57,719	-	-	-	-	189,601	
Other	-	-	-	-	-	-	-	-	57,719	
Total liabilities	4,741,744	1,803,839	39,009	5,034,647	1,031,104	-	-	24,609,767	37,260,110	
FUND EQUITY:										
Investment in general fixed assets	-	-	-	-	-	6,409,130	-	-	6,409,130	
Contributed capital	-	-	-	6,086,010	-	-	-	-	6,086,010	
Retained earnings, unreserved	-	-	-	101,362	-	-	-	-	101,362	
Fund balances:										
Reserved for debt service	-	-	2,511,760	-	-	-	-	-	2,511,760	
Reserved for non-current mortgage loans	-	-	297,522	-	-	-	-	-	297,522	
Reserved for benefit payments	-	-	-	-	939,649	-	-	-	939,649	
Reserved for debt retirement	-	-	-	130,354	-	-	-	-	130,354	
Reserved for loans	-	-	-	139,976	-	-	-	-	139,976	
Reserved for insurance claims	-	-	-	25,401	-	-	-	-	25,401	
Reserved for donor restrictions	-	-	-	13,886	-	-	-	-	13,886	
Reserved for pension benefits	-	-	-	-	36,980,128	-	-	-	36,980,128	
Unreserved	68,292	(923,450)	-	284,070	-	-	-	-	(571,088)	
Total fund equity (deficit)	68,292	(923,450)	2,809,282	6,781,059	37,919,777	6,409,130	-	-	53,064,090	
Commitments and contingencies	-	-	-	-	-	-	-	-	-	
Total liabilities and fund equity	\$4,810,036	\$ 880,389	\$2,848,291	\$11,815,706	\$38,950,881	\$6,409,130	\$24,609,767	\$90,324,200		

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1988
(in thousands)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total Memorandum (Memorandum Only)		
	General	Capital Projects	Debt Service			Enterprise	Trust and Agency		General Fixed Assets	General Long-term Obligations
ASSETS:										
Cash and cash equivalents	\$ 175,559	\$ -	\$ 85,746	\$ 133,304	\$ 14,260	\$ -	\$ -	\$ 408,869		
Investments, including accrued interest	1,696,763	583,967	2,372,372	1,348,392	34,930,386	-	-	40,931,880		
Accounts receivable:										
Real estate taxes (less allowance for uncollectible amounts of \$24,442)	83,521	-	-	-	-	-	-	83,521		
Federal, State and other aid	1,529,192	250,205	-	-	-	-	-	1,779,397		
Patient service, net	-	-	-	413,269	-	-	-	413,269		
Other, net	313,508	-	144,858	208,087	254,341	-	-	920,794		
Mortgage loans and interest receivable, net	-	-	310,841	1,489,608	-	-	-	1,800,449		
Due from other funds	457,980	209,311	226,745	38,783	2,521	-	-	935,340		
Property, plant and equipment	-	-	-	10,150,562	-	9,370,084	-	19,520,646		
Accumulated depreciation and amortization	-	-	-	(3,076,451)	-	(3,382,305)	-	(6,458,756)		
Restricted assets	-	-	-	356,246	-	-	-	356,246		
Other assets	16,321	22,086	-	95,026	7,055	-	-	140,488		
Amounts available in Debt Service Funds	-	-	-	-	-	-	2,947,525	2,947,525		
Amounts to be provided for general long-term obligations	-	-	-	-	-	-	-	-		
Total assets	\$4,272,844	\$1,065,569	\$3,140,562	\$11,156,826	\$35,208,563	\$5,987,779	20,865,468	20,865,468		
								\$84,645,136		

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMBINED BALANCE SHEET — ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1988
(in thousands)

	Governmental Fund Types			Proprietary Fund Type		Fiduciary Fund Type		Account Groups			Total (Memorandum Only)
	General	Capital Projects	Debt Service	Enterprise		Trust and Agency	General Fixed Assets	General Long-term Obligations	General		
				Enterprise	Enterprise				Fixed Assets	Long-term Obligations	
LIABILITIES:											
Accounts payable and accrued liabilities	\$3,266,595	\$ 548,147	\$ 175,238	\$ 293,296	\$ 945,892	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,229,168
Bonds and notes payable	—	—	—	3,499,209	—	—	—	16,363,144	—	—	19,862,353
Capital lease obligations	—	—	—	—	—	—	—	504,241	—	—	504,241
Accrued real estate tax refunds	30,446	—	—	—	—	—	—	180,000	—	—	210,446
Accrued tax refunds—other	120,303	—	—	—	—	—	—	—	—	—	120,303
Accrued judgments and claims	71,416	52,712	—	—	—	—	—	—	—	—	2,724,128
Accrued vacation and sick leave	—	—	—	117,249	—	—	—	2,600,000	—	—	1,407,249
Deferred wages	15,517	—	—	4,218	—	—	—	1,290,000	—	—	116,358
Accrued pension liability	—	—	—	121,196	—	—	—	96,623	—	—	2,900,181
Accrued interest payable	—	—	—	59,944	—	—	—	—	—	—	59,944
Deferred revenues	277,794	527,085	—	102,503	—	—	—	—	—	—	907,382
Due to other funds	233,354	364,567	17,799	317,099	2,521	—	—	—	—	—	935,340
Estimated disallowances of Federal, State and other aid	195,434	—	—	—	—	—	—	—	—	—	195,434
Other	—	—	—	54,560	—	—	—	—	—	—	54,560
Total liabilities	4,210,859	1,492,511	193,037	4,569,274	948,413	—	—	23,812,993	—	—	35,227,087
FUND EQUITY:											
Investment in general fixed assets	—	—	—	—	—	—	5,987,779	—	—	—	5,987,779
Contributed capital	—	—	—	5,890,275	—	—	—	—	—	—	5,890,275
Retained earnings, unreserved	—	—	—	126,617	—	—	—	—	—	—	126,617
Fund balances:											
Reserved for debt service	—	—	2,643,376	—	—	—	—	—	—	—	2,643,376
Reserved for non-current mortgage loans	—	—	304,149	—	—	—	—	—	—	—	304,149
Reserved for benefit payments	—	—	—	—	1,005,295	—	—	—	—	—	1,005,295
Reserved for debt retirement	—	—	—	132,322	—	—	—	—	—	—	132,322
Reserved for loans	—	—	—	133,482	—	—	—	—	—	—	133,482
Reserved for insurance claims	—	—	—	23,545	—	—	—	—	—	—	23,545
Reserved for donor restrictions	—	—	—	13,161	—	—	—	—	—	—	13,161
Reserved for pension benefits	—	—	—	—	33,254,855	—	—	—	—	—	33,254,855
Unreserved	61,985	(426,942)	—	268,150	—	—	—	—	—	—	(96,807)
Total fund equity (deficit)	61,985	(426,942)	2,947,525	6,587,552	34,260,150	—	5,987,779	—	—	—	49,418,049
Commitments and contingencies	—	—	—	—	—	—	—	—	—	—	—
Total liabilities and fund equity	\$4,272,844	\$1,065,569	\$3,140,562	\$11,156,826	\$35,208,563	\$5,987,779	\$23,812,993	\$84,645,136	\$84,645,136	\$84,645,136	\$84,645,136

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FOR THE YEAR ENDED JUNE 30, 1989
(in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Capital Projects	Debt Service	Expendable Trust	
REVENUES:					
Real estate taxes	\$ 5,942,929	\$ —	\$ —	\$ —	\$ 5,942,929
Sales and use taxes	2,729,885	—	—	—	2,729,885
Income taxes	4,534,427	—	—	—	4,534,427
Other taxes	1,145,786	—	—	—	1,145,786
Federal, State and other categorical aid	7,338,581	234,398	156,447	—	7,729,426
Unrestricted Federal and State aid	713,418	—	—	—	713,418
Charges for services	1,018,766	—	—	—	1,018,766
Other	920,155	495,668	272,640	67,388	1,755,851
Total revenues	<u>24,343,947</u>	<u>730,066</u>	<u>429,087</u>	<u>67,388</u>	<u>25,570,488</u>
OTHER FINANCING SOURCES:					
Transfer from OTB Enterprise Fund	43,651	—	—	—	43,651
Transfer from Expendable Trust Fund	102,000	—	—	—	102,000
Transfers and other payments for debt service	—	—	1,773,508	—	—*
Net proceeds from sale of notes and bonds	—	1,915,000	14,520	—	1,929,520
Refunding bond proceeds	—	—	1,768,726	—	1,768,726
Total revenues and other financing sources ...	<u>24,489,598</u>	<u>2,645,066</u>	<u>3,985,841</u>	<u>67,388</u>	<u>29,414,385</u>
EXPENDITURES:					
Current Operations:					
General government	759,257	—	—	—	759,257
Public safety and judicial	3,173,618	—	—	—	3,173,618
Board of Education	5,786,328	—	—	—	5,786,328
City University	266,215	—	—	—	266,215
Social services	5,355,102	—	—	—	5,355,102
Environmental protection	909,983	—	—	—	909,983
Transportation services	931,322	—	—	—	931,322
Parks, recreation and cultural activities	259,078	—	—	—	259,078
Housing	602,540	—	—	—	602,540
Health (including payments to HHC)	1,337,108	—	—	—	1,337,108
Libraries	185,069	—	—	—	185,069
Pensions	1,742,457	—	—	—	1,742,457
Judgments and claims	155,118	—	—	—	155,118
Fringe benefit and other benefit payments	995,537	—	—	31,034	1,026,571
Other	251,051	—	28,698	—	279,749
Capital Projects	—	3,141,574	—	—	3,141,574
Debt Service:					
Interest	—	—	1,226,542	—	1,226,542
Redemptions	—	—	972,142	—	972,142
Lease payments	—	—	127,976	—	127,976
Total expenditures	<u>22,709,783</u>	<u>3,141,574</u>	<u>2,355,358</u>	<u>31,034</u>	<u>28,237,749</u>
OTHER FINANCING USES:					
Transfers and other payments for debt service	1,773,508	—	—	—	—*
Transfer to General Fund	—	—	—	102,000	102,000
Payment to refunded bond escrow holder	—	—	1,768,726	—	1,768,726
Total expenditures and other financing uses ...	<u>24,483,291</u>	<u>3,141,574</u>	<u>4,124,084</u>	<u>133,034</u>	<u>30,108,475</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES					
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	61,985	(426,942)	2,947,525	1,005,295	3,587,863
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 68,292</u>	<u>\$ (923,450)</u>	<u>\$ 2,809,282</u>	<u>\$ 939,649</u>	<u>\$ 2,893,773</u>

See accompanying notes to financial statements.

* Eliminated.

THE CITY OF NEW YORK
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FOR THE YEAR ENDED JUNE 30, 1988
(in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Capital Projects	Debt Service	Expendable Trust	
REVENUES:					
Real estate taxes	\$ 5,382,369	\$ —	\$ —	\$ —	\$ 5,382,369
Sales and use taxes	2,640,934	—	—	—	2,640,934
Income taxes	4,151,218	—	—	—	4,151,218
Other taxes	1,096,640	—	—	—	1,096,640
Federal, State and other categorical aid	6,760,261	175,035	154,913	—	7,090,209
Unrestricted Federal and State aid	652,790	—	—	—	652,790
Charges for services	890,144	—	—	—	890,144
Other revenues	796,848	493,042	252,366	58,918	1,601,174
Total revenues	<u>22,371,204</u>	<u>668,077</u>	<u>407,279</u>	<u>58,918</u>	<u>23,505,478</u>
OTHER FINANCING SOURCES:					
Transfer from OTB Enterprise Fund	54,775	—	—	—	54,775
Transfers and other payments for debt service	—	—	1,616,417	—	—*
Net proceeds from sale of bonds	—	1,550,000	19,507	—	1,569,507
Refunding bond proceeds	—	—	653,905	—	653,905
Total revenues and other financing sources ...	<u>22,425,979</u>	<u>2,218,077</u>	<u>2,697,108</u>	<u>58,918</u>	<u>25,783,665</u>
EXPENDITURES:					
Current Operations:					
General government	717,871	—	—	—	717,871
Public safety and judicial	2,920,100	—	—	—	2,920,100
Board of Education	5,285,093	—	—	—	5,285,093
City University	259,018	—	—	—	259,018
Social services	5,014,874	—	—	—	5,014,874
Environmental protection	834,551	—	—	—	834,551
Transportation services	848,735	—	—	—	848,735
Parks, recreation and cultural activities	254,125	—	—	—	254,125
Housing	605,901	—	—	—	605,901
Health (including payments to HHC)	970,662	—	—	—	970,662
Libraries	132,957	—	—	—	132,957
Pensions	1,752,920	—	—	—	1,752,920
Judgments and claims	161,182	—	—	—	161,182
Fringe benefit and other benefit payments	875,732	—	—	30,405	906,137
Other	165,481	—	27,292	—	192,773
Capital Projects	<u>—</u>	<u>2,231,384</u>	<u>—</u>	<u>—</u>	<u>2,231,384</u>
Debt Service:					
Interest	—	—	1,205,003	—	1,205,003
Redemptions	—	—	1,011,229	—	1,011,229
Lease payments	—	—	119,584	—	119,584
Total expenditures	<u>20,799,202</u>	<u>2,231,384</u>	<u>2,363,108</u>	<u>30,405</u>	<u>25,424,099</u>
OTHER FINANCING USES:					
Transfers and other payments for debt service	1,616,417	—	—	—	—*
Payment to refunded bond escrow holder	—	—	653,905	—	653,905
Total expenditures and other financing uses ...	<u>22,415,619</u>	<u>2,231,384</u>	<u>3,017,013</u>	<u>30,405</u>	<u>26,078,004</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	10,360	(13,307)	(319,905)	28,513	(294,339)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	<u>51,625</u>	<u>(413,635)</u>	<u>3,267,430</u>	<u>976,782</u>	<u>3,882,202</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 61,985</u>	<u>\$ (426,942)</u>	<u>\$2,947,525</u>	<u>\$1,005,295</u>	<u>\$ 3,587,863</u>

See accompanying notes to financial statements.

* Eliminated.

**THE CITY OF NEW YORK
GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEARS ENDED JUNE 30, 1989 AND 1988
(in thousands)

	1989			1988		
	Budget		Actual	Budget		Actual
	Adopted	Modified		Adopted	Modified	
REVENUES:						
Real estate taxes	\$ 5,998,300	\$ 5,998,300	\$ 5,942,929	\$ 5,403,300	\$ 5,408,300	\$ 5,382,369
Sales and use taxes	2,806,765	2,806,765	2,729,885	2,618,900	2,637,540	2,640,934
Income taxes	4,437,108	4,437,108	4,534,427	4,186,600	4,255,100	4,151,218
Other taxes	1,124,615	1,124,615	1,145,786	952,300	1,002,100	1,096,640
Federal, State and other categorical aid	7,484,287	7,768,838	7,338,581	6,829,873	7,215,137	6,760,261
Unrestricted Federal and State aid	653,008	653,008	713,418	640,778	640,778	652,790
Charges for services	985,375	985,375	1,018,766	888,779	903,779	890,144
Other revenues	1,435,633	1,335,804	920,155	998,797	998,797	796,848
Total revenues	<u>24,925,091</u>	<u>25,109,813</u>	<u>24,343,947</u>	<u>22,519,327</u>	<u>23,061,531</u>	<u>22,371,204</u>
OTHER FINANCING SOURCES:						
Transfer from OTB Enterprise Fund	55,687	55,687	43,651	55,826	55,826	54,775
Transfer from Expendable Trust Fund	—	102,000	102,000	—	—	—
Total revenues and other financing sources	<u>24,980,778</u>	<u>25,267,500</u>	<u>24,489,598</u>	<u>22,575,153</u>	<u>23,117,357</u>	<u>22,425,979</u>
EXPENDITURES:						
General government	816,190	820,107	759,257	771,082	792,671	717,871
Public safety and judicial	3,075,891	3,205,562	3,173,618	2,786,386	2,969,323	2,920,100
Board of Education	5,665,945	5,832,863	5,786,328	5,117,007	5,411,690	5,285,093
City University	458,746	461,648	266,215	439,261	450,160	259,018
Social services	5,563,746	5,500,651	5,355,102	5,162,534	5,145,108	5,014,874
Environmental protection	938,440	958,259	909,983	819,236	868,865	834,551
Transportation services	836,425	971,696	931,322	645,033	866,842	848,735
Parks, recreation and cultural activities	261,656	260,991	259,078	249,567	258,608	254,125
Housing	595,369	644,565	602,540	684,904	746,796	605,901
Health (including payments to HHC)	1,286,688	1,364,323	1,337,108	978,578	1,009,411	970,662
Libraries	138,094	185,505	185,069	82,505	133,355	132,957
Pensions	1,926,246	1,752,171	1,742,457	1,781,819	1,753,968	1,752,920
Judgments and claims	158,000	156,000	155,118	167,000	162,000	161,182
Fringe benefits and other benefit payments	1,047,755	997,135	995,537	931,025	877,454	875,732
Other	416,507	344,444	251,051	490,947	211,637	165,481
Total expenditures	<u>23,185,698</u>	<u>23,455,920</u>	<u>22,709,783</u>	<u>21,106,884</u>	<u>21,657,888</u>	<u>20,799,202</u>
OTHER FINANCING USES:						
Transfers and other payments for debt service	1,795,080	1,811,580	1,773,508	1,468,269	1,459,469	1,616,417
Total expenditures and other financing uses	<u>24,980,778</u>	<u>25,267,500</u>	<u>24,483,291</u>	<u>22,575,153</u>	<u>23,117,357</u>	<u>22,415,619</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ —</u>	<u>\$ —</u>	<u>6,307</u>	<u>\$ —</u>	<u>\$ —</u>	<u>10,360</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>61,985</u>			<u>51,625</u>
FUND BALANCE AT END OF YEAR			<u>\$ 68,292</u>			<u>\$ 61,985</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND EQUITY—PROPRIETARY FUND TYPE AND SIMILAR TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1989
(in thousands)

	Proprietary Fund Type				Total	Fiduciary Fund
	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing and Economic Development Funds	Water and Sewer System		Type Pension Trust
OPERATING REVENUES:						
Patient service revenues, net	\$1,906,824	\$ —	\$ —	\$ —	\$1,906,824	\$ —
Other revenues	666,921	221,114	178,737	609,255	1,676,027	—
Employer, employee contributions	—	—	—	—	—	2,296,788
Investment income, net	—	—	87,509	32,867	120,376	4,006,203
Total operating revenues	2,573,745	221,114	266,246	642,122	3,703,227	6,302,991
OPERATING EXPENSES:						
Personal services	1,637,493	—	21,003	—	1,658,496	—
Affiliation	347,700	—	—	—	347,700	—
Racing industry compensation	—	56,117	—	—	56,117	—
Interest expense	—	—	162,159	111,773	273,932	—
Administrative and selling	—	13,360	—	554	13,914	—
Depreciation and amortization	105,471	2,401	1,209	76,688	185,769	—
Benefit payments and withdrawals	—	—	—	—	—	2,559,483
Other	481,101	88,801	72,306	548,488	1,190,696	—
Distributions to the state and other local governments	—	25,898	—	—	25,898	—
Total operating expenses	2,571,765	186,577	256,677	737,503	3,752,522	2,559,483
Operating income (loss)	1,980	34,537	9,569	(95,381)	(49,295)	3,743,508
NON-OPERATING REVENUES (EXPENSES):						
Interest income	7,985	1,367	13,461	797	23,610	—
Interest expense	(74,864)	—	—	—	(74,864)	—
Amounts from other OTB communities	—	7,747	—	—	7,747	—
Other	—	—	(4,263)	—	(4,263)	(18,235)
Total non-operating revenues (expenses)	(66,879)	9,114	9,198	797	(47,770)	(18,235)
Income (loss) before transfers	(64,899)	43,651	18,767	(94,584)	(97,065)	3,725,273
OPERATING TRANSFERS:						
Transfer to the General Fund	—	(43,651)	—	—	(43,651)	—
Net income (loss)	(64,899)	—	18,767	(94,584)	(140,716)	3,725,273
FUND EQUITY AT BEGINNING OF YEAR						
Contributed fixed assets	1,076,704	—	392,820	5,118,028	6,587,552	33,254,855
Net increase in donor restricted funds	114,585	—	—	218,913	333,498	—
Net increase in donor restricted funds	725	—	—	—	725	—
FUND EQUITY AT END OF YEAR						
Reserved	958,901	—	295,731	5,140,995	6,395,627	—
Reserved for Pension Benefits	—	—	—	—	—	36,980,128
Unreserved	168,214	—	115,856	101,362	385,432	—
FUND EQUITY AT END OF YEAR	\$1,127,115	\$ —	\$411,587	\$5,242,357	\$6,781,059	\$36,980,128

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND EQUITY—PROPRIETARY FUND TYPE AND SIMILAR TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1988
(in thousands)

	Proprietary Fund Type				Total	Fiduciary Fund Type
	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing and Economic Development	Water and Sewer System		Pension Trust
OPERATING REVENUES:						
Patient service revenues, net	\$1,823,325	\$ —	\$ —	\$ —	\$1,823,325	\$ —
Other revenues	395,108	240,732	61,943	555,498	1,253,281	—
Employer, employee contributions	—	—	—	—	—	2,329,958
Investment income, net	—	—	192,245	23,935	216,180	1,256,162
Total operating revenues	2,218,433	240,732	254,188	579,433	3,292,786	3,586,120
OPERATING EXPENSES:						
Personal services	1,498,718	—	19,736	—	1,518,454	—
Affiliation	313,991	—	—	—	313,991	—
Racing industry compensation	—	62,644	—	—	62,644	—
Interest expense	—	—	153,342	74,059	227,401	—
Administrative and selling	—	13,121	—	527	13,648	—
Depreciation and amortization	99,134	2,273	919	78,020	180,346	—
Benefit payments and withdrawals	—	—	—	—	—	2,296,854
Other operating	449,323	87,419	38,989	424,596	1,000,327	—
Distributions to the State and other local governments	—	28,779	—	—	28,779	—
Total operating expenses	2,361,166	194,236	212,986	577,202	3,345,590	2,296,854
Operating income (loss)	(142,733)	46,496	41,202	2,231	(52,804)	1,289,266
NON-OPERATING REVENUES (EXPENSES):						
Interest income	8,887	909	11,215	604	21,615	—
Interest expense	(56,906)	—	—	—	(56,906)	—
Amounts from other OTB communities	—	7,370	—	—	7,370	—
Other	—	—	(4,120)	—	(4,120)	(500)
Total non-operating revenues (expenses)	(48,019)	8,279	7,095	604	(32,041)	(500)
Income (loss) before transfers	(190,752)	54,775	48,297	2,835	(84,845)	1,288,766
OPERATING TRANSFERS:						
Distribution to The City of New York ...	—	(54,775)	—	—	(54,775)	—
Net income (loss)	(190,752)	—	48,297	2,835	(139,620)	1,288,766
FUND EQUITY AT BEGINNING OF YEAR	1,195,541	—	344,523	5,033,193	6,573,257	31,966,089
Contributed fixed assets	68,134	—	—	82,000	150,134	—
Net increase in donor restricted funds	3,781	—	—	—	3,781	—
FUND EQUITY AT END OF YEAR						
Reserved	912,025	—	289,349	4,991,411	6,192,785	—
Reserved for pension benefits	—	—	—	—	—	33,254,855
Unreserved	164,679	—	103,471	126,617	394,767	—
FUND EQUITY AT END OF YEAR	\$1,076,704	\$ —	\$392,820	\$5,118,028	\$6,587,552	\$33,254,855

See accompanying notes to financial statements.

**THE CITY OF NEW YORK
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE**

FOR THE YEAR ENDED JUNE 30, 1989
(in thousands)

	Health and Hospitals Corporation	Off-track Betting Corporation	Housing and Economic Development Funds	Water and Sewer System	Total
Operating Activities:					
Operating income (loss)	\$ 1,980	\$ 34,537	\$ 9,569	\$ (95,381)	\$ (49,295)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	105,471	2,401	1,209	76,688	185,769
Increase in patient service receivables, net	(37,196)	—	—	—	(37,196)
Decrease in accounts and other receivables	3,014	—	266	12,212	15,492
Increase (decrease) in accounts payable and accrued liabilities	14,650	(994)	20,747	1,838	36,241
Increase in accrued vacation and sick leave	8,474	—	—	—	8,474
Decrease in accrued pension liability	(737)	(59)	—	—	(796)
Increase (decrease) in deferred revenues	—	—	(3,754)	3,098	(656)
Distribution to the City	—	(44,052)	—	—	(44,052)
Program loans issued	—	—	(149,984)	—	(149,984)
Receipt from collections of program loans	—	—	15,693	—	15,693
Distribution to State and local governments	—	(26,357)	—	—	(26,357)
Other, net	(6,777)	24,424	46,084	28,612	92,343
Total adjustments	86,899	(44,637)	(69,739)	122,448	94,971
Net cash provided by (used in) operating activities	88,879	(10,100)	(60,170)	27,067	45,676
Noncapital Financing Activities:					
Proceeds from issuing bonds, notes and other borrowings	—	—	11,430	—	11,430
Repayments of bonds, notes and other borrowings	—	—	(155,295)	—	(155,295)
Amounts from other OTB communities	—	7,747	—	—	7,747
Other, net	—	—	(5,005)	—	(5,005)
Net cash provided by (used in) noncapital financing activities	—	7,747	(148,870)	—	(141,123)
Capital and Related Financing Activities:					
Additions to fixed assets net of proceeds from sales	(137,966)	(3,225)	(2,410)	(438,871)	(582,472)
Proceeds from issuing bonds, notes and other borrowings	—	—	130	542,921	543,051
Repayments of bonds, notes and other borrowings	(6,560)	(379)	(189)	(15,050)	(22,178)
Payments from the City other than for operations, net	108,836	—	—	—	108,836
Interest paid on bonds, notes and other borrowings	(74,864)	—	—	—	(74,864)
Net cash provided by (used in) capital and related financing activities	(110,554)	(3,604)	(2,469)	89,000	(27,627)
Investing Activities:					
Excess (deficiency) of proceeds from sales of investments net of purchases	(21,208)	—	222,204	112,282	313,278
Interest on investments	7,985	1,367	13,461	797	23,610
Net cash provided by (used in) investing activities	(13,223)	1,367	235,665	113,079	336,888
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(34,898)	(4,590)	24,156	229,146	213,814
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	66,168	19,443	70,248	30,867	186,726
CASH AND CASH EQUIVALENTS END OF YEAR	\$ 31,270	\$ 14,853	\$ 94,404	\$ 260,013	\$ 400,540

See accompanying notes to financial statements.

**THE CITY OF NEW YORK
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE**

FOR THE YEAR ENDED JUNE 30, 1988
(in thousands)

	Health and Hospitals Corporation	Off-track Betting Corporation	Housing and Economic Development Funds	Water and Sewer System	Total
Operating Activities:					
Operating income (loss)	(\$142,733)	\$ 46,496	\$ 41,202	\$ 2,231	(\$ 52,804)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	99,134	2,273	919	78,020	180,346
Increase in patient service receivables, net	(99,684)	—	—	—	(99,684)
Decrease (increase) in accounts and other receivables	(30,495)	—	1,673	(37,017)	(65,839)
Increase (decrease) in accounts payable and accrued liabilities	11,409	(1,702)	(7,398)	4,915	7,224
Increase in accrued vacation and sick leave	5,804	—	—	—	5,804
Decrease in accrued pension liability	(718)	(54)	—	—	(772)
Increase in deferred revenues	—	—	2,868	2,983	5,851
Distribution to the City	—	(50,607)	—	—	(50,607)
Program loans issued	—	—	(115,800)	—	(115,800)
Receipt from collections of program loans	—	—	104,877	—	104,877
Distribution to state and local governments	—	(28,553)	—	—	(28,553)
Other, net	20,059	28,285	10,932	(48,023)	11,253
Total adjustments	5,509	(50,358)	(1,929)	878	(45,900)
Net cash provided by (used in) operating activities	(137,224)	(3,862)	39,273	3,109	(98,704)
Noncapital Financing Activities:					
Proceeds from issuing bonds, notes and other borrowings	—	—	228,490	—	228,490
Repayments of bonds, notes and other borrowings	—	—	(267,882)	—	(267,882)
Amounts from other OTB communities	—	7,370	—	—	7,370
Net cash provided by (used in) noncapital financing activities	—	7,370	(39,392)	—	(32,022)
Capital and Related Financing Activities:					
Additions to fixed assets net of proceeds from sales	(120,196)	(1,854)	(1,789)	(407,195)	(531,034)
Proceeds from issuing bonds, notes and other borrowings	—	—	—	479,105	479,105
Repayments of bonds, notes and other borrowings	(6,185)	(347)	(176)	(10,575)	(17,283)
Payments from the City other than for operations, net	81,602	—	—	—	81,602
Interest paid on bonds, notes and other borrowings	(56,906)	—	—	—	(56,906)
Net cash provided by (used in) capital and related financing activities	(101,685)	(2,201)	(1,965)	61,335	(44,516)
Investing Activities:					
Excess (deficiency) of proceeds from sales of investments net of purchases	69,513	—	(58)	(109,025)	(39,570)
Interest on investments	8,887	909	11,215	604	21,615
Net cash provided by (used in) investing activities	78,400	909	11,157	(108,421)	(17,955)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(160,509)	2,216	9,073	(43,977)	(193,197)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	226,677	17,227	61,175	74,844	379,923
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 66,168</u>	<u>\$ 19,443</u>	<u>\$ 70,248</u>	<u>\$ 30,867</u>	<u>\$ 186,726</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose financial statements of The City of New York (City) are presented in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The amounts shown in the "Total (Memorandum Only)" column of the accompanying combined financial statements are presented only to facilitate financial analysis and are not the equivalent of consolidated financial statements. Reclassification of certain prior year amounts have been made to conform with the current year presentation.

For fiscal year 1989, the City implemented Statement No. 9 of the Governmental Accounting Standards Board, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." This Statement requires that a statement of cash flows classify cash receipts and payments into four categories of activities: operating, noncapital financing, capital and related financing, or investing. Accordingly, amounts previously reported in the combined, combining and individual fund statements of changes in financial position of the City's Enterprise Funds for the year ended June 30, 1988 has been reclassified to conform with the 1989 presentation.

The following is a summary of significant accounting policies and reporting practices of the City.

Reporting Entity

The financial statements present the accounts of the City, including the Board of Education and the community colleges of the City University of New York, and the financial statements of those separately administered organizations that provide services within the geographic boundaries of the City and where the City exercises oversight responsibility, including the appointing of the majority of the Boards of Directors, has special financing relationships and those whose scope of service benefits primarily the City or its residents.

Manifestations of oversight responsibility include:

- Selection of the governing authority,
- Designation of management,
- Ability to significantly influence operations, and
- Accountability for fiscal matters.

The scope of public service criterion considers whether the activity of the potential component unit is for the benefit of the City and/or its residents and whether the activity is conducted within the geographic boundaries of the City and is generally available to City residents.

Those organizations include the following:

Municipal Assistance Corporation For The City of New York (MAC)

New York City Health and Hospitals Corporation (HHC)

New York City Off-Track Betting Corporation (OTB)

New York City Educational Construction Fund (ECF)

City University Construction Fund (CUCF)

Housing and Economic Development Enterprise Funds

- New York City Housing Development Corporation (HDC)
- New York City Rehabilitation Mortgage Insurance Corporation (REMIC)

- New York City Industrial Development Agency (IDA)
- Financial Services Corporation of New York City (FSC)
- New York City Public Development Corporation (PDC)
- Brooklyn Navy Yard Development Corporation (BNYDC)
- Business Relocation Assistance Corporation (BRAC)

Expendable Trust Funds

- New York Police Department Police Officers' Variable Supplements Fund
- New York Police Department Superior Police Officers' Variable Supplements Fund
- New York Fire Department Firefighters' Variable Supplements Fund
- New York Fire Department Fire Officers' Variable Supplements Fund

Pension Trust Funds

- New York City Employees' Retirement System (NYCERS)
- Teachers' Retirement System of The City of New York—Qualified Pension Plan (TRS)
- New York City Board of Education Retirement System—Qualified Pension Plan (BERS)
- New York Police Department Pension Fund—Article 2 (POLICE)
- New York Fire Department Pension Fund—Article 1-B (FIRE)

Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP)

Water and Sewer System

- New York City Municipal Water Finance Authority (Water Authority)
- New York City Water Board (Water Board)

Significant accounting policies and other matters concerning the financial status of these organizations are described elsewhere in the notes to the financial statements.

The City's operations also include those normally performed at the county level and, accordingly, transactions applicable to operations of the five counties which comprise the City are included in these financial statements.

The New York City Transit Authority is a subsidiary of the Metropolitan Transportation Authority of the State of New York which is a component unit of New York State and therefore is excluded from the City's reporting entity.

Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental Fund Types

General Fund

The General Fund is the general operating fund of the City. Substantially all tax revenues, Federal and State aid (except aid for capital projects) and other operating revenues are accounted for in the General Fund. This fund also accounts for expenditures and transfers as appropriated in the Expense Budget, which provides for the City's day-to-day operations, including transfers to Debt Service Funds for payment of long-term obligations.

Capital Projects Fund

The Capital Projects Fund accounts for resources used to construct or acquire fixed assets and capital improvements. Such assets and improvements include substantially all land, buildings, equipment, water and sewage systems and other elements of the City's infrastructure having a minimum useful life of five years, having a cost of more than \$15,000, and having been appropriated in the Capital Budget (see Budgets). Resources of the Capital Projects Fund are derived principally from proceeds of City bond issues, payments from the Water Authority and from Federal, State and other aid. The cumulative deficit of \$923 million at June 30, 1989 represents the amount expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficit will not be financed or reimbursed, a transfer from the General Fund will be required.

Debt Service Funds

The Debt Service Funds account for the accumulation of resources for payment of interest and principal on long-term obligations. Separate funds are maintained to account for transactions relating to (i) the City's General Debt Service Funds including its sinking funds and the Debt Service Funds required by state legislation; (ii) certain other public benefit corporations whose indebtedness has been guaranteed by the City, or with whom the City has entered into lease purchase and similar agreements; (iii) MAC; and (iv) ECF and CUCF as component units of the City.

Proprietary Fund Type

Enterprise Funds

The Enterprise Funds account for the operations of HHC, OTB, HDC, the Water and Sewer System and other component units comprising the Housing and Economic Development Funds. These activities are accounted for in a manner similar to private business enterprises, in which the focus is on the periodic determination of revenues, expenses and net income.

Fiduciary Fund Types

Trust and Agency Funds

The Trust and Agency Funds account for the assets and activities of the Expendable Trust Funds, Pension Trust Funds and the Agency Fund.

The Expendable Trust Funds account for the operations of the Police Officers' Variable Supplements Fund, Superior Police Officers' Variable Supplements Fund, Firefighters' Variable Supplements Fund and the Fire Officers' Variable Supplements Fund and are accounted for in essentially the same manner as governmental funds.

The Pension Trust Funds account for the operations of NYCERS, TRS, BERS, POLICE and FIRE employee retirement systems. These activities are accounted for in essentially the same manner as proprietary funds where the focus is on the periodic determination of revenues, expenses and net assets available for pension benefits.

The Agency Fund accounts for the operations of DCP, which was created in accordance with Internal Revenue Code Section 457. The Agency Fund is custodial in nature and does not involve measurement of results of operations.

Account Groups

General Fixed Assets Account Group

The General Fixed Assets Account Group accounts for those fixed assets which are used for general governmental purposes and are not available for expenditure. Such assets include all capital assets, except for the City's infrastructure elements that are not required to be capitalized under generally accepted accounting principles. Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, park land and improvements and subway tracks and tunnels. The fixed assets of the water distribution and sewage collection system are recorded in the Water and Sewer System Enterprise Fund under a lease agreement between the City and the Water Board.

General Long-term Obligations Account Group

The General Long-term Obligations Account Group accounts for unmatured long-term bonds payable which at maturity will be paid through the Debt Service Funds. In addition, the General Long-term Obligations Account Group includes other long-term obligations for (i) capital leases; (ii) judgments and claims; (iii) real estate tax refunds; (iv) unpaid vacation and sick leave; (v) certain unpaid deferred wages; and (vi) certain unfunded pension liabilities.

Basis of Accounting

The accounting and financial treatment applied to a fund is determined by its measurement focus. The measurement focus of the Governmental Fund Types and the Expendable Trust Funds is on the flow of current financial resources. This focus emphasizes the determination of, and changes in financial position, and only current assets and current liabilities generally are included on the balance sheet. These Funds use the modified accrual basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred, except for interest on long-term obligations and certain estimated liabilities recorded in the General Long-term Obligations Account Group.

The measurement focus of the Enterprise Funds and the Pension Trust Funds is on the flow of economic resources. This focus emphasizes the determination of net income, financial position, and all assets and liabilities associated with these funds are included on the balance sheet. These funds use the accrual basis of accounting whereby revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred.

The Agency Fund uses the modified accrual basis of accounting and does not involve the measurement of operations.

Budgets and Financial Plans

Budgets

Annual Expense Budget appropriations, which are prepared on the modified accrual basis, are adopted for the General Fund and lapse at fiscal year end. The City also makes appropriations in a Capital Budget to authorize the expenditure of funds for various capital projects. Capital appropriations, unless modified or rescinded, remain in effect until the completion of each project.

The City is required by State Law to adopt and adhere to a budget that would not result in a General Fund deficit.

Expense Budget expenditures are controlled by units of appropriation and quarterly spending allotments. A unit of appropriation is an organizational subdivision and is the level of control within each agency's budget at which expenditures may not legally exceed the appropriation. The number of units of appropriation and the span of operating responsibility which each unit represents differs from agency to agency depending on the level of control required. Transfers between units of appropriation and supplementary appropriations may be made by the Mayor subject to the approval provisions set forth in the City Charter. Supplementary appropriations increased the Expense Budget by \$287 million and \$542 million subsequent to its original adoption in fiscal years 1989 and 1988, respectively.

Financial Plans

The New York State Financial Emergency Act for The City of New York, as amended in 1978, requires the City to operate under a "rolling" Four-Year Financial Plan (Plan). Revenues and expenditures, including operating transfers, of each year of the Plan are required to be balanced on a basis consistent with generally accepted accounting principles. The Plan is broader in scope than the Expense Budget; it comprehends General Fund revenues and expenditures, Capital Projects Fund revenues and expenditures and all short and long-term financing.

The Expense Budget is generally consistent with the first year of the Plan and operations under the Expense Budget must reflect the aggregate limitations contained in the approved Plan. The City reviews its Plan periodically during the year and, if necessary, makes modifications to incorporate actual results and revisions to assumptions.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. Encumbrances not resulting in expenditures by year-end lapse.

Cash and Investments

Cash and cash equivalents include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during fiscal years 1989 and 1988 were approximately \$193 million and \$234 million, respectively.

Investments in marketable fixed income securities are recorded at cost or amortized cost, plus accrued interest. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be resold. Marketable equity securities are carried at market in the Pension

Trust Funds and cost in the Expendable Trust Funds. Realized gains or losses on sales of securities are based on the average cost of securities.

Investments of the DCP are carried at market value.

Inventories

Materials and supplies are recorded as expenditures in governmental funds at the time of purchase. Inventories on hand at June 30, 1989 and 1988 (estimated at \$172 million and \$134 million, respectively, based on average cost) have not been reported on the Governmental Funds balance sheets because they are not material.

Restricted Assets

Certain proceeds of Enterprise Fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Fixed Assets

Fixed assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Donated fixed assets are stated at their fair market value as of the date of the donation. Capital leases are classified as fixed assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease (see Note F).

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 40 to 50 years for buildings and 5 to 35 years for equipment. Capital lease assets are amortized over the term of the lease or the life of the asset, whichever is less.

See Notes J, K and M for fixed asset accounting policies used by HHC, OTB and the Water and Sewer System, respectively.

Allowance for Uncollectible Mortgage Loans

Mortgage loans and interest receivable in the General Debt Service Fund are net of an allowance for uncollectible accounts of \$920.1 million and \$911.0 million for fiscal years 1989 and 1988, respectively. This represents the balance of first mortgages one or more years in arrears and the balance of refinanced mortgages where payments to the City are not expected to be completed for approximately 25 to 30 years.

Vacation and Sick Leave

Earned vacation and sick leave is recorded as an expenditure in the period when it is payable from current financial resources. The estimated value of leave earned by employees which may be used in subsequent years or paid upon termination or retirement, and therefore payable from future resources, is recorded in the General Long-term Obligations Account Group, except for leave of the employees of the Enterprise Funds which is accounted for in those funds.

Treasury Obligations

Bonds payable included in the General Long-term Obligations Account Group and investments in the Debt Service Funds are reported net of "treasury obligations". Treasury obligations represent City bonds held as investments of the Debt Service Funds which are offset and reported as if these bonds had been redeemed.

Judgments and Claims

The City is uninsured with respect to most risks including, but not limited to, property damage, personal injury and workers' compensation. Expenditures for judgments and claims (other than workers' compensation and condemnation proceedings) are recorded on the basis of settlements reached or judgments entered within the current fiscal year. Expenditures for workers' compensation are recorded when paid. Estimated settlements relating to condemnation proceedings are reported in the Capital Projects Fund during the year such claims are filed. The estimated liability for judgments and claims which have not been adjudicated, settled or reported at the end of a fiscal year is recorded in the General Long-term Obligations Account Group. The current liability for settlements reached or judgments entered but not yet paid is recorded in the General Fund.

General Long-term Obligations

For general long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-term Obligations Account Group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Real Estate Tax

Real estate tax payments for the year ended June 30, 1989 were due July 1, 1988 and January 1, 1989 except that payments by owners of real property assessed at \$40,000 or less and cooperatives whose individual units on average are valued at \$40,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 1989 taxes was June 30, 1988. The lien date is the date taxes are due.

Recognized real estate tax revenue represents payments received during the year and payments received within the first two months of the following fiscal year (against the current fiscal year and prior years' levies) reduced by tax refunds made in the same period.

An allowance for estimated uncollectible real estate taxes is provided against the balance of the receivable. Delinquent real estate taxes receivable that are estimated to be collectible but which are not collected in the first two months of the next fiscal year are recorded as deferred revenues.

The City is permitted to levy real estate taxes (i) for general operating purposes in an amount up to 2.5% of the average full value of taxable real estate in the City for the last five years and (ii) in unlimited amounts for the payment of principal and interest on long-term City debt. Amounts collected for payment of principal and interest on long-term debt and not required for that purpose in the year of the levy must be applied towards future years' debt service. Accordingly, for the years ended June 30, 1989 and 1988, \$160 million and \$171 million, respectively, were transferred to the Debt Service Fund.

Other Taxes and Other Revenues

Recognized sales, income and other taxes represent payments received during the current fiscal year and represent material amounts, net of estimated refunds, collected by the State in the current fiscal year on behalf of the City but received by the City in the next fiscal year.

Licenses, permits, franchises and privileges, fines, forfeitures and other revenues are recorded when received in cash. The Water Board reimburses the City for operating and maintenance costs and rental payments for use of the water and sewer system. These revenues are recorded when cash is distributed to the City from the Water Board.

Federal, State and Other Aid

Categorical aid, net of a provision for estimated disallowances, is reported as revenue when the related reimbursable expenditures are incurred. Unrestricted aid is reported as revenue in the fiscal year of entitlement.

Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized as expenditures in the period incurred. Bond discounts and issuance costs in the Proprietary Fund Type are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

Transfers

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as operating transfers. Such payments include transfers for debt service, OTB net revenues and Expendable Trust Funds.

Subsidies

The City makes various payments to subsidize a number of organizations which provide services to City residents. These payments are recorded as expenditures in the year paid.

Pensions

The provision for costs of pensions is recorded on the accrual basis (see Note Q). The provision includes normal costs, interest on pension costs previously accrued but not funded, and amortization of past service costs as determined by the actuary employed by the Boards of Trustees of the City's major actuarial pension systems.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying combining and individual fund and account group financial statements in order to provide an understanding of changes in the City's financial position and operations.

NOTES TO FINANCIAL STATEMENTS, Continued

B. AUDIT RESPONSIBILITY

The financial statements of the Housing and Economic Development Enterprise Funds, and MAC, were audited by auditors other than Peat Marwick Main & Co., the City's principal auditor. The following is summary financial information for those entities as of June 30, 1989 and 1988:

	1989			1988		
	Housing and Economic Development Enterprise Funds	MAC Debt Service Fund	MAC General Long-term Obligations Account Group	Housing and Economic Development Enterprise Funds	MAC Debt Service Fund	MAC General Long-term Obligations Account Group
	(in millions)					
Total assets	\$2,861	\$3,385	\$ —	\$2,922	\$3,653	\$ —
Operating revenues	266	135	—	254	112	—
Other financing sources	—	2,187	—	—	929	—
Long-term obligations	—	—	7,307	—	—	7,636

C. MUNICIPAL ASSISTANCE CORPORATION FOR THE CITY OF NEW YORK (MAC)

MAC is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation. MAC was created in June, 1975 by the Municipal Assistance Corporation For The City of New York Act (Act) to assist the City in providing essential services to its inhabitants without interruption and in reestablishing investor confidence in the soundness of City obligations. Pursuant to the Act, MAC is empowered to issue and sell bonds and notes, pay or loan to the City funds received from such sales, and exchange its obligations for those of the City. Also pursuant to the Act, MAC provides certain oversight of the City's financial activities.

MAC has no taxing power. All outstanding bonds issued by MAC are general obligations of MAC and do not constitute an enforceable obligation or a debt of either the City or the State and neither the City nor the State is liable thereon. Neither the City nor a creditor of the City has any claim to MAC's revenues and assets. Debt service requirements and operating expenses are funded by allocations from the State's collection of certain sales and compensating use taxes (imposed by the State within the City at rates formerly imposed by the City), the stock transfer tax and certain per capita aid, subject in each case to appropriation by the State Legislature. Net collections of taxes and per capita aid are returned to the City by the State after MAC debt service requirements are met. The MAC bond resolutions provide for liens by bondholders on certain monies received by MAC from the State.

MAC was authorized by the Act to issue, until January 1, 1985, obligations in an aggregate principal amount of \$10 billion. Of this amount MAC issued approximately \$9.445 billion exclusive of obligations issued to refund outstanding obligations of MAC, and notes, issued to enable the City to fulfill its borrowing requirements. No obligations of MAC may mature later than July 1, 2008, and no new obligations may be issued by MAC except to renew or refund outstanding obligations. MAC may issue such new obligations provided their issuance would not cause certain debt service limitations and debt service coverage ratios to be exceeded.

As indicated in Note A, the MAC transactions and account balances are included in the accompanying financial statements because MAC's financing activities are considered an essential part of the City's financing activities. In order to include the financial statements of MAC with those of the City, the following eliminations were made: (i) July 1st bond redemptions and interest on bonds payable which are reflected on MAC's statements at June 30; and (ii) certain City obligations purchased by MAC (see Note G). MAC account balances and transactions are shown in the Debt Service Funds and General Long-term Obligations Account Group;

revenues appropriated and paid by the State of New York to MAC are first included in General Fund revenues and then transferred to the Debt Service Fund in the fiscal year of such payments.

D. DEPOSITS AND INVESTMENTS

Deposits

The City's bank depositories are designated by the Banking Commission consisting of the Comptroller, the Mayor and the Finance Commissioner. Independent bank rating agencies are used to determine the financial soundness of each bank, and the City's banking relationships are under constant operational and credit reviews.

The City Charter limits the amount of deposits at any time in any one bank or trust company to a maximum of one-half of the amount of the capital and net surplus of such bank or trust company. Component units included in the City's reporting entity maintain their own banking relationships which generally conform with the City's. Bank balances are insured up to \$100,000 in the aggregate by the Federal Deposit Insurance Corporation (FDIC) for each bank for all funds other than monies of the retirement systems, which are insured by the FDIC up to \$100,000 per retirement system member. At June 30, 1989, the carrying amount of the City's cash and deposits was \$492 million and the bank balances were \$502 million. Of the bank balances, \$125 million was covered by federal depository insurance or collateralized with securities held by the City's Agent in the City's name, and \$377 million was uninsured and uncollateralized.

The uninsured and uncollateralized cash balances carried during the year did not fluctuate appreciably as they represent primarily the compensating balances required to be maintained at banks for services provided. It is the policy of the City to invest all funds in excess of compensating balance requirements.

Investments

The City's investment of cash in its Governmental Fund Types is limited to U.S. Government securities purchased directly and through repurchase agreements from primary dealers. The repurchase securities must be collateralized by other U.S. Government securities in a range of 100 to 103% of the matured value of the repurchase securities.

The investment policies of the component units included in the City's reporting entity generally conform to those of the City's. The criteria for the Pension Trust Funds' investments are as follows:

- 1) Fixed income investments may be made only in U.S. Government securities, securities of government agencies backed by the U.S. Government and securities of companies rated single A or better by both Standard & Poors Corporation and Moody's Investors Service.
- 2) Equity investments may be made only in those stocks that meet the qualifications of The State Retirement and Social Security Law.
- 3) Short-term investments may be made in the following:
 - (a) U.S. Government securities or Government agencies securities fully guaranteed by the U.S. Government.
 - (b) Commercial paper rated A1 or P1 by Standard & Poors Corporation or Moody's Investors Service, respectively.
 - (c) Repurchase agreements collateralized in a range of 100 to 103% of matured value, purchased from primary dealers of U.S. Government securities.
- 4) Investments in bankers' acceptances and certificates of deposit may be made with any of the 10 largest U.S. banks with either the highest or next to the highest rating categories of the leading independent bank rating firms.

NOTES TO FINANCIAL STATEMENTS, Continued

All securities are held by the City's custodial bank (in bearer or book-entry form) solely as agent of the Comptroller of The City of New York on behalf of the various accounts involved. Payments for purchases are not released until the purchased securities are received by the City's custodial bank.

Investments of the City and its component units are categorized by level of credit risk. Category 1, the lowest risk, includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the entity's name. Category 3, the highest risk, includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the entity's name.

The City's investments, including those of the component units, as of June 30, 1989 are classified as follows:

	Category			Carrying amount	Market value
	1	2	3		
	(in millions)				
Repurchase agreements.....	\$ 3,621	\$18	\$—	\$ 3,639	\$ 3,639
U.S. Government securities	18,204	—	—	18,204	18,460
Commercial paper	633	64	—	697	697
Corporate bonds.....	4,339	—	—	4,339	4,423
Corporate stocks.....	14,184	—	58	14,242	14,273
Guaranteed investment contracts	711	—	—	711	711
Other	2,457	—	—	2,457	2,457
Total	<u>\$44,149</u>	<u>\$82</u>	<u>\$ 58</u>	<u>\$44,289</u>	<u>\$44,660</u>

In addition, the restricted assets include \$23.1 million of cash, of which the repayment of \$400 thousand was insured and \$22.7 million was uninsured and uncollateralized. Restricted investments, principally in U.S. Government securities with a cost and approximate market value of \$442 million are fully collateralized with securities held by the trustee in the entity's name.

For purposes of the statements of cash flows, the City's Enterprise Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The following is a reconciliation of cash and cash equivalents per the statements of cash flows to the balance sheets:

	Unrestricted Assets	Restricted Assets	Total
	(in thousands)		
Cash and cash equivalents—June 30, 1987	\$ 272,940	\$106,983	\$379,923
Net decrease.....	(139,636)	(53,561)	(193,197)
Cash and cash equivalents—June 30, 1988	133,304	53,422	186,726
Net increase (decrease)	(6,855)	220,669	213,814
Cash and cash equivalents—June 30, 1989	<u>\$ 126,449</u>	<u>\$274,091</u>	<u>\$400,540</u>

The following are the noncash investing, capital and financing activities:

The Water Board received capital assets of \$219 million and \$82 million for fiscal years 1989 and 1988, respectively, which represents contributed capital from the City.

HHC received capital assets of \$115 million and \$68 million for fiscal years 1989 and 1988, respectively, which represents contributed capital from the City.

NOTES TO FINANCIAL STATEMENTS, Continued

E. GENERAL FIXED ASSETS ACCOUNT GROUP

The following is a summary of changes in general fixed assets for the year ended June 30, 1989:

	June 30, 1988	Additions	Deletions	June 30, 1989
		(in thousands)		
Land.....	\$ 546,211	\$ 3,959	\$ 4,486	\$ 545,684
Buildings.....	4,775,477	320,531	1,566	5,094,442
Equipment.....	2,393,256	133,031	35,449	2,490,838
Construction work-in-progress.....	1,655,140	473,794	320,531	1,808,403
Total.....	9,370,084	931,315	362,032	9,939,367
Less accumulated depreciation and amortization.....	3,382,305	179,526	31,594	3,530,237
Net fixed assets.....	<u>\$5,987,779</u>	<u>\$751,789</u>	<u>\$330,438</u>	<u>\$6,409,130</u>

The following are the sources of funding for the general fixed assets at June 30, 1989. Sources of funding for fixed assets are not available prior to fiscal year 1987.

	Amount (in thousands)
Capital Projects Fund:	
Prior to fiscal year 1987.....	\$6,838,094
City bonds.....	2,926,360
Federal grants.....	111,484
State grants.....	53,242
Private grants.....	10,187
Total.....	<u>\$9,939,367</u>

At June 30, 1989 and 1988, the General Fixed Assets Account Group includes approximately \$1.4 billion of City-owned assets leased for \$1 per year to the New York City Transit Authority which operates and maintains the assets. Excluded are those assets leased to the HHC. In addition, all assets relating to the water and sewer system were transferred from the General Fixed Assets Account Group to the Water Board on July 1, 1985. The fixed assets of the HHC and the Water and Sewer System are recorded in the respective Enterprise Funds.

Included in land and buildings at June 30, 1989 and 1988 are leased properties capitalized at \$115 million and \$111 million with related accumulated amortization of \$88 million and \$84 million, respectively.

Certain categories of the City's infrastructure are not required to be capitalized in the General Fixed Assets Account Group under generally accepted accounting principles although the acquisition and construction of such items are expenditures of the Capital Projects Fund (see Note A). For this reason, expenditures of the Capital Projects Fund for the year ended June 30, 1989 and June 30, 1988 exceed the \$931 million and \$849 million increases recorded as general fixed assets by \$2,211 million and \$1,382 million, respectively.

F. LEASES

The City leases a significant amount of property and equipment from others. Leased property having elements of ownership are classified as capital leases in the General Fixed Assets Account Group. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are recorded in the General Long-term Obligations Account Group. Other leased property not having elements of ownership and all leased equipment are classified as operating leases. Both capital and

NOTES TO FINANCIAL STATEMENTS, Continued

operating lease payments are charged to expenditures when payable. Total expenditures on such leases for the years ended June 30, 1989 and June 30, 1988 were approximately \$222 million and \$189 million, respectively.

As of June 30, 1989, the City (excluding Enterprise Funds) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u> (in thousands)	<u>Total</u>
Fiscal year ending June 30:			
1990	\$ 62,983	\$100,813	\$ 163,796
1991	62,299	92,884	155,183
1992	59,943	85,267	145,210
1993	54,409	78,644	133,053
1994	50,448	67,078	117,526
Thereafter	<u>567,527</u>	<u>327,692</u>	<u>895,219</u>
Future minimum payments	857,609	<u>\$752,378</u>	<u>\$1,609,987</u>
Less interest	<u>368,914</u>		
Present value of future minimum payments	<u>\$488,695</u>		

The City also leases City-owned property to others, primarily for markets, ports and terminals. Total rental receipts on these operating leases for the years ended June 30, 1989 and June 30, 1988 were approximately \$187 million and \$202 million, respectively. As of June 30, 1989, the following future minimum rentals are provided for by the leases:

	Amount (in thousands)
Fiscal year ending June 30:	
1990	\$ 42,007
1991	40,908
1992	41,040
1993	40,073
1994	38,868
Thereafter	<u>1,051,305</u>
Future minimum rentals	<u>\$1,254,201</u>

G. LONG-TERM OBLIGATIONS

Long-term Debt

Following is a summary of bond transactions of the City, MAC and certain public benefit corporations that are component units of the City and/or whose debt is guaranteed by the City. For information on notes and bonds payable of the Enterprise Funds see Notes J, K, L and M.

NOTES TO FINANCIAL STATEMENTS, Continued

	Balance June 30, 1987	1988		Balance June 30, 1988	1989		Balance June 30, 1989
		Issued or acquired	Repaid, defeased or sold		Issued or acquired	Repaid, defeased or sold	
(in thousands)							
City debt:							
Term Bonds:							
General Sinking Fund ...	\$ 80,000	\$ —	\$ —	\$ 80,000	\$ —	\$ —	\$ 80,000
Other sinking funds	351,050	119,925	162,050	308,925	50,000	63,600	295,325
Serial bonds	8,666,587	1,781,345	754,299	9,693,633	2,114,620	771,425	11,036,828
	<u>9,097,637</u>	<u>1,901,270</u>	<u>916,349</u>	<u>10,082,558</u>	<u>2,164,620</u>	<u>835,025</u>	<u>11,412,153</u>
MAC debt:							
First General Resolution							
Bonds	1,664,738	—	100,000	1,564,738	—	175,000	1,389,738
Second General Resolution							
Bonds	6,704,795	310,885	761,130	6,254,550	1,508,290	1,616,075	6,146,765
	<u>8,369,533</u>	<u>310,885</u>	<u>861,130</u>	<u>7,819,288</u>	<u>1,508,290</u>	<u>1,791,075</u>	<u>7,536,503</u>
Guaranteed debt:							
New York City Housing							
Authority	54,458	—	2,415	52,043	—	2,496	49,547
Component unit debt:(1)							
City University Construction							
Fund(2)	250,445	121,020(3)	—	371,465	—	5,973(3)	365,492
New York City Educational							
Construction Fund	34,295	—	820	33,475	134,925	33,475	134,925
	<u>284,740</u>	<u>121,020</u>	<u>820</u>	<u>404,940</u>	<u>134,925</u>	<u>39,448</u>	<u>500,417</u>
Total before treasury							
obligations	17,806,368	2,333,175	1,780,714	18,358,829	3,807,835	2,668,044	19,498,620
Less treasury obligations	2,185,853	—	190,168	1,995,685	171,528	182,768	1,984,445
	<u>\$15,620,515</u>	<u>\$2,333,175</u>	<u>\$1,590,546</u>	<u>\$16,363,144</u>	<u>\$3,636,307</u>	<u>\$2,485,276</u>	<u>\$17,514,175</u>

(1) The debt of CUCF and ECF are reported as bonds outstanding as of June 30, 1988 and 1989 pursuant to their treatment as component units (see note A).

(2) Excludes \$265,621 in 1989 and \$267,471 in 1988 to be provided by the State.

(3) Net adjustment based on allocation of debt between New York State and New York City.

The bonds payable, net of treasury obligations, at June 30, 1989 and 1988 summarized by type of issue are as follows:

	1989			1988		
	General Obligations	Revenue	Total	General Obligations	Revenue	Total
(in thousands)						
Bonds payable:						
City debt	\$ 9,427,708	\$ —	\$ 9,427,708	\$ 8,087,548	\$ —	\$ 8,087,548
MAC debt	7,536,503	—	7,536,503	7,818,613	—	7,818,613
Guaranteed debt	49,547	—	49,547	52,043	—	52,043
Component unit debt	—	500,417	500,417	—	404,940	404,940
Total bonds payable	<u>\$17,013,758</u>	<u>\$500,417</u>	<u>\$17,514,175</u>	<u>\$15,958,204</u>	<u>\$404,940</u>	<u>\$16,363,144</u>

NOTES TO FINANCIAL STATEMENTS, Continued

The following table summarizes future debt service requirements as of June 30, 1989.

	City Debt			Mac Debt Service	Component Unit and City Guaranteed Debt	Total
	Term Bonds	Serial Bonds	Interest on Bonds			
Fiscal Year ending June 30,						
1990	\$ 44,420	\$ 439,380	\$ 684,355	\$ 943,267	\$ 44,715	\$ 2,156,137
1991	17,300	526,437	654,213	929,143	47,897	2,174,990
1992	—	502,445	618,957	890,390	49,504	2,061,296
1993	—	505,651	583,701	887,188	49,863	2,026,403
1994	—	478,831	545,827	854,361	51,084	1,930,103
Five years ending June 30, 1999	—	2,187,909	2,247,405	3,070,141	255,970	7,761,425
Thereafter	249,925	4,475,410	3,066,769	5,457,905	641,908	13,891,917
Total	311,645	9,116,063	8,401,227	13,032,395	1,140,941	32,002,271
Less interest component	—	—	8,401,227	5,495,892	590,977	14,488,096
Total debt service requirements	<u>\$311,645</u>	<u>\$9,116,063</u>	<u>\$ —</u>	<u>\$7,536,503</u>	<u>\$ 549,964</u>	<u>\$17,514,175</u>

The average interest rates for outstanding term and serial bonds as of June 30, 1989 and 1988 were 7.8% (range 2.5% to 13.6%) and 7.9% (range 2.5 % to 13.6%), respectively, and the interest rates on outstanding MAC bonds as of June 30, 1989 and 1988 ranged from 5.5% to 9.1% and from 5.5% to 9.1%, respectively. The latest maturity date of the outstanding debt is in the year 2147.

In fiscal year 1989, the City sold general obligation bonds of \$250 million aggregate principal amount to refund certain serial and term bonds of \$220 million aggregate principal amount issued during fiscal years 1982 through 1989. The proceeds from the sale, after payment of certain expenses incurred in connection with the issuance and sale of the bonds, were placed in an irrevocable escrow account and invested in U.S. Government securities. As a result of providing for the payment of the principal, applicable redemption premiums and interest due on the bonds at various dates from March 1, 1989 to August 15, 1995, the refunded bonds are considered to be defeased in substance, and the liability has been removed from the General Long-term Obligations Account Group. The refunding transactions will decrease the City's aggregate debt service payments by \$28 million and provide an economic gain of \$12 million.

At June 30, 1989, \$1,590 million of the City's outstanding general obligation bonds are considered defeased.

In fiscal year 1989, bonds issued for refunding purposes by MAC reduced debt service payments by \$110 million during the calendar years 1989 through 2008, producing an economic gain of \$61 million. Subsequent to the redemption of \$720 million on July 1, 1989, \$2,859 million of MAC bonds which have been advance refunded are defeased in substance.

Annual payments by the City into the General Sinking Fund must be sufficient to provide for the scheduled redemption of the principal of the term bonds. As of June 30, 1989 and 1988, the City had deposited the required installments of \$1.4 million and \$1.4 million, respectively, into the General Sinking Fund.

The State Constitution requires the City to pledge its full faith and credit for the payment of the principal and interest on City term and serial bonds and guaranteed debt. The general debt-incurring power of the City is limited by the Constitution to 10% of the average of five years' full valuations of taxable real estate. Additional debt may be incurred for housing purposes and is limited to 2% of the average of five years' assessed valuations. Excluded from these debt limitations is certain indebtedness incurred for water supply, certain obligations for transit, sewage, and other specific obligations, which exclusions are based on a relationship of debt service to net revenue.

NOTES TO FINANCIAL STATEMENTS, Continued

As of June 30, 1989, the 10% general and 2% additional limitations were approximately \$31,157 million and \$1,208 million, respectively, of which the remaining debt-incurring amounts within such limits were \$3,969 million and \$1,022 million, respectively. See Note C for information related to MAC debt authorization and issuance limitations.

Pursuant to State legislation on January 1, 1979, the City established a General Debt Service Fund administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this fund.

Subsequent to June 30, 1989, the City completed the following long-term financing:

City Debt: On August 1, 1989, the City sold in the public credit market \$750 million of general obligation bonds bearing interest rates of 6% to 7%.

On October 5, 1989, the City sold in the public credit market \$700 million of general obligation bonds bearing interest rates of 6.6% to 7½%.

Judgments and Claims

The City is a defendant in lawsuits pertaining to material matters, including those claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to, actions commenced and claims asserted against the City arising out of alleged torts, alleged breaches of contracts, alleged violations of law and condemnation proceedings. As of June 30, 1989, claims in excess of \$294 billion were outstanding against the City for which the City estimates its potential future liability to be \$2.3 billion.

As explained in Note A, the estimate of the liability for unsettled claims has been reported in the General Long-term Obligations Account Group. The liability was estimated by categorizing the various claims and applying a historical average percentage, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and was supplemented by information provided by the New York City Law Department with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information and application of the foregoing procedures.

In addition to the above claims and proceedings, numerous real estate tax certiorari proceedings are presently pending against the City on grounds of alleged overvaluation, inequality and illegality of assessment. In response to these actions, in December 1981, State legislation was enacted which, among other things, authorizes the City to assess real property according to four classes and makes certain evidentiary changes in real estate tax certiorari proceedings. Based on historical settlement activity, the City estimates its potential liability for outstanding certiorari proceedings to be \$155 million as reported in the General Long-term Obligations Account Group.

Wage Deferral

In fiscal year 1976, certain employees deferred portions of negotiated wage increases and other compensation. In conjunction with a September 1982 collective bargaining settlement, the deferred wages plus accrued interest of 9% per annum would be paid over a seven-year period commencing July 1, 1984. The first payment was made by the City in June 1984. At June 30, 1989, approximately \$31 million of deferred wages are reported in the General Long-term Obligations Account Group and \$2.7 million are reported in the HHC Enterprise Fund. In addition, \$20 million are accrued in the General Fund for deferred wages that will be liquidated from current resources.

NOTES TO FINANCIAL STATEMENTS, Continued

Changes In Certain Long-term Obligations

In fiscal year 1989, the changes in long-term obligations other than for bonds were as follows:

	<u>Balance June 30, 1988</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1989</u>
		(in thousands)		
Capital lease obligations.....	\$ 504,241	\$ 5,655	\$ 21,201	\$ 488,695
Real estate tax refunds	180,000	53,848	78,848	155,000
Judgments and claims	2,600,000	455,000	755,000	2,300,000
Vacation and sick leave, net (1).....	1,290,000	70,000	—	1,360,000
Deferred wages	96,623	—	65,631	30,992
Pension liability	2,778,985	—	18,080	2,760,905
	<u>\$7,449,849</u>	<u>\$584,503</u>	<u>\$938,760</u>	<u>\$7,095,592</u>

(1) The detail amount of additions and deletions is not readily available.

H. INTERFUND RECEIVABLE AND PAYABLE BALANCES

At June 30, 1989, individual fund interfund receivable and payable balances were:

	<u>Interfund receivable</u>	<u>Interfund payable</u>
	(in thousands)	
General Fund	\$ 647,244	\$ 153,929
Capital Projects Fund	207,299	519,400
Debt Service Funds:		
General Debt Service Fund	186,908	3,376
Enterprise Funds:		
Off-Track Betting Corporation	—	122
Housing Development Corporation	—	133,471
New York City Water Board	4,435	1,289
Municipal Water Finance Authority	—	207,299
Trust and Agency Funds:		
Expendable Trust Funds	2,521	29,521
Totals	<u>\$1,048,407</u>	<u>\$1,048,407</u>

I. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Due to their nonhomogeneous nature, the City has presented separate columns for HHC, OTB, the Housing and Economic Development Funds and the Water and Sewer System in the Combined Statement of Revenues, Expenses and Changes in Fund Equity and the Combined Statement of Cash Flows. The following segment information is provided for the assets, liabilities and fund equities for HHC, OTB, the Housing and Economic Development Funds and the Water and Sewer System at June 30, 1989:

NOTES TO FINANCIAL STATEMENTS, Continued

	<u>Health and Hospitals Corporation</u>	<u>Off-Track Betting Corporation</u>	<u>Housing and Economic Development Funds</u> (in thousands)	<u>Water and Sewer System</u>	<u>Total</u>
Assets:					
Current	\$ 618,424	\$ 14,853	\$ 1,196,914	\$ 164,264	\$ 1,994,455
Mortgage and interest receivable	—	—	1,625,972	—	1,625,972
Land.....	37,708	—	—	—	37,708
Buildings and leasehold improvements.....	586,287	11,864	12,766	8,891,074	9,501,991
Equipment	1,397,870	10,129	—	—	1,407,999
Less: Accumulated depreciation	(1,026,875)	(7,179)	(4,180)	(2,212,571)	(3,250,805)
Other	2,742	2,983	29,830	462,831	498,386
Total assets	<u>\$ 1,616,156</u>	<u>\$ 32,650</u>	<u>\$ 2,861,302</u>	<u>\$ 7,305,598</u>	<u>\$ 11,815,706</u>
Liabilities:					
Current	\$ 330,755	\$ 19,889	\$ 693,518	\$ 99,645	\$ 1,143,807
Long-term	158,286	12,761	1,756,197	1,963,596	3,890,840
Total liabilities	489,041	32,650	2,449,715	2,063,241	5,034,647
Equity	1,127,115	—	411,587	5,242,357	6,781,059
Total liabilities and equity	<u>\$ 1,616,156</u>	<u>\$ 32,650</u>	<u>\$ 2,861,302</u>	<u>\$ 7,305,598</u>	<u>\$ 11,815,706</u>

J. NEW YORK CITY HEALTH AND HOSPITALS CORPORATION (HHC)

General

HHC, a public benefit corporation, assumed responsibility for the operation of the City's municipal hospital system in 1970. HHC's financial statements include the accounts of HHC and its wholly-owned subsidiary, HHC Nurse Referrals, Inc. All significant intercompany accounts and transactions have been eliminated.

The City provides HHC with support for care given to uninsured indigent patients, members of the uniformed services and prisoners and for other costs not covered by other payors. The City's Annual Expense Budget determines the support to HHC on a cash-flow basis. In addition, the City pays HHC's cost for settlements of claims for medical malpractice, negligence and other miscellaneous torts and contracts as well as certain other HHC costs including interest on capital acquisitions through lease purchase arrangements. HHC does not reimburse the City for such costs; accordingly, HHC records both a revenue and an expense in an amount equal to expenditures made on its behalf by the City.

Fluctuations in HHC's excess (deficiency) of revenues over expenses occur because of differences between the cash-flow basis used by the City and the accrual basis used by HHC. These differences relate primarily to depreciation expense, the net change in receivable/payable balances, and the cash provided by (used in) operations as determined by the City's Annual Expense Budget. For fiscal years 1989 and 1988, the City's cash subsidy was \$389 million and \$139 million, respectively.

Revenues

Patient service accounts receivable and revenues are reported at estimated collectible amounts. Substantially, all direct patient service revenue is derived from third-party payors. Generally, revenues from

these sources are based upon cost reimbursement principles and are subject to routine audit by applicable payors. HHC records adjustments resulting from audits and from appeals when the amount is reasonably determinable. Included in operating revenues are certain payments made and other services rendered by the City on behalf of HHC of \$626 million and \$355 million for fiscal years 1989 and 1988, respectively, and included in other revenues are transfers from donor restricted funds of \$25 million and \$23 million in fiscal years 1989 and 1988, respectively.

Fund Accounting

HHC maintains separate accounts in its financial records to assure compliance with specific restrictions imposed by the City and other grantors or contributors.

Plant and Equipment

All facilities and equipment are leased from the City at \$1 per year. In addition, HHC operates certain facilities which are financed by the New York State Housing Finance Agency (HFA) and leased to the City on behalf of HHC. HHC records as revenue and as expense the interest portion of such lease purchase obligations paid by the City. Because HHC is responsible for the control and maintenance of all plant and equipment, and because depreciation is a significant cost of operations impacting on third party reimbursement, HHC capitalizes plant and equipment at cost or estimated cost based on appraisals. Depreciation is computed for financial statement purposes using the straight-line method based upon estimated useful lives averaging 10 years. As a result of modernization programs and changes in service requirements, HHC has closed certain facilities and portions of facilities during the past several years. It is the policy of HHC to reflect the financial effect of the closing of facilities or portions thereof in the financial statements when a decision has been made as to the disposition of such assets. HHC records construction in process that it controls. Costs associated with facilities under construction by the HFA are recorded when the facilities are placed in service.

Donor Restricted Assets

Contributions which are restricted as to use are recorded as donor restricted funds.

Pensions

Substantially all HHC employees are eligible to participate in NYCERS (See Note Q). The provisions for pension costs were actuarially determined and amounted to \$71 million and \$64 million for fiscal years 1989 and 1988, respectively. These amounts were fully funded.

Affiliation Expenses

Affiliation expenses represent contractual expenses incurred by affiliated institutions and charged to HHC for participation in patient service programs at HHC's facilities.

Debt Service

HHC has outstanding revenue bonds, Series A, secured by letters of credit, collateralized by the non-Medicare/non-Medicaid revenues.

NOTES TO FINANCIAL STATEMENTS, Continued

The following table summarizes future debt service requirements as of June 30, 1989:

Fiscal year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(in thousands)		
1990	\$ 6,980	\$ 3,661	\$10,641
1991	7,445	3,194	10,639
1992	7,965	2,673	10,638
1993	8,540	2,099	10,639
1994	9,175	1,467	10,642
1995	9,870	770	10,640
Total	<u>\$49,975</u>	<u>\$13,864</u>	<u>\$63,839</u>

The interest rates on the bonds as of June 30, 1989 range from 6.7% to 7.8%.

Changes in Fund Balance

Presented below are the changes in fund balance for the fiscal years ended June 30, 1989 and 1988:

	<u>Unreserved Fund Balance</u>	<u>Contributed Capital Plant and Equipment Funds</u>	<u>Donor Reserved Funds</u>	<u>Total Fund Equity</u>
	(in thousands)			
Balances, June 30, 1987	\$308,948	\$877,213	\$ 9,380	\$1,195,541
Excess of expenses over revenues	(190,752)	—	—	(190,752)
Reduction in bonds payable	(6,185)	6,185	—	—
Additions to plant and equipment funded by:				
The City of New York	—	68,134	—	68,134
HHC	(46,466)	46,466	—	—
Donor restricted fund activity:				
Grants and other increases	—	—	27,254	27,254
Transfers to statement of revenues and expenses to support related activities	—	—	(23,473)	(23,473)
Depreciation charged to plant and equipment leased	<u>99,134</u>	<u>(99,134)</u>	<u>—</u>	<u>—</u>
Balances, June 30, 1988	164,679	898,864	13,161	1,076,704
Excess of expenses over revenues	(64,899)	—	—	(64,899)
Reduction in bonds payable	(6,560)	6,560	—	—
Additions to plant and equipment funded by:				
The City of New York	—	114,585	—	114,585
HHC	(30,477)	30,477	—	—
Donor restricted fund activity:				
Grants and other increases	—	—	26,221	26,221
Transfers to statement of revenues and expenses to support related activities	—	—	(25,496)	(25,496)
Depreciation charged to plant and equipment leased	<u>105,471</u>	<u>(105,471)</u>	<u>—</u>	<u>—</u>
Balances, June 30, 1989	<u>\$168,214</u>	<u>\$945,015</u>	<u>\$13,886</u>	<u>\$1,127,115</u>

NOTES TO FINANCIAL STATEMENTS, Continued

K. NEW YORK CITY OFF-TRACK BETTING CORPORATION (OTB)

General

OTB was established in 1970 as a public benefit corporation to operate a system of off-track betting in the City. OTB earns revenues on its betting operations from (i) between 17% and 25% of wagers handled, depending on the type of wager; (ii) a 5% surcharge and surcharge breakage on pari-mutuel winnings; and (iii) breakage, the revenue resulting from the rounding down of winning payoffs. Pursuant to State law, OTB (i) distributes various portions of the surcharge and surcharge breakage to other localities in the State, (ii) allocates various percentages of wagers handled to the racing industry, and (iii) allocates various percentages of wagers handled and breakage together with all uncashed pari-mutuel tickets to the State. All remaining net revenue is distributable to the City. In addition, OTB acts as a collection agent for the City with respect to surcharge and surcharge breakage due from other community off-track betting corporations.

Property and Equipment

Property and equipment is recorded at cost. Depreciation and amortization is computed using the straight-line method based upon estimated useful lives ranging from three to ten years. Leasehold improvements are amortized principally over ten years. Leases are generally for five years with five-year renewal options.

Rental expense for leased property for the years ended June 30, 1989 and 1988 was approximately \$10.6 million and \$9.4 million, respectively. As of June 30, 1989, OTB had future minimum rental obligations on noncancellable operating leases as follows:

	Amount (in thousands)
Fiscal year ending June 30:	
1990	\$ 9,894
1991	8,799
1992	7,406
1993	6,249
1994	5,194
Thereafter	17,646
Total	\$55,188

Pensions

Substantially all full-time employees of OTB are members of the NYCERS (see Note Q). The provisions for pension costs were actuarially determined and amounted to \$4.8 million and \$4.5 million, for fiscal years 1989 and 1988, respectively. These amounts were fully funded.

Note Payable

In connection with an assignment of a lease in fiscal year 1987, OTB issued a promissory note for \$2 million payable in sixty monthly installments with interest at 9% per annum. The outstanding note payable at June 30, 1989 was \$1 million.

NOTES TO FINANCIAL STATEMENTS, Continued

L. HOUSING AND ECONOMIC DEVELOPMENT ENTERPRISE FUNDS

General

The Housing and Economic Development Enterprise Funds are comprised of seven separate public corporations, the New York City Housing Development Corporation (HDC), the New York City Rehabilitation Mortgage Insurance Corporation (REMIC), the New York City Public Development Corporation (PDC), the Financial Services Corporation of New York City (FSC), the Brooklyn Navy Yard Development Corporation (BNYDC), the Business Relocation Assistance Corporation (BRAC) and the New York City Industrial Development Agency (IDA), the largest of which is HDC.

BNYDC had deficit fund balances of \$7.3 and \$7.8 million, respectively, for fiscal years 1989 and 1988.

HDC

HDC was established in 1971 to encourage private housing development by providing low interest mortgage loans. The combined financial statements include the accounts of HDC and its wholly-owned subsidiaries, Housing Assistance Corporation and Housing New York Corporation. HDC finances multiple dwelling mortgages substantially through issuance of HDC bonds and notes, and also intermediates the sale and refinancing of certain City multiple dwelling mortgages. HDC has a fiscal year ending October 31.

HDC is authorized to issue bonds and notes for any corporate purpose in a principal amount outstanding, exclusive of refunding bonds and notes, not to exceed \$2,800 million and certain other limitations.

HDC is supported by service fees, investment income and interest charged to mortgagors and has been self-sustaining. Mortgage loans are carried at cost. Mortgage loan interest income, fees, charges and interest expense are recognized on the accrual basis. HDC maintains separate funds in its financial records to assure compliance with specific restrictions of its various bond and note resolutions.

Substantially all HDC employees are eligible to participate in NYCERS. The provisions for pension costs were actuarially computed, determined and funded by HDC.

The future debt service requirements on HDC bonds and notes payable at October 31, 1988, its most recent fiscal year end, were as follows:

	<u>Principal</u>	<u>Interest</u> (in thousands)	<u>Total</u>
Fiscal year ending October 31:			
1989.....	\$ 351,491	\$ 143,968	\$ 495,459
1990.....	15,898	131,708	147,606
1991.....	18,327	130,565	148,892
1992.....	23,844	129,120	152,964
1993.....	25,556	127,352	152,908
Five years ending October 31, 1998.....	160,309	593,536	753,845
Thereafter.....	<u>1,468,869</u>	<u>1,963,071</u>	<u>3,431,940</u>
Total.....	<u>\$2,064,294</u>	<u>\$3,219,320</u>	<u>\$5,283,614</u>

The bonds and notes will be repaid from assets and future earnings of the assets. The interest rates on the bonds and notes as of October 31, 1988 range from 1.0% to 11.125%.

NOTES TO FINANCIAL STATEMENTS, Continued

HDC had \$295.7 million of bonds and notes outstanding at October 31, 1988 for which HDC is required to maintain a capital reserve fund equal to one year's debt service. State law in effect provides that the City shall make up any deficiency in such fund. There have not been any capital reserve fund deficiencies.

Subsequent to October 31, 1988, HDC sold \$361.6 million of bonds. The proceeds were used to refund various outstanding bond issues.

The following is a summary of bonds transactions of HDC for the year ended October 31, 1988:

	<u>Balance November 1, 1987</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance October 31, 1988</u>
	(in thousands)			
General Obligation.....	\$ 298,100	\$ —	\$ 2,425	\$ 295,675
Revenue	<u>1,910,059</u>	<u>11,430</u>	<u>152,870</u>	<u>1,768,619</u>
Total	<u>\$2,208,159</u>	<u>\$ 11,430</u>	<u>\$155,295</u>	<u>\$2,064,294</u>

M. WATER AND SEWER SYSTEM

General

The Water and Sewer System, consisting of two legally separate and independent entities, the New York City Municipal Water Finance Authority and the New York City Water Board, was established on July 1, 1985. The Water and Sewer System provides for water supply and distribution, and sewage collection, treatment and disposal for the City. The Water Authority was established to issue debt to finance the cost of capital improvements to the water and sewer system. The Water Board was established to lease the water and sewer system from the City and to establish and collect fees, rates, rents, and other service charges for services furnished by the system to produce cash sufficient to pay debt service on the Water Authority's bonds and to place the Water and Sewer System on a self-sustaining basis.

Under the terms of the Water and Sewer System General Revenue Bond Resolution, which covers all outstanding bonds of the Water Authority, operations are required to be balanced on a cash basis. At June 30, 1989, the Authority had a net operating deficit of \$198 million which is more than offset by a surplus in the Water Board.

Financing Agreement

As of July 1, 1985 the City, the Water Board and the Water Authority entered into a Financing Agreement. The Agreement, as amended, provides that the Water Authority will issue bonds to finance the cost of capital investment in the water and sewer system serving the City. It also sets forth the funding of the debt service costs of the Water Authority, operating costs of the water and sewer system and the rental payment to the City.

Lease Agreement

As of July 1, 1985 the City entered into a long-term lease with the Water Board which transferred all the water and sewer related real and personal property to the Water Board for the term of the lease. The City administers, operates and maintains the water and sewer system. The lease provides for payments to the City to cover the City's cost for operation and maintenance, capital costs not otherwise reimbursed, rent and for other services provided.

NOTES TO FINANCIAL STATEMENTS, Continued

Contributed Capital

Pursuant to the lease the City transferred its water and sewer related assets valued at historical cost, net of depreciation and all work in progress, at cost, to the Water Board at July 1, 1985. City financed additions for the years ended June 30, 1989 and 1988 amounted to \$218.9 million and \$82 million, respectively, and are recorded by the Water Board as contributed capital.

Utility Plant in Service

All water and sewer related assets leased by the Water Board from the City are recorded at actual and estimated historical cost, net of depreciation. All additions to utility plant in service are recorded at cost. Depreciation is computed on all utility plant in service using the straight-line method based upon estimated useful lives as follows:

	<u>Years</u>
Buildings	40-50
Water supply and wastewater treatment systems	15-50
Water distribution and sewage collection systems	15-75
Equipment	5-35

Depreciation on contributed utility plant in service is allocated to contributed capital after the computation of net income.

Debt Service

During fiscal year 1989, the Water Authority issued Series A revenue bonds in the aggregate amount of \$334.1 million and Series B revenue bonds of aggregate amount of \$326.4 million, which reflects capital appreciation bonds at the matured value. Outstanding revenue bonds at June 30, 1989 and 1988 were \$2.1 billion and \$1.4 billion, respectively, reflecting capital appreciation bonds at their matured value.

The following table summarizes future debt service requirements as of June 30, 1989:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u> <small>(in thousands)</small>	<u>Total</u>
1990	\$ 26,620	\$ 128,620	\$ 155,240
1991	33,050	122,963	156,013
1992	35,070	120,939	156,009
1993	37,285	118,720	156,005
1994	39,725	116,283	156,008
Five years ending June 30, 1999	244,080	535,977	780,057
Thereafter	1,643,994	1,273,579	2,917,573
Total	\$2,059,824	\$2,417,081	\$4,476,905

The interest rates on the outstanding bonds as of June 30, 1989 and 1988 ranged from 4¾% to 9.0% and from 4.5% to 9.0%, respectively.

NOTES TO FINANCIAL STATEMENTS, Continued

The following is a summary of revenue bond transactions of the Water Authority for the year ended June 30, 1989:

	<u>Balance July 1, 1988</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 1989</u>
		(in thousands)		
Revenue bonds.....	\$1,414,344	\$660,530	\$15,050	\$2,059,824

In fiscal year 1987 the Water Authority defeased in substance \$162 million of revenue bonds. As of June 30, 1989 none of the defeased bonds had been retired from the assets of the escrow account.

Restricted Assets

Proceeds from the issuance of debt and funds set aside for the operation and maintenance of the water and sewer system are classified as restricted assets since their use is limited by applicable bond indentures.

Changes in Contributed Capital

Changes in contributed capital for the fiscal years ended June 30, 1989 and 1988 are as follows:

	<u>1989</u>	<u>1988</u>
	(in thousands)	
Balance July 1	\$4,991,411	\$4,981,433
Plant and equipment contributed	218,913	82,000
Allocation of depreciation to contributed capital.....	(69,329)	(72,022)
Balance June 30.....	<u>\$5,140,995</u>	<u>\$4,991,411</u>

Operating Revenues

Revenues are based on billings at rates imposed by the Water Board that are applied to customers' consumption of water and sewer service and include accruals based upon estimated usage not billed during the fiscal year.

Commitments and Contingencies

Legal Contingencies

The City is a defendant in a number of lawsuits pertaining to the Water and Sewer System. As of June 30, 1989, claims in excess of \$2 billion were outstanding against the City for which the City estimates its potential future liability to be \$134 million. Accordingly, this amount is included in the City's General Long-Term Obligations Account Group.

Construction

The Water and Sewer System has contractual commitments of approximately \$1 billion at June 30, 1989, for water and sewer projects.

N. EXPENDABLE TRUST FUNDS

The New York Police Department maintains the Police Officers' Variable Supplements Fund and the Superior Police Officers' Variable Supplements Fund. These Funds operate pursuant to the provisions of Title 13, Chapter 2, of the Administrative Code of The City of New York beginning fiscal year 1971.

The Police Officers' Variable Supplements Fund provides supplemental benefits to police officers who are service retirees of the New York Police Department Pension Fund—Article 1 or Article 2, and who retired on or after October 1, 1968.

The Superior Police Officers' Variable Supplements Fund provides supplemental benefits to any member of the uniformed force of the New York Police Department holding the rank of sergeant or higher, or detective, is a service retiree of the New York Police Department Pension Fund—Article 1 or Article 2, and retired on or after October 1, 1968.

The New York Fire Department maintains the Firefighters' Variable Supplements Fund and the Fire Officers' Variable Supplements Fund. These Funds operate pursuant to the provisions of Title 13, Chapter 3, of the Administrative Code of The City of New York beginning fiscal year 1971.

The Firefighters' Variable Supplements Fund provides supplemental benefits to firefighters who are service retirees of the New York Fire Department Pension Fund—Article 1 or Article 1-B, and who retired on or after October 1, 1968.

The Fire Officers' Variable Supplements Fund provides supplemental benefits to all members of the uniformed force holding the rank of lieutenant or higher and all pilots and marine engineers (uniformed) who are service retirees of the New York Fire Department Pension Fund—Article 1 or Article 1-B, and who retired on or after October 1, 1968.

The Administrative Code provides that the New York Police Department Pension Fund—Article 2 and the New York Fire Department Pension Fund—Article 1-B pay to the respective variable supplements funds an amount equal to any cumulative hypothetical gain on equity investments. The cumulative hypothetical gain is the earnings on equity investments which exceeds what the earnings might have been had such funds been invested in fixed income investments, less any cumulative hypothetical deficiencies. For fiscal year 1989, there were cumulative hypothetical deficiencies on equity investments for the New York Police Department Pension Fund—Article 2 and the New York Fire Department Pension Fund—Article 1-B and, accordingly, no transfers were made.

As a result of labor negotiations, legislation effective July 1, 1989 pertaining to the Police Officers' Variable Supplements Fund and Firefighters' Variable Supplements Fund provides, among other things, for a fixed annual supplemental benefit payment and a change in the way hypothetical gains or losses are computed and thus the payments to the funds will be affected. The revisions to these variable supplements funds will initiate a City-guaranteed payment which is estimated to be offset over time by future hypothetical gains. The present value of accumulated benefits as of June 30, 1989 is as follows:

	<u>Amount</u> (in millions)
Police Officers' Variable Supplements Fund	\$630
Firefighters' Variable Supplements Fund	<u>284</u>
Total	<u>\$914</u>

NOTES TO FINANCIAL STATEMENTS, Continued

In addition, the legislation establishing the fixed annual benefit requires a transfer of 15% of the assets of the Police Officers' Variable Supplements Fund and Firefighters' Variable Supplements Fund as of July 1, 1988, but not exceeding the sum of \$75 million and \$27 million respectively, to the General Fund. Accordingly, these amounts have been recognized in the Expendable Trust Funds and General Fund for fiscal year 1989.

In fiscal year 1988, legislation was enacted to create four additional variable supplements funds for the Housing Police and the Transit Police to be funded by a percentage of the hypothetical gains from NYCERS. For fiscal year 1989, there were no such hypothetical gains and, accordingly, no amounts have been included for these funds in the Expendable Trust Funds.

O. DEFERRED COMPENSATION PLAN FOR EMPLOYEES OF THE CITY OF NEW YORK AND RELATED AGENCIES AND INSTRUMENTALITIES (DCP)

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. DCP is available to certain employees of The City of New York and related agencies and instrumentalities. It permits them to defer a portion of their salary until future years. The compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency (as defined by the Internal Revenue Service).

All amounts of compensation deferred, all property and rights purchased with those amounts, and all income attributable to those amounts, are (until paid or made available to the employee or beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under DCP), subject to the claims of the City's general creditors. Participants' rights under the DCP are equal to the fair market value of the deferred account for each participant.

It is the opinion of the City's legal counsel that the City has no liability for losses under the DCP but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Investments are managed by the DCP's trustee under one of four investment options or a combination thereof. The choices of the investment options are made by the participants.

The following is a summary of the increases and decreases of the fund for the year ended June 30, 1989:

	<u>Amount</u> (in thousands)
Fund assets at July 1, 1988	\$ 99,404
Deferrals of compensation	86,731
Earnings and adjustment to market value	16,692
Payments to eligible participants and beneficiaries	(6,835)
Administrative expenses	<u>(697)</u>
Fund assets at June 30, 1989	<u>\$195,295</u>

P. POST EMPLOYMENT RETIREMENT HEALTH CARE BENEFITS

The City provides certain medical and hospitalization benefits to retired employees and dependents, if qualified. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the City. In some instances benefits cease with the death of the retiree and in others surviving dependents continue to receive benefits.

NOTES TO FINANCIAL STATEMENTS, Continued

The amount expended for health care benefits for fiscal years 1989 and 1988 is as follows:

	1989		1988	
	Active	Retired	Active	Retired
Number of employees	322,897	143,731	325,150	139,975
Cost of health care (in thousands).....	\$619,049	\$207,353	\$549,312	\$178,610

Q. PENSION SYSTEMS

Plan Descriptions

The City sponsors or participates in pension systems providing benefits to its employees. The pension systems function in accordance with existing State statutes and City laws. Each system combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the employers and the employees.

The majority of City employees are members of one of the following five major actuarial pension systems:

1. New York City Employees' Retirement System (NYCERS), a cost-sharing multiple-employer public employee retirement system, for employees of the City not covered by one of the other pension systems and employees of certain component units of the City and certain other government units.

2. Teachers' Retirement System of The City of New York-Qualified Pension Plan (TRS), a cost-sharing multiple-employer public employee retirement system for teachers in the public schools of the City and certain other specified school and college members.

3. New York City Board of Education Retirement System-Qualified Pension Plan (BERS), a single employer public employee retirement system, for non pedagogical, permanent, employees of the Board of Education.

4. New York Police Department Pension Fund—Article 2 (POLICE), a single employer public employee retirement system, for full-time uniformed employees of the Police Department.

5. New York Fire Department Pension Fund—Article 1-B (FIRE), a single employer public employee retirement system, for full-time uniformed employees of the Fire Department.

At June 30, 1989, the pension systems membership consisted of:

	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Retirees and beneficiaries currently receiving benefits	110,764	37,938	4,158	27,394	10,038	190,292
Terminated but not receiving benefits	3,669	1,195	40	91	7	5,002
Total	<u>114,433</u>	<u>39,133</u>	<u>4,198</u>	<u>27,485</u>	<u>10,045</u>	<u>195,294</u>
Current employees:						
Vested	65,435	44,699	3,042	8,276	5,408	126,860
Non vested	126,176	42,028	12,912	18,389	6,785	206,290
Total	<u>191,611</u>	<u>86,727</u>	<u>15,954</u>	<u>26,665</u>	<u>12,193</u>	<u>333,150</u>

The pension systems provide pension benefits to retired employees based on salary and length of service. In addition, the pension systems provide cost-of-living and other supplemental pension benefits to certain retirees

NOTES TO FINANCIAL STATEMENTS, Continued

and beneficiaries. In the event of disability during employment, participants may receive retirement allowances based on satisfaction of certain service requirements and other provisions. The pension systems also provide death benefits.

Subject to certain conditions, members become fully vested as to benefits upon the completion of 10 or 15 years of service. Permanent, full-time employees are required to become members of the pension systems upon employment with the exception of NYCERS. Permanent full-time employees who are eligible to participate in NYCERS are required to become members within six months of their employment but may elect to become members earlier. Other employees who are eligible to participate in NYCERS may become members at their option. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions including accumulated interest less any loans outstanding. The City's annualized covered and total annualized covered payroll for each system at June 30, 1989 are as follows:

	City's Annualized Covered Payroll	Total Annualized Covered payroll
	(in millions)	
NYCERS	\$2,958	\$ 5,503
TRS	2,576	2,687
BERS	288	288
POLICE	1,184	1,184
FIRE	572	572
Total	\$7,578	\$10,234

The annualized covered payrolls were reduced by excluding all pending withdrawals (five year outs, et al). In addition, salaries were increased for some members to reflect overtime earnings. Adjustments were made for members not on the payroll at June 30, 1989, to reflect the fact that most of these members will not return to active service. The adjustments at June 30, 1989 were to completely exclude the salaries for these members.

There are no debt securities of the City included in the investments of the pension systems as of June 30, 1989.

The debt securities of the City included in the investments of the pension systems as of June 30, 1988 are as follows:

	Amount (in thousands)
NYCERS	\$ 63,965
TRS	87,269
BERS	1,156
POLICE	42,341
FIRE	991
Total	\$195,722

Funding Status and Progress

The amount shown as "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service-to-date. The measure is the actuarial present value of credited projected

NOTES TO FINANCIAL STATEMENTS, Continued

benefits and is intended to help users assess the pension systems' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the pension systems.

An actuarial valuation, including a review of the continued reasonableness of the actuarial assumptions, is performed annually as of June 30, for each of the five major actuarial systems. The latest valuation to determine the pension benefit obligation was made as of June 30, 1989.

The significant assumptions used in the June 30, 1989 and June 30, 1988 actuarial calculations of the pension benefit obligations are as follows:

	<u>1989</u>	<u>1988</u>
Assumed rate of return on investments	8.25% (4% for benefits payable under the variable annuity programs).	8% (4% for benefits payable under the variable annuity programs).
Mortality basis	Table based on current experience.	Table based on prior experience.
Turnover	Table based on current experience, varies from earliest age a member is eligible to retire (varies according to plan) and age 63 for Police and Fire and age 70 for all others.	Table based on prior experience varies from earliest age a member is eligible to retire (varies according to plan) and age 63 for Police and Fire and age 70 for all others.
Retirement	Tables based on current experience varies from earliest age member is eligible to retire until age at end of tables.	Tables based on prior experience varies from earliest age a member is eligible to retire until age at end of tables.
Asset Valuation	For NYCERS, POLICE and FIRE the asset valuation method for the entire portfolio (equities and fixed income) is a typical five-year average market value method. However, if the asset value calculated in this manner exceeds 120% or is less than 80% of market value, on the valuation date, then it is lowered or raised to 120% or 80% of market value, respectively. The deferred charge account was also eliminated. For TRS and BERS, the asset valuation method for funds other than those to the variable annuity programs is the same as above.	For NYCERS, POLICE and FIRE, a five-year moving average of market value for equities and amortized cost for other investments. For TRS and BERS, for funds other than those of the variable annuity programs, the asset valuation method is the same as above. Realized gains and losses related to bond sales are deferred and amortized.
Salary	Same as for 1988.	In general, the merit and promotion component average 1% per year plus assumed general increase of

NOTES TO FINANCIAL STATEMENTS, Continued

	<u>1989</u>	<u>1988</u>
Unfunded actuarial accrued liabilities	Same as for 1988.	<p>5.5% per year (For BERS, the merit and promotion component averages 1% per year plus assumed general increase of 6.0% per year.)</p> <p>A portion of the frozen initial actuarial liability as of June 30, 1975 remaining unfunded as of June 30, 1980 is being amortized principally over a 35-year period beginning July 1, 1980. Other components of the unfunded actuarial accrued liability are being amortized over 10 to 40 years.</p>

Pursuant to Section 96 of the New York City Charter, a study was done of the actuarial assumptions used to value liabilities of the pension system. Based on this study, revised assumptions for valuation purposes were adopted by the Boards of Trustees. In addition, the Boards approved a change in the asset valuation method.

The following outlines significant funding changes:

Chapter 580 of the Laws of 1989 amended the funding provisions of the pension systems effective June 30, 1988 in relation to the elimination of the deferred charge account.

Chapter 581 of the Laws of 1989 amended the funding provisions of the pension systems effective June 30, 1988 in relation to the rate of interest used in the actuarial valuation of liabilities for the purpose of calculating employer contributions. The law provides that an 8.25% interest rate be in effect for that purpose with respect to employer contributions due for fiscal year 1989.

The June 30, 1988 PBO decreased by approximately \$185 million utilizing the new assumption and methods. The amount of change in the June 30, 1988 PBO by each pension system is as follows:

	<u>Amount</u> (in millions)
NYCERS	\$(271)
TRS	(226)
BERS	(17)
POLICE	216
FIRE	113
Total	<u>\$(185)</u>

NOTES TO FINANCIAL STATEMENTS, Continued

The following is a comparison of the pension benefit obligation and net assets available for benefits for the five major actuarial systems as of June 30, 1989:

	Retirees and beneficiaries currently receiving benefits and terminated vested participants not yet receiving benefits	Current Employees			Total pension benefit obligation	Net assets available for benefits	Unfunded pension benefit obligation
		Accumulated employee contributions including allocated investment income	Employer-financed vested	Employer-financed non vested (in millions)			
NYCERS	\$ 8,865.0	\$1,227.0	\$ 4,625.7	\$3,313.1	\$18,030.8	\$15,931.2	\$2,099.6
TRS	5,308.6	1,295.0	4,904.9	2,333.8	13,842.3	12,720.8	1,121.5
BERS	264.2	67.0	204.5	106.7	642.4	539.3	103.1
POLICE	4,363.2	294.0	1,499.1	1,353.0	7,509.3	5,626.4	1,882.9
FIRE	1,728.4	73.0	847.4	812.6	3,461.4	2,162.4	1,299.0
Total	<u>\$20,529.4</u>	<u>\$2,956.0</u>	<u>\$12,081.6</u>	<u>\$7,919.2</u>	<u>\$43,486.2</u>	<u>\$36,980.1</u>	<u>\$6,506.1</u>

Investments in marketable fixed income securities are recorded at cost or amortized cost, plus accrued interest. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be resold. Marketable equity securities are carried at market. Realized gains or losses on sales of securities are based on the average cost of securities.

The market value of net assets available for benefits as of June 30, 1989 is as follows:

	Amount (in millions)
NYCERS.....	\$16,066.5
TRS	12,834.6
BERS	554.3
POLICE.....	5,707.4
FIRE.....	2,169.9
Total	<u>\$37,332.7</u>

The pension benefit obligation for the active participants is based on current salaries with projected increases to retirement.

The City also has three pension systems, closed to active members, whose retirees and beneficiaries are not covered by any of the five major actuarial pension systems. The pension benefit obligation for these three pension systems as of June 30, 1989 is approximately \$489 million. These three pension systems are funded by the City on a pay-as-you-go basis. The City's contribution for these three pension systems for fiscal year 1989 amounted to \$101 million.

The net assets available for benefits shown in the City's financial statements exclude the accrued pension contribution of \$2,761 million for amortization of the two-year payment lag reported in the General Long-term Obligations Account Group, \$120 million reported in the Enterprise Funds and \$411 million from other government units. Prior to fiscal year 1981, pension contributions had been made on a statutory basis which reflected pension costs incurred two years earlier and a phase-in of certain actuarial assumptions. The City's liability resulting from the two-year lag is being amortized over 40 years. The City's expenditure for pension costs

NOTES TO FINANCIAL STATEMENTS, Continued

for the year ended June 30, 1989 included the eighth contribution to amortize this liability resulting from the two-year lag.

Contributions Required and Contributions Made

The City's funding policy is to provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annualized covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

The frozen entry age actuarial cost method of funding with 35-year amortization of revised unfunded frozen initial accrued liabilities (reduced by unfunded accrued liability adjustments amortized over 30 years) is utilized by the pension systems' actuary to calculate the contributions from the employers. Under this method, the excess of the actuarial present value of projected benefits over the sum of the actuarial value of assets plus the unfunded frozen actuarial accrued liability is allocated over future earnings. Contributions are accrued by the pension systems and are funded by the employers on a current basis and amounted to \$2.1 billion at June 30, 1989 and 1988.

Actuarial assumptions used to compute the pension benefit obligation are the same as those used to compute the contribution requirements. The change in the actuarial assumptions disclosed in the funding status and progress section used to compute the pension benefit obligation are the same as those used to compute the contribution requirements.

The City's expenditures for pension costs, for the years ended June 30, 1989 and 1988 were approximately \$1.8 billion and \$1.9 billion, respectively and were equal to the amounts recommended by the pension systems' actuary.

The fiscal year 1989 employer contributions decreased by approximately \$235 million compared to what it would have been utilizing the former assumptions and methods. The amount of change in the fiscal year 1989 employers contribution requirements by each pension system is as follows:

	<u>Amount</u> (in millions)
NYCERS.....	\$ (91)
TRS	(146)
BERS	(1)
POLICE.....	(8)
FIRE	11
Total	<u>\$ (235)</u>

NOTES TO FINANCIAL STATEMENTS, Continued

The City's pension expenditures recommended by the actuary for June 30, 1989, were as follows:

	Expenditures for		Total	Expenditures as a percentage of City annualized covered payroll
	Normal cost	Amortization of actuarial accrued liability (in millions)		
NYCERS	\$276.9	\$212.0	\$ 488.9*	16.5%
TRS	216.4	184.5	400.9*	15.6
BERS	15.6	12.7	28.3	9.8
POLICE	348.4	185.2	533.6	45.1
FIRE	142.3	122.4	264.7	46.3
Other	NA	NA	122.5	—
Total			\$1,838.9	

* NYCERS and TRS are cost-sharing multiple-employer public employee retirement systems. The City's total actuarially determined contributions as a percent of contributions for all employers to NYCERS and TRS were 58.66% and 95.89%, respectively.

NA: Not Available.

Included in the above total is approximately \$48.4 million of payments (net of revenue received from the State as reimbursement) for State employees in the City's pension systems and payments made on behalf of certain employees in the New York City Transit Authority and the New York City Housing Authority. These payments and the related reimbursements are recorded as either expenditures or revenues in individual program categories rather than as pension expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance.

Other pension expenditures represent contributions to other actuarial and pay-as-you-go pension systems for certain employees, retirees and beneficiaries not covered by any of the five major actuarial pension systems. The City also contributes per diem amounts into certain union-administered annuity funds. Employee contributions for the current year amounted to:

	Employee Contributions	Employee contributions as a percentage of total annualized covered payroll
	(in thousands)	
NYCERS	\$101,831	1.9%
TRS	53,780	2.0
BERS	4,698	1.6
POLICE	16,508	1.4
FIRE	6,472	1.1
Total	\$183,289	

NOTES TO FINANCIAL STATEMENTS, Continued

Trend Information

Trend information for the three years ended June 30, 1989, 1988 and 1987 is as follows:

	<u>1989</u>	<u>1988</u>	<u>1987</u>
Net assets available for benefits as a percentage of pension benefit obligation(a):			
NYCERS	88.4%	83.2%	82.1%
TRS	91.9	90.6	84.5
BERS	83.9	82.1	76.2
POLICE	74.9	69.4	61.1
FIRE	62.5	56.4	50.9
Unfunded pension benefit obligation as a percentage of total annualized covered payroll(a):			
NYCERS	38.2%	55.9%	64.4%
TRS	41.7	43.9	78.6
BERS	35.8	57.3	83.8
POLICE	159.0	179.9	283.3
FIRE	227.1	249.9	321.6
Employer contributions (all made in accordance with actuarially determined requirements) as a percentage of total annualized covered payroll:			
NYCERS	15.1%	16.2%	17.8%
TRS	15.6	18.6	18.1
BERS	9.8	14.6	15.1
POLICE	45.1	41.7	45.1
FIRE	46.3	40.8	42.8

(a) As of June 30, 1989 and 1988, the PBO is the actuarial present value of credited projected benefits produced by the credited projected benefit attribution approach prorated on service as required by GASB Statement No. 5. Prior to June 30, 1988, the PBO was the actuarial present value of credited projected benefits produced by the accumulated benefit attribution approach.

Ten-year historical trend information is presented in the pension systems' separately issued publicly available financial statements. The information is presented to enable the reader to assess the progress made by the pension systems in accumulating sufficient assets to pay pension benefits as they become due. Selected ten-year historical trend information on the pension systems is also presented in the statistical section of the City's Comprehensive Annual Financial Report.

On August 1, 1975, Women in City Government United, representing all retired and active female employees of the City and certain Covered Organizations, commenced a class action in the United States District Court for the Southern District of New York (the Southern District) against the City, NYCERS and its officers and trustees and others. Plaintiffs alleged that certain retirement plans discriminate against female employees in violation of the United States Constitution and certain Federal statutes and regulations. On April 24, 1981, the Southern District granted plaintiffs' motion for summary judgment in regard to liability on their Federal statutory claim, but deferred judgment, pending a trial, as to appropriate relief to be granted. Through a combination of state legislation, administrative action and a court-approved consent decree, all claims of class members who retired on or after August 1, 1983 were settled, and mortality tables were revised to achieve gender neutrality and to reflect modern mortality experience. However, certain other issues concerning class members who retired prior to August 1, 1983 remained pending. On January 10, 1989, the parties signed a stipulation of settlement and

dismissal (the "Stipulation") settling the claims of these class members for \$19 million plus interest accrued since November 14, 1986. The Stipulation, which is subject to court approval, has been submitted to the Southern District, and a hearing on any objections has been scheduled for December 5, 1989.

R. CONTRACTUAL COMMITMENTS

At June 30, 1989, uncompleted contracts relating to projects of the Capital Projects Fund amounted to approximately \$4.5 billion.

Capital Requirements

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates expenditures of \$57.3 billion over fiscal years 1989 through 1998. To help meet its capital spending program, the City borrowed \$1.9 billion in the public credit markets in fiscal year 1989. The City plans to increase its public borrowings to \$3.5 billion (including water and sewer financing) in fiscal year 1990.

ECONOMIC AND SOCIAL FACTORS

This section presents information regarding certain of the major economic and social factors affecting the City. All information is presented on a calendar-year basis unless otherwise indicated. The data set forth are the latest available. Sources of information are indicated in the text or immediately following the charts and tables. Although the City considers the sources to be reliable, the City made no independent verification of the information presented herein and does not warrant its accuracy.

Economic Activity, 1969-1987

For at least a decade prior to the end of the fiscal crisis in the mid seventies, New York City's economy lagged behind the nation, as evidenced by certain of the broad economic indicators. The City's economy improved after the crisis and, since then, certain of the key economic indicators have posted steady growth.

From 1969 to 1976, New York City's population and employment fell, while both expanded nationally. Personal income increased sluggishly (5.4% annually) and fell below the national growth (9.4% annually). Real per capita personal income remained unchanged while increasing 2 percent annually for the nation. As a result, by 1976, real per capita personal income in the City was only 7 percent above the national level, compared to 22 percent above the national level in 1969.

After 1976, the economic indicators started to improve although total employment levels did not increase until 1978, because of the reductions of City government workers in 1977. Personal income growth since 1976 has been close to the national growth. Real per capita personal income growth since 1976 increased at an average annual rate of 1.7 percent, outpacing that of the nation which grew by 1.4 percent during 1977-1987.

	Trends of Major Economic Indicators 1969-1987				
	Levels			Average Annual Percent Change	
	1969	1976	1987	1969-76	1976-87
NYC					
Population(1) (millions)	7.9	7.4	7.3	(0.8)	(0.1)
Employment(2) (millions)	3.8	3.2	3.6	(2.4)	1.1
Personal Income(3) (billions)	\$36.4	\$52.5	\$133.1	5.4	8.8
Real Per Capita Personal Income(4)	\$12,174.0	\$12,179.0	\$14,647.0	0.0	1.7
United States					
Population(1) (millions)	202.7	218.0	243.0	1.0	1.0
Employment(2) (millions)	70.4	79.4	102.3	1.7	2.3
Personal Income(3) (in billions)	\$772.9	\$1,451.4	\$3,768.7	9.4	9.1
Real Per Capita Personal Income(4)	\$9,983.0	\$11,338.0	\$13,223.0	1.8	1.4

(1) 1970, 1980 figures are based on final census count. All other years are estimates. Source: U.S. Department of Commerce, Bureau of the Census.

(2) Payroll employment based on Bureau of Labor Statistics ("BLS") establishment survey. Source: U.S. Department of Labor, Bureau of Labor Statistics and New York State Department of Labor, Division of Research and Statistics.

(3) In current dollars. Income by place of residence. Source: U.S. Department of Commerce, Bureau of Economic Analysis.

(4) In 1982 dollars.

Population Characteristics

New York City has been the most populous city in the United States since 1810. The City's population is almost as large as the combined population of the next three most populous cities in the United States.

The population of the City grew steadily through 1950, remained relatively stable between 1950 and 1970 and declined substantially, for the first time in its history, during the 1970's. The Bureau of the Census estimates moderately increasing population for the City since the 1980 census results.

POPULATION OF NEW YORK CITY

Distribution of Population By County (Borough)

Year	Total Population	1970-100	Bronx (The Bronx)	Kings (Brooklyn)	New York (Manhattan)	Queens (Queens)	Richmond (Staten Island)
1960	7,781,984	98.6	1,424,815	2,627,319	1,698,281	1,809,578	221,991
1970	7,895,563	100.0	1,471,701	2,602,012	1,539,233	1,987,174	295,443
1980(1).....	7,071,639	89.6	1,168,972	2,230,936	1,428,285	1,891,325	352,121
1984(2).....	7,223,100	91.5	1,181,500	2,278,300	1,467,300	1,928,900	367,100
1985(2).....	7,260,900	92.0	1,190,600	2,291,100	1,477,700	1,930,800	370,700
1986(2).....	7,312,900	92.6	1,208,400	2,309,600	1,490,400	1,930,500	374,000
1987(2).....	7,316,800	92.7	1,213,800	2,309,600	1,495,100	1,920,700	377,600

(1) Final census count, which may reflect an under count of a significant number of persons and is subject to modification as a result of certain litigation with the Census Bureau.

(2) 1984-1987 based on midyear population estimate of the Bureau of the Census as of September 1988.

Note: Does not include an undetermined number of undocumented aliens.

Sources: U.S. Department of Commerce, Bureau of the Census.

The following table sets forth the distribution of the City's population by age between 1960 and 1980.

DISTRIBUTION OF POPULATION BY AGE (In Thousands)

Age	1960		1970		1980	
		% of Total		% of Total		% of Total
Under 5.....	687	8.8	616	7.8	471	6.7
5 to 17.....	1,478	19.0	1,619	20.5	1,295	18.3
18 to 24.....	663	8.5	889	11.3	826	11.7
25 to 34.....	1,056	13.6	1,076	13.6	1,203	17.0
35 to 44.....	1,071	13.8	916	11.6	834	11.8
45 to 64.....	2,013	25.9	1,832	23.2	1,491	21.1
65 and Over.....	814	10.4	948	12.0	952	13.4

Source: U.S. Department of Commerce, Bureau of the Census

The age distribution of the City's population has undergone major changes since 1960 and now differs from that of the nation. The City has been steadily losing its middle-aged population (ages 35 to 64) and the very young (under age 5). However, these losses have been offset partially by increases among the elderly (ages 65 and over) and young adults (ages 18 to 34). Recently, the City has experienced a decline in its school age population (ages 5 to 17) as a result of a declining birth rate and the maturing of the post-war "baby boom" generation. By 1980, only 28.1 percent of the population of the City was age 19 or under, as compared to 32.0 percent nationally, and the elderly comprised 13.4 percent of the City population, as compared to 11.3 percent nationally.

Employment Trends

The New York City non-agricultural payroll employment series derived from the Establishment Survey, and the employment series derived from the Current Population Survey are constructed using significantly different estimation techniques that are not comparable. Trends in both measures of City employment are presented below.

Non-Agricultural Payroll Employment: Establishment Survey

Non-agricultural payroll employment trends in the City are shown in table below.

CHANGES IN PAYROLL EMPLOYMENT IN NEW YORK CITY (In Thousands)

Sector	Peak Employment(1)		Average Annual Employment					
	Year	Level	1984	1985	1986	1987	1988	1989(4)
Private Sector								
Non-Manufacturing	1988	2642.8	2468.3	2522.6	2575.1	2629.3	2642.8	2651.8
Services(2)	1988	1125.1	1005.8	1038.5	1076.2	1108.5	1125.1	1146.4
Wholesale and Retail trade	1969	749.1	630.5	638.1	638.5	637.6	635.8	636.7
Finance, Insurance and								
Real Estate	1987	549.7	500.5	507.6	529.3	549.7	543.2	535.3
Transportation and Public								
Utilities	1969	323.9	237.0	232.0	217.3	214.9	217.8	209.9
Contract Construction	1962	139.1	94.5	106.3	113.7	118.8	120.9	123.1
Mining	1967	2.5	1.4	1.2	0.8	0.7	0.6	0.5
Manufacturing	1960	946.8	429.6	407.7	391.2	379.6	366.5	357.7
Durable	1960	303.6	119.9	112.2	106.5	100.0	97.6	94.9
Non-Durable	1960	643.2	309.7	295.5	284.7	279.6	268.9	262.8
Government(3)	1988	588.3	535.6	556.6	573.5	580.4	595.8	599.2
Total Non-agricultural	1969	3797.7	3434.9	3488.1	3540.6	3590.0	3605.7	3608.7

RECENT MONTHLY TRENDS (Total Payroll Employment in Thousands)

Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
1984	3367.3	3384.1	3413.2	3418.0	3435.8	3451.6	3436.9	3416.0	3447.4	3466.5	3484.4	3497.6
1985	3427.3	3439.6	3462.5	3464.1	3485.6	3483.9	3487.4	3495.0	3491.7	3512.8	3547.6	3559.1
1986	3479.7	3491.3	3523.0	3524.8	3536.5	3551.9	3544.2	3535.5	3544.0	3567.9	3586.4	3601.7
1987	3523.3	3537.8	3568.5	3577.9	3588.6	3610.6	3582.0	3584.5	3588.7	3615.3	3641.1	3661.8
1988	3554.9	3571.8	3610.7	3598.1	3597.7	3620.1	3594.3	3598.4	3597.6	3623.9	3644.3	3656.7
1989	3573.1	3580.8	3605.9	3609.7	3612.7	3634.6	3599.8	3582.1	3592.6	3611.7	3632.4	3668.5(4)

(1) Starting with 1960.

(2) "Services" includes miscellaneous establishments. Data for 1981 to present include a phased in addition of family care attendants employed by social service agencies who previously were hired directly by the individual receiving such services and who were therefore excluded by definitional reasons from tabulations in prior years.

(3) Excludes military establishments.

(4) Preliminary.

Note: Details may not add up to totals due to rounding. Payroll employment is based upon reports of employer payroll data ("establishment data"), which exclude the self-employed and workers employed by private households or agriculture, forestry and fishery.

Source: U.S. Department of Labor, BLS and State of New York, Department of Labor, Division of Research and Statistics.

Until 1969, total employment in the City was gradually expanding. It reached a peak of 3,797,700 in 1969 an increase of 9.5 percent over the figure for 1950. This gradual increase was the product of several trends which involved changes in the structure of employment in the City.

While total employment was generally increasing until 1969, employment in manufacturing and mining and contract construction peaked before 1969.

Growth in employment between 1960 and 1969, which amounted to 259,300, an increase of 7 percent, was concentrated in three sectors: finance, insurance and real estate ("FIRE"), services and government. Between 1960 and 1969, these sectors created over 400,000 new jobs and grew 21 percent for finance, 28 percent for services and 34 percent for government. Although these growth rates were substantial, they did not keep pace with the national rate of growth for the same sectors. During the 1960's, the long-term decline in manufacturing accelerated and 121,000 manufacturing jobs, or nearly 13 percent, were lost during the decade. Steep losses continued in the apparel and food processing industries, and the decline in nondurable industries spread to durable industries. By 1969, over 32,000 jobs had also been lost in contract construction from the peak 1962 employment level, a decline of almost 24 percent.

After 1969, the moderate upward trend in the City was reversed as it experienced disproportionately adverse effects from the national recessions of 1969-1970 and 1974-1975 and lagged behind during the subsequent national recoveries. Between 1969 and 1977, the City lost 609,800 jobs, a decline of 16.1 percent. A loss of 287,000 jobs in the manufacturing sector accounted for nearly half of the City's total employment loss during the period. Declines also occurred in every major industry sector other than services, including losses of 129,000 in trade, 66,000 in transportation and public utilities, 50,000 in FIRE, and 42,000 in construction.

Employment trends in the City began to rebound during the final quarter of 1977, and continued to increase each year through March 1982. In the second half of 1982, the City's economy began to feel the effects of the national recession, and the City experienced its first job loss following four consecutive years of job gains. During 1983, the City economy began to recover from the recession with employment growth in each sector other than manufacturing and transportation and public utilities.

From the approximate end of the fiscal crisis in 1977 until 1989, total payroll employment increased by 420,760. Employment growth was concentrated in the finance and service sectors, particularly business and professional services. In addition to growth in local government sectors, construction employment increased, based on a resurgence of commercial office building and hotel construction. These gains offset continued employment losses in the manufacturing and trade sectors. The City's private sector basically shows no net gain in employment in 1988.

Based on latest data, total average payroll employment in the City increased by 3,000 in 1989 over 1988. During this period, the only notable employment increase occurred in government. Payroll employment in the City grew by 11,800 jobs in December 1989 over the same period of last year.

Employment, Labor Force and Unemployment: Current Population Survey

Changes in the employment status of the City's resident labor force are shown in the following table.

EMPLOYMENT STATUS OF THE RESIDENT POPULATION OF NEW YORK CITY

Year	Civilian Labor Force			Labor Force Participation Rate(1)		Unemployment Rate(2)	
	Total	Employed	Unemployed	New York City	United States	New York City	United States
	(In Thousands)						
1982	3,093	2,798	296	55.2%	64.0%	9.6%	9.7%
1983	3,047	2,759	288	53.8	64.0	9.4	9.6
1984	3,081	2,806	275	53.9	64.4	8.9	7.5
1985	3,225	2,963	261	56.1	64.8	8.1	7.2
1986	3,208	2,972	236	55.5	65.3	7.4	7.0
1987	3,233	3,048	186	55.6	65.6	5.8	6.2
1988(3)	3,194	3,037	157	54.9	65.9	4.9	5.6
1989(4)	3,441	3,201	240	58.8	66.3	7.0	5.1

RECENT MONTHLY TRENDS

Year	Unemployment											
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
1983	9.6%	9.2%	11.0%	9.2%	8.9%	8.9%	10.6%	10.6%	10.1%	9.2%	8.0%	7.8%
1984	8.1	9.2	8.4	7.7	7.6	10.0	11.5	10.1	8.8	9.7	7.9	7.9
1985	8.2	9.6	9.0	9.1	8.4	7.4	6.9	7.7	8.1	8.4	7.3	7.1
1986	7.3	8.4	7.9	8.7	7.9	7.3	7.9	6.9	6.6	6.9	6.1	6.2
1987	7.4	6.0	5.8	5.2	5.4	6.0	6.0	5.1	4.5	5.8	6.6	5.0
1988	Jan-Nov Average(3): 4.9%											
1989	Jan-Oct Average(5): 5.5%											
1990	7.0											

- (1) Percentage of civilian non-institutional population, age 16 and over, in labor force, employed or seeking employment.
- (2) Percentage of civilian labor force unemployed; excludes those persons unable to work and discouraged workers (i.e., persons not actively seeking work because they believe no suitable work is available).
- (3) 1988 figures are based on January to November only. Monthly trends were discontinued for the City in 1988; thereafter trends will be expressed as data are released by BLS. Data for both charts are based on the 1988 year-end BLS report dated January 10, 1989.
- (4) 1989 figures are for December 1989 to use consistent methodology for both NYC and the U.S.
- (5) Monthly unemployment figures were not reported by the BLS for the period January 1988 through October 1989.

Note: Monthly and semi-annual data are not seasonally adjusted. Because these estimates are based on a sample rather than a full count of population, these data are subject to sampling error. Accordingly, small differences in the estimates over time should be interpreted with caution. The Current Population Survey includes wage and salary workers, domestic and other household workers, self-employed persons, and unpaid workers who work 15 hours or more during the survey week in family businesses.

Source: U.S. Department of Labor, BLS.

The City's labor force participation rate has remained below that of the nation between 1977 and 1989. The participation rate of City residents in the labor force from 1983 through 1987 was significantly lower than the national rate reflecting a greater number of the City's working age population not actively seeking employment.

The unemployment rate in the City was lower than the nation's during the national economic recession of 1981-1982 and also in 1983. In 1984, the City's unemployment rate fell, but the national rate fell more sharply resulting in the City's rate becoming higher than the nation. Since then, both the City's and national unemployment rates have been declining steadily. In 1987, after four years, the City's rate fell below the nation's reflecting relative strength of the economy, a tight labor market, and a slowly growing labor force.

From January 1988 through October 1989, the U.S. BLS did not release the monthly series on the New York City resident labor force and unemployment, which was based on the Current Population Survey. Based on a Year End Report, the City unemployment rate for the first ten months of 1989 was 5.5%. The series has been resumed as of November 1989, when the unemployment rate for the City was reported to be 6.5%.

Income

While per capita personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, has increased in recent years and remains higher than the average for the United States, it fell from 1950 through 1979 as a proportion of both the national and New York metropolitan area levels. This relative decline in per capita income of City residents was partially because the incomes of households moving into the City were substantially lower than those of departing households, which relocated mostly to the City's suburbs. Because of the higher concentration of income derived from interest, dividends and rent in New York City, the relative growth in per capita income of City residents was higher than for the nation as a whole between 1981-1984. Relatively little change in per capita income of City residents occurred in 1985 as compared to the nation. However, recent figures indicate a resurgence in per capita income for City residents.

PERSONAL INCOME IN NEW YORK CITY (1)

Year	Personal Income			Per Capita Personal Income					
	NYC Total (In Billions)	Average Annual % change		NYC	Average Annual % change		New York City as a percent of		
		NYC	U.S.(2)		NYC	U.S.(2)	U.S.(2)	Suburban Counties(3)	Metropolitan Area(4)
1982	91.7	7.0%	5.9%	12,907	6.8%	4.9%	110.4%	83.0%	92.9%
1983	99.4	8.3	6.4	13,844	7.3	5.4	114.6	82.9	93.0
1984	109.3	10.0	9.4	15,111	9.2	8.4	115.4	82.1	92.8
1985	116.1	6.1	7.0	15,954	5.8	6.1	115.2	80.8	92.4
1986	123.7	6.5	6.2	16,910	7.8	5.2	121.9	79.5	92.2
1987	133.1	7.6	7.0	18,191	7.8	6.0	123.9	79.1	92.0

(1) In current dollars. Personal Income is a place of residence measure of income which includes wages and salaries, other labor income, proprietors' income, personal dividend income, personal interest income, rental income of persons, and transfer payments.

(2) Excludes income earned abroad.

(3) Suburban Counties consists of the counties of Nassau, Putnam, Rockland, Suffolk, and Westchester in New York State.

(4) Based on Standard Metropolitan Statistical Area (SMSA) which includes New York City, Putnam, Rockland, Westchester and Bergen counties.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census.

Sectoral Distribution of Employment and Income

Data on the sectoral distribution of employment and income reflect a growing concentration of FIRE and services employment and a shrinking manufacturing base in the City relative to the nation. Within FIRE and services, the expanding trend is especially more marked in finance, business and related professional services. FIRE and services employment comprised over 46 percent of total employment in 1988 (30 percent nationally) up from 38 percent in 1977 (24 percent nationally). On the other hand, the share of manufacturing employment in the City declined to 10 percent in 1988 (18 percent nationally) from 17 percent in 1977 (24 percent nationally). The FIRE and services sectors added 470,700 jobs and manufacturing lost about 172,000 jobs during 1977 through 1988.

There are important implications of this structural shift from the manufacturing to the FIRE and services sectors. First, it has increased the overall income and tax revenue generating capacity for the City, because average employee income in finance and related business and professional services has been considerably higher than in manufacturing. Although the employment share of the FIRE sector increased by 2 percentage points, during 1977-1988, its earnings share increased by about 8 percentage points, which reflects its high per employee income. Second, this shift has also been favorable for the City because the finance and services sectors have recently been less prone to recession than the manufacturing sector. This stabilizing effect has been beneficial for budgetary and long-term economic planning. In contrast, the past benefits from the FIRE and services sectors do not ensure that future developments will remain beneficial. A sudden shock in the financial industry (the October 1987 stock

market crash is an example) would have a disproportionately adverse effect on the City's employment and income relative to the nation. Payroll employment data indicates that through October 1989 the City's FIRE sector lost 23,000 jobs since the crash, significantly offsetting the employment gains in other sectors. The employment losses in Wall Street are not discernible in the US employment figures. Finally, because of the shrinking manufacturing base, the City will not benefit significantly from a national upturn in manufacturing, a recent trend resulting from the falling value of the dollar.

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

Sector	Employment				Earnings(2)			
	1977		1989		1977		1987	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
Private Sector								
Non-Manufacturing	67.2%	57.8%	73.5%	65.6%	70.7%	56.7%	77.26%	63.2%
Services(3)	24.6	18.5	31.8	24.8	26.0	19.6	31.5	24.9
Wholesale and Retail trade	19.5	22.5	17.6	23.8	16.7	16.6	14.6	16.3
Finance, Insurance and Real Estate ...	13.0	5.4	14.8	6.3	14.4	5.6	22.3	7.2
Transportation and Public Utilities ...	8.1	5.7	5.8	5.3	11.2	7.5	7.3	7.0
Contract Construction	2.0	4.7	3.4	4.9	2.3	5.9	3.9	6.6
Mining	0.0	1.0	0.6	0.6	0.1	1.5	0.1	1.1
Manufacturing	16.9	23.9	9.9	18.0	15.6	26.1	8.9	20.8
Durable	5.1	14.1	2.6	10.6	4.5	16.6	2.2	13.1
Non-Durable	11.8	9.8	7.3	7.4	11.1	9.5	7.3	7.7
Government(4)	15.9	18.3	16.6	16.3	13.7	17.2	12.8	16.0
Total Non-agricultural	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) The sectoral distributions are obtained by dividing each industry's employment or earnings by total non-agricultural employment or earnings.

(2) Includes the sum of wage and salary disbursements, other labor income, and proprietors' income. The latest information available for New York City is 1987 preliminary data.

(3) Services includes miscellaneous establishments.

(4) Excludes military establishments.

Source: The two primary sources of employment and earnings information are U.S. Dept. of Labor, BLS, and U.S. Dept. of Commerce, Bureau of Economic Analysis ("BEA"), respectively.

Consumer Prices

The following table presents information on consumer price trends for the New York-Northeastern New Jersey and four other metropolitan areas, and the nation.

CHANGES IN CONSUMER PRICE INDEX: SELECTED AREAS

Area(1)	All Items—Urban Areas											
	Percent Increase Over Prior Year											
	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
New York-NE. N.J.(2)	7.6	7.7	11.4	9.7	5.8	4.7	5.0	3.7	3.3	5.0	4.9	5.6
Philadelphia, Pa.-N.J.	6.8	8.2	13.1	10.2	4.9	2.9	4.7	4.5	2.5	4.8	4.8	4.8
Chicago, Ill.-Northwestern Ind.	5.7	8.0	14.5	9.5	6.9	4.0	3.8	3.8	2.1	4.1	3.9	5.0
Detroit, Mich.	6.2	7.6	15.9	9.3	4.1	2.9	3.4	3.5	1.4	3.1	3.9	5.3
L.A.-Long Beach, Anaheim, Calif.	5.2	10.6	15.8	9.8	5.9	1.8	4.5	4.6	3.2	4.3	4.6	5.1
U.S. city average	5.9	9.1	13.5	10.4	6.1	3.2	4.3	3.6	1.9	3.7	4.1	4.8

(1) Area is generally the Standard Metropolitan Statistical Area ("SMSA"), exclusive of farms. L.A.-Long Beach, Anaheim, Calif. is a combination of two SMSA's, and N.Y., N.Y.-Northeastern N.J. and Chicago, Ill.-Northwestern Ind. are the more extensive Standard Consolidated Areas. Area definitions are those established by the U.S. Office of Management and Budget in 1973. Cities in the respective areas had a population of one million or more according to 1980 census.

(Footnotes continued on following page)

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(2) Since January 1987, the New York area coverage has been expanded. The New York-Northeastern New Jersey area comprises the five boroughs of New York City, Nassau, Suffolk, Westchester, Rockland, Putnam, and Orange Counties in New York State; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, and Union counties in New Jersey; and Fairfield County and parts of Litchfield and New Haven Counties in Connecticut.

Source: U.S. Department of Labor, BLS.

BY EXPENDITURE CLASS

Expenditure Class	Annual Average % Increase 1979-89		% Increase 1989		% Increase December 1989 over December 1988	
	U.S.	New York-NE, N.J.	U.S.	New York-NE, N.J.	U.S.	New York-NE, N.J.
All Items	5.5	5.9	4.8	5.6	4.6	5.8
Food and Beverages	4.6	5.4	5.7	5.8	5.5	5.4
Housing	5.8	6.2	3.8	5.5	3.9	6.5
Apparel and Upkeep	3.4	2.8	2.8	6.1	1.0	3.3
Transportation	4.9	5.1	5.0	3.3	4.0	2.3
Medical Care	8.3	8.3	7.7	7.6	8.5	9.2
Entertainment	5.1	5.5	5.2	5.5	5.1	5.6
Other Goods and Services	8.0	8.3	7.8	8.9	8.2	10.2

Note: Monthly data are not seasonally adjusted.
Source: U.S. Department of Labor, BLS.

Historically the New York Area inflation rate does not conform very well with the national inflation rate. Since 1960, the difference in the New York Area rate from the national rate varied from 1.6 percentage points higher in 1970 to 2.6 percentage points lower in 1979. Prices in the metropolitan area rose at a rate higher than the national inflation rate during the periods 1960-1966, 1968-1972 and 1983-present. During 1967 and the period 1973-1982, prices in the area rose either at par with or more slowly than the nation and many of the 27 metropolitan areas for which CPI data are maintained.

For most of 1983 and 1984, the nation as well as each of the five metropolitan areas containing central cities with populations of one million or more had inflation rates lower than the New York Area. During 1985, the New York Area rate decreased to about the median level of those reported for the five metropolitan areas and was running very close to the national rate. The local area inflation rate accelerated in 1986 and stood highest among the reported metropolitan areas in 1987. The rate of inflation in the New York Area as well as the nation started to edge up moderately since March of 1988, after a brief deceleration early in the year. In December 1989, the New York Area rate was 5.8 percent and the U.S. rate was 4.6 percent. The December upturn for the City is attributed primarily to higher prices for housing and a sharp increase in medical costs.

Public Assistance

Between 1960 and 1972, the number of persons in the City who were recipients of some form of public assistance more than tripled from 324,200 to 1,265,300. The bulk of the long-term increase occurred in the Aid to Families with Dependent Children ("AFDC") program, which more than quadrupled during that period.

Between 1972 and 1982, the number of recipients, including those in the Supplemental Security Income ("SSI") program, declined fairly steadily, except for temporary increases noted in 1975 and 1976, when the City was experiencing the effects of a national recession. From 1983 until 1987, the number of recipients increased, reflecting lingering effects of the 1982 recession. Figures for 1988 and 1989 indicate a decrease in public assistance recipients.

Public assistance and SSI recipients rose as a proportion of total City population from 4.2% in 1960 to 16.5% in 1975. Between 1975 and 1985, that proportion decreased to 15.8% of total population.

The following table sets forth the number of persons receiving public assistance in the City.

**PERSONS RECEIVING PUBLIC ASSISTANCE IN NEW YORK CITY
(Annual Averages in Thousands)**

<u>Year (1)</u>	<u>Total</u>	<u>Average Annual Change (%)</u>	<u>Home Relief</u>	<u>AFDC</u>	<u>AFDC Unemployed Parent</u>
1983.....	889.0	4.4	148.0	720.9	20.2
1984.....	918.7	3.3	162.5	735.3	20.8
1985.....	926.1	0.8	174.0	731.1	21.0
1986.....	911.5	-1.6	174.3	717.6	19.6
1987.....	871.5	-4.4	162.0	694.2	15.3
1988.....	840.1	-3.6	155.8	671.2	13.0
1989.....	818.5(2)	-2.6	151.0	641.0	12.0

(1) Figures do not include aged, disabled or blind persons who were transferred from public assistance to the Supplemental Security Income ("SSI") program, which is primarily Federally funded. According to the U.S. Department of Health and Human Services, the SSI program supported, as of December of each year, a total of 227,068 persons in 1979; 223,934 persons in 1980; 217,274 persons in 1981; 207,484 persons in 1982; 206,330 persons in 1983; 211,728 persons in 1984; 217,852 persons in 1985; 223,404 in 1986 and 227,918 in 1987.

(2) Figure includes approximately 14,600 persons receiving public assistance as predetermination grant recipients pending AFDC eligibility.

Note: Due to a change in statistical measurements, the decline in public assistance recipients for 1987 may be slightly overstated.

**RECENT MONTHLY TRENDS
(Total Recipients In Thousands)**

<u>Year</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug.</u>	<u>Sept.</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>
1983.....	872.7	867.9	881.6	882.8	885.7	887.7	886.8	894.3	894.3	901.5	901.0	912.0
1984.....	908.9	911.0	914.4	922.9	931.3	927.9	920.8	918.5	910.3	921.2	917.7	919.1
1985.....	923.9	921.0	931.2	935.7	924.5	925.1	925.8	930.5	922.6	927.6	922.0	922.9
1986.....	920.2	917.8	918.9	919.7	916.5	913.0	915.6	906.8	904.9	907.8	897.6	898.9
1987.....	894.8	890.1	893.9	894.0	889.5	885.9	873.5	859.3	854.0	845.2	831.2	847.0
1988.....	839.4	852.2	856.3	865.1	852.6	846.3	838.9	836.3	826.2	825.9	820.1	822.3
1989.....	813.4	816.2	821.1	816.7	815.3	815.0	813.0	820.7	817.8	825.1	824.3	823.0

Note: Due to a change in statistical measurements, the figures for 1987 may be slightly overstated.

Source: The City of New York, Human Resources Administration, Office of Budget and Fiscal Affairs, Division of Statistics.

Economic Base

The City has a highly diversified economic base, and sustains a substantial volume of business activity in the service activity, wholesale and retail value, and manufacturing.

The largest aggregate of economic activity in the City is the corporate headquarters complex, together with ancillary services. The City is the location of a large number of major corporate headquarters, and is the leading center for corporate services, such as commercial and investment banking, law, accounting and advertising. While the City experienced a substantial number of business relocations during the previous decade, the number of relocations declined significantly after 1976,

although declines in front office employment continued. During 1977 and 1982, employment rebounded, primarily in the banking and securities industry. Most of the corporations which relocated moved to sites within the City's metropolitan area, and continue to rely in large measure on services provided by businesses which are still located in the City.

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retailing, among other fields. The City is a major seaport and focal point for international business. Many of the major corporations headquartered in the City are multinational in scope and have extensive foreign operations. Numerous foreign-owned companies in the United States are also headquartered in the City. These firms, which have increased in number substantially over the past decade, are found in all sectors of the City's economy, but are concentrated in trade, manufacturing sales offices, tourism and finance. Foreign banking activities have increased significantly since the early 1970's and have continued to grow rapidly through the 1980's. Real estate dollar value purchases in the United States disclosed by foreigners are heavily concentrated in the City in terms of dollar value. The City is the location of the headquarters of the United Nations, and several affiliated organizations maintain their principal offices in the City. A large diplomatic community exists in the City to staff the 157 missions to the United Nations and the 88 foreign consulates.

Manufacturing, while no longer dominant in the City's economy, remains a major economic activity, and the City is a leading production center, particularly in the apparel and printing and publishing sector. Nationally, the City is one of the largest employment centers for manufacturing, and New York County ranked among the top 25 counties in the United States in the value of manufacturing shipments during 1987.

A major world center for culture and the arts, the City is the nation's leading tourist center, and tourism is a major revenue producing industry in the City. In 1979, the City hosted a record number of tourist and business visitors, 17.5 million, who injected nearly \$2.3 billion into the local economy and filled the City's hotels to 81% of capacity. During 1982, tourism declined slightly but rebounded during 1983 and 1984. Tourism was down slightly in 1985, but up significantly during 1986. Despite current economic conditions worldwide, tourism continues as one of the City's major economic strengths. Based on revised estimates, during 1988, 19.8 million people visited the City, up slightly from 1987. Visitors spent a total of \$9.76 billion, a 9.7 percent increase from 1987. A significant rise in overseas visitor business occurred, with the number of foreign visitors increasing to almost 4.6 million in 1988, a 15% increase from 1987. Overseas visitors continued to increase for the fourth consecutive year after three years of declines in visitor business from abroad. The number of conventions increased to 973 in 1988 from 965 in 1987, and the number of delegates attending stood at 3.0 million in 1988. In 1988, the hotel occupancy rate in the City was 76.7%, a slight decrease from the 1987 rate.

Number of Visitors and Hotel Occupancy Rate in New York City

Year	Visitors(1) (In Millions)	Hotel Occupancy Rate(2) Annual Average of Monthly Rates
1980	17.1	78.4%
1981	17.0	71.7
1982	16.9	69.7
1983	17.1	72.3
1984	17.2	73.9
1985	17.1	72.1
1986	17.4	76.0
1987	19.8*	76.8
1988	19.8*	76.7

(1) Source: New York City Convention & Visitors Bureau, Inc.

(2) Source: Pannell, Kerr, Forster & Company, Statistics and Trend of Hotel and Motor Hotel Survey and Report.

* 1987 and 1988 figures have been revised and are inconsistent with the rest of this series.

The City is a major retail trade market, and has the greatest volume of retail sales of any city in the nation.

RETAIL SALES IN NEW YORK CITY

Year	Total Retail Sales (In Billions)		Annual Percent Change					
	NYC	U.S.	Total Retail Sales		Non-Durable(1)		Durable(2)	
			NYC	U.S.	NYC	U.S.	NYC	U.S.
1980	22.3	957.4	16.4%	6.7%	14.2%	11.3%	24.1%	-2.4%
1981	23.4	1,038.7	4.8	8.5	8.1	8.5	-6.0	8.6
1982	23.4	1,069.3	0.2	2.9	-1.7	2.7	7.4	3.5
1983	25.4	1,167.9	8.4	9.2	5.5	6.0	18.3	16.3
1984	26.9	1,281.7	5.8	9.7	4.5	6.5	10.0	16.1
1985	29.1	1,365.8	8.2	6.6	6.3	5.0	13.6	9.4
1986	33.2	1,436.0	14.4	5.1	8.9	3.3	29.6	8.4
1987	33.3	1,521.4	0.1	6.0	0.7	5.7	-1.1	6.3
1988	36.5	1,629.2	9.7	7.1	8.2	5.4	13.1	9.8

(1) Includes food stores, eating and drinking places, gasoline stations, liquor stores, drug stores, fuel dealers, florists, hay-grain-feed stores, farm and garden supply stores, stationary stores, newsstands and newsdealers, cigar stores and ice dealers and general merchandise and apparel stores.

(2) Includes building materials, hardware, garden supply and mobile home dealers, automotive dealers, and furniture, home furnishings and equipment stores.

Source: U.S. Department of Commerce, Bureau of the Census, Current Business Reports, Monthly Retail Trade.

BUSINESS ACTIVITY INDEX (Annual Average, 1977 = 100)

	1983	1984	1985	1986	1987	1988	1989(1)
New York City	104	109	112	116	121	124	125
New York State	107	114	119	124	129	135	137

(1) Through November 1989.

Source: State of New York, Department of Commerce, Division of Economic Research and Statistics.

Note: The Business Activity Index comprises seven basic business activities, which include: factory output; retail; service; wholesale; construction; transportation; communications and public utilities; and finance, insurance and real estate.

After a very large increase in 1980, retail sales growth in New York City moderated in 1981 and almost came to a standstill in 1982, which was a recession year. Between 1984 through 1986, retail sales, particularly of durable goods, grew at an increased rate, outpacing the nation in 1985 and 1986. Retail sales increased a paltry 0.14 percent in 1987 mainly because consumers shifted their purchases into 1986 (sales increased 14.4%) to take advantage of the expiring sales tax deductibility on federal income tax returns. The October 1987 stock market crash had a temporary dampening effect on retail sales. In 1988, sales increased by 9.7 percent. The November 1989 figures indicate a decrease of 3.8 percent compared to November 1988, and on a year-to-date basis a decrease of 0.5% over the same period last year.

The Business Activity Index for the City reflects both long-term trends in the City's economic base and short-term fluctuations reflecting the performance of the national economy. Due to a partial erosion of its economic base, the City was particularly vulnerable to national economic downturns, while lagging behind in times of national expansion during the 1970's. The impact of the national economic recession of 1974-1975 was particularly severe. From a peak of 111 early in 1973, the BAI for the City declined to a low of 96 during the spring of 1975. The effects of the 1980 and 1981-1982 national recessions were less severe to the City's economy. Business activity increased steadily during

1983, 1984 and 1985. Business activity continued to expand during 1986 and 1987. The 1988 figure was higher than that of 1987. The November 1989 figures for both New York State and New York City show improvement over those for the same period in 1988.

Many factors have been cited as placing the City during the early 1970's at a competitive disadvantage as a business location in relation to its suburbs and the Sunbelt region and contributing to the erosion of the City's economic base. Among these factors were the City's tax burden, energy costs, labor costs, office space market and cost of living.

The combined state and local tax burden on residents of the City is one of the highest among all cities in the United States. In the 1986 fiscal year, average per capita City taxes were \$1,548 and average per capita State taxes paid by residents of the State were \$1,280, a combined tax burden of \$2,828 per capita. Nationwide, per capita local taxes averaged \$601 and per capita state taxes averaged \$946 for the 1986 fiscal year for a combined tax burden of \$1,547. During the 1970's the rate of increase in per capita state and local taxes for City residents was similar to the national average. The ratio of City taxes to total personal income of City residents peaked in the 1977 fiscal year at 10.6%, and declined to 9.2% in the 1984 fiscal year. A series of tax reductions affecting businesses and individuals was adopted during the late 1970's and these reductions were a major factor in the declining ratio of City taxes to total personal income of City residents.

The City is one of the most energy-efficient areas in the nation, primarily as a result of its concentration of multi-family dwellings and extensive use of mass transit. Producing virtually no primary energy for its own consumption, the City is heavily reliant upon imported petroleum to meet its energy needs. The cost of energy in the City is one of the highest in the nation, particularly for electricity.

The City's industrial sector is especially dependent upon electricity to supply its energy needs. In 1968, typical electric costs for large industrial users were 67% higher in the City than the national average for large cities. Through the mid-1970's, electric costs increased at a higher rate in the City, widening the differential to 133% by 1975. Between 1975 and 1986, the national average increases in typical electric costs for large industrial users were significantly higher than increases experienced in the City. By 1985, electric costs in the City were 71% higher than nationally for industrial usage, and in 1986 the cost differential increased significantly to 91%.

In the mid-1960's, the demand for office space in the City greatly exceeded the available supply; as a result, the rental cost of available space escalated sharply. By the late 1960's, annual rent in new office buildings had risen much more sharply in the City than either in the suburbs or in many other cities in the United States, particularly those in the South and West. The construction of new office space in the early 1970's, along with the City's loss of jobs and industry, greatly increased the amount of available office space. The increased supply of office space raised the vacancy rate and caused commercial rents to decline. However, beginning in 1977 and continuing through most of 1982, the office space market tightened in response to an increase in demand. At the end of 1982 and in early 1983, construction activity increased and the office market softened. Recent data indicate that the office market in the City, particularly in the downtown area where older, poorly maintained buildings have been vacated, could further soften due to an increased supply of office space.

Infrastructure

The physical infrastructure of a city, its systems of water supply, sewers, bridges, streets and mass transit, is the underlying component of its economic base and is vital to its economic health.

The City owns and operates an upstate reservoir system covering in excess of 1,950 square miles. Water is carried to the City by a transmission system, consisting of three aqueducts, two tunnels and over 5,700 miles of trunk and distribution lines. The City has undertaken construction of a third water tunnel project to enhance the delivery capabilities and proper maintenance of the City's distribution

system. In addition to supplying the needs of its residents and businesses, the City is required by State law to sell water to municipalities in counties where its water supply facilities are located. The City and its upstate watershed areas are subject to periodic drought conditions, which led the City to impose mandatory water conservation measures during 1965, 1981 and 1985.

The sewer system contains approximately 6,300 miles of sewer lines and the City's water pollution system includes 14 operating treatment facilities. The City's road network consists of some 6,200 miles of streets and arterial highway, and more than 1,300 bridges and tunnels.

The Department of Sanitation operates the City's two landfills. The capacity of the Fresh Kills site, the primary of the two, is expected to last until approximately year 2015. The City's Ten-Year Capital Plan reflects the estimated costs of capital improvements necessary to maximize current waste disposal capacity and to provide for the construction of six resource recovery plants at an estimated cost of \$2.4 billion.

The City's mass transit system includes a subway system which covers over 233 route-miles with 469 stations and is the most extensive underground system in the world. The concentration of employment in the City and its metropolitan area in the Manhattan central business district increases the importance of the City's mass transit system to the City's economy. Two-fifths of all workers residing in the New York area use public transportation to reach their workplace, the largest proportion among 26 large areas surveyed. New York City's subway system continues to undergo its most extensive overhaul since it was completed 50 years ago.

The City has developed a ten-year capital program for the period 1989-1998 which projects available capital funds over this period of \$57.3 billion, of which \$40 billion would be obtained from City sources. A portion of these funds is for rehabilitation or replacements of various elements of the infrastructure. Included in the ten-year estimates is the last year of the Transit Authority's portion of a five-year \$8.5 billion capital program designed to upgrade the performance of the MTA's transportation systems and to supplement, replace and rehabilitate equipment, which was approved by the State Legislature in 1981, and City projections of funding expected for the subsequent nine years.

Housing

The housing stock in the City in 1987 consisted of 2,840,257 housing units, excluding units in special places, primarily institutions such as hospitals and universities. The 1987 housing inventory represented an increase of 36,988 units, or 1.3%, since 1984. While the total population of the City declined by 10.4% between 1970 and 1980, housing in the City remains in short supply. A concurrent trend toward smaller sized households resulted in a decrease during the 1970's of only 1.7% in the total number of resident households. The following table presents the housing inventory in the City.

HOUSING INVENTORY IN NEW YORK CITY (Housing Units in Thousands)

<u>Ownership/Occupancy Status</u>	<u>1981</u>	<u>1984</u>	<u>1987</u>
Total Housing Units	2,792	2,803	2,840
Owner Units	755	807	837
Owner-Occupied	746	795	817
Conventional Home	581	598	576
Cooperative (1)	165	197	242
Vacant for Sale	9	12	19
Rental Units	1,976	1,940	1,932
Renter-Occupied	1,934	1,901	1,884
Vacant for Rent	42	40	47
Vacant Not Available For Sale Or Rent (2)	62	56	72

(1) Includes condominiums.

(2) Vacant units that are dilapidated, intended for seasonal use, held for occasional use, held for maintenance purposes or other reasons.

Note: Details may not add up to totals due to rounding.

Sources: Stegman, Michael A., *Housing and Vacancy Report: New York City*, The City of New York Department of Housing Preservation and Development ("HPD") (New York: April 1988).

The 1987 Housing and Vacancy Report indicates that rental housing units predominate in the City. Of all occupied housing units in 1987, 30.2% were conventional home-ownership units, cooperatives or condominiums and 69.8% were rental units. Most of the recent growth in owner-occupied units has come from the conversion of existing rental units to cooperatives rather than through the new construction of housing for sale to occupants in the City. The vacancy rate for rental housing was 2.46% in 1987, and median rent consumed 29% of the gross income of tenants. The housing condition of occupied rental units improved greatly since 1984, with a decrease in the proportion of rental units in dilapidated or deficient condition. Only 2% of renter-occupied housing units were located in dilapidated structures, and 14% were in structures with at least three serious maintenance deficiencies.

After a significant decline during the early 1970's, a slight recovery in housing construction occurred between 1975 and 1979. However, in 1980, new housing construction declined again. Of all new housing units constructed in the City between 1975 and 1978, over two-thirds were government financed or government aided; of privately financed housing units, nearly half received full or partial tax exemptions. Rehabilitation of existing housing units and conversion of housing units from other uses, through private financing and City-administered Federal funds or tax abatement programs, has increased substantially in recent years, and is now a significant segment of the City's housing market.

Construction

The following table presents indicators of construction in activity in the City.

CONSTRUCTION ACTIVITY IN NEW YORK CITY

Year	Cost of Construction (In Millions)(1)			New Housing Units(1)	Manhattan Central Business District(2) Office Building Completions	
	Total	New Residential	New Non- Residential		No. of Buildings	Rentable Area (In Thousands of Sq. Ft.)
1981	940	322	415	11,060	4	2,558
1982	1,396	286	786	7,649	14	8,486
1983	882	407	281	11,795	18	9,850
1984	1,024	466	359	11,566	7	4,931
1985	2,540(3)	1,321	949	23,368(3)	9	6,325
1986	1,424	567	574	10,552	12	5,999
1987	2,272	935	722	13,764	15	9,075
1988	1,422	594	372	9,897	8(4)	3,298(4)

(1) Based on building permits issued. Total "Cost of Construction" includes the value of additions and alterations not presented separately.

(2) The "Manhattan Central Business District" comprises, generally, the area of the Borough of Manhattan south from Sixty-fifth Street to the Battery.

(3) With mortgage interest rates falling to their lowest point in six years, a strong State economy, and the luxury construction boom in Manhattan, residential construction activity reached its highest level in twelve years.

(4) The number of building completions and the rentable area for 1988 includes figures for midtown only since there were no completions for the downtown area for this period.

Note: Details may not add up to totals due to rounding.

Sources: Data regarding "Cost of Construction" and "New Housing Units" from the State of New York, Executive Department, Division of Housing and Community Renewal; data regarding "Manhattan Central Business District Office Building Completions" from Cushman and Wakefield Inc.

Office building construction in the Manhattan Central Business District is undergoing a resurgence after experiencing significant declines during the 1970's. Between 1954 and 1968, an annual average of more than 4.7 million square feet of new office space was completed. An unusual surge of construction activity occurred between 1969 and 1972, when 61 new office building completions added a total of 51.2 million square feet of office space to the market, during a period of substantial decline in employment in the City. Construction activity declined after 1972 and by 1979 only 110,000 square feet of office space entered the market as a result of building completions. During the late 1970's demand for office space, as a result of increased employment in the services and finance sectors of the City's economy and an increase in office space per employee, reduced the vacancy rate in the office space market from an estimated 15% in 1972 to 2% in 1981. The vacancy rate rose to 5.4% in 1983, 7.1% in 1984 and 8.2% in 1985 due to the strong upswing in construction activity. This trend continued during 1986 indicating a vacancy rate of 8.4%. In 1987, construction in the City had increased while commercial rents declined.

During 1980, new office building completions in the Manhattan Central Business District increased the level of rentable space by 412,000 square feet, and construction was started on a number of new projects, raising the value of all new construction in the City to over \$1 billion, the largest amount since 1973. Four new office building completions in 1981 added 2.5 million square feet of office space. During 1982, a total of 14 newly constructed or wholly renovated buildings with over 8.4 million square feet of space were completed. During 1983, a total of 18 newly constructed or wholly renovated buildings with over 9.8 million square feet of space were completed. A total of 7 new office building completions in 1984 added over 4.9 million square feet of office space. A total of 9 new office buildings were completed in 1985 adding over 6.3 million square feet of office space. During 1986, 12

new office building completions added almost 6.0 million square feet of office space. During 1987, a total of 15 new office buildings were completed, adding over 9.0 million square feet of office space.

Between 1975 and 1979, the number of building permits for new housing units and the value of all new construction increased, indicating that a partial recovery in construction activity in the City occurred, although at a level much reduced from the 1962 peak. During 1980, permits were issued for 7,800 new housing units, compared to 14,524 issued in 1979, and the value of all new construction rose to \$1.063 billion, up from \$589 million in 1979. During 1981, building permits were issued for 11,060 new housing units, a 42% increase from 1980. However, during 1981, the total value of construction declined to \$940 million, including a decline in the value of new non-residential construction to \$415 million. During 1982, the number of new housing units for which permits were issued declined to 7,649, while the value of all new construction rose to \$1.396 billion reflecting a substantial increase in new non-residential construction. During 1983, the number of new housing units for which permits were issued increased to 11,795; however, the total value of construction declined to \$882 million, reflecting a substantial decline in the value of new non-residential construction. During 1984, the number of new housing units for which permits were issued declined to 11,566, while the total value of construction increased to \$1.024 billion reflecting increases in both new residential and new non-residential construction.

During 1985, the number of new housing units for which permits were issued increased substantially to 23,368, while the total cost of construction increased to \$2.540 billion from 1984, reflecting a significant increase in luxury unit construction. During 1986, the cost of construction in the City decreased 44% from 1985, primarily due to the termination of the Section 421-a tax abatement program in 1985. This caused residential construction to surge in 1985 as developers accelerated construction schedules on approximately 7,500 units which would otherwise have been completed in 1986. In 1986, non-residential construction decreased 40% from the previous year to \$574 million while residential construction decreased 57% from 1985, to total \$567 million. New housing unit construction for 1986 decreased from 1985 levels to 10,552 units, indicating a 55% decrease. From 1986 to 1987, non-residential construction increased 26% to \$722 million, and residential construction rose by 65% to \$935 million. During the same period, new housing unit construction increased 30% to 13,764 units. Recent figures show a decline from this level of 39% to 9,897 units.

Real Estate Valuation

The following tables present data on a fiscal year basis regarding recent trends in the assessed valuation of taxable real property in the City. For further information regarding assessment procedures in the City, see "SOURCES OF CITY REVENUES—Real Estate Tax."

**TRENDS IN ASSESSED VALUATION OF TOTAL TAXABLE REAL PROPERTY IN NEW YORK CITY
(In Millions)**

County (Borough)	Fiscal Year				
	1986	1987	1988	1989	1990
Bronx (The Bronx).....	\$ 3,456	\$ 3,336	\$ 3,444	\$ 3,670	\$ 3,973
Kings (Brooklyn)	7,688	7,623	7,892	8,363	9,023
New York (Manhattan)	29,408	32,027	35,183	38,928	42,889
Queens (Queens).....	9,826	9,931	10,310	10,807	11,543
Richmond (Staten Island)	2,091	2,172	2,283	2,374	2,627
Total	<u>\$52,469</u>	<u>\$55,089</u>	<u>\$59,112</u>	<u>\$64,142</u>	<u>\$70,054</u>

Note: Details may not add up to totals due to rounding. Totals do not include the value of certain property eligible for the veterans' real property tax exemption.

Source: The City of New York, Department of Finance, Bureau of Real Property Assessment.

ASSESSED VALUATION OF TOTAL TAXABLE REAL ESTATE BY COMPONENTS FOR NEW YORK CITY

Type of Property	Fiscal Year 1987		Fiscal Year 1988		Fiscal Year 1989		Fiscal Year 1990	
	Assessed Value (In Millions)	Percentage Of Taxable Real Estate	Assessed Value (In Millions)	Percentage Of Taxable Real Estate	Assessed Value (In Millions)	Percentage Of Taxable Real Estate	Assessed Value (In Millions)	Percentage Of Taxable Real Estate
One Family Dwellings	\$ 3,385.6	6.1%	\$ 3,530.0	6.0%	\$ 3,721.9	5.8%	\$ 3,911.4	5.6%
Two Family Dwellings	2,660.8	4.8	2,794.3	4.7	2,920.7	4.5	3,051.9	4.4
Walk-Up Apartments	3,962.3	7.2	4,101.5	6.9	4,488.6	7.0	5,019.8	7.2
Elevator Apartments	10,214.7	18.5	11,183.5	18.9	12,094.6	18.9	13,176.9	18.8
Warehouses	577.1	1.0	582.8	1.0	668.1	1.0	767.1	1.1
Factory and Industrial Buildings	1,110.9	2.0	1,176.6	2.0	1,263.8	2.0	1,429.1	2.0
Garages and Gasoline Stations	653.4	1.2	702.6	1.2	779.0	1.2	883.5	1.3
Hotels	1,030.0	1.9	1,081.7	1.8	1,218.9	1.9	1,429.7	2.0
Hospitals and Health	332.0	0.6	371.0	0.6	400.9	0.6	374.6	0.5
Theatres	134.6	0.2	145.3	0.2	151.5	0.2	165.5	0.2
Store Buildings	2,765.7	5.0	3,218.5	5.4	3,898.2	6.1	4,479.3	6.4
Loft Buildings	1,815.9	3.3	1,989.3	3.4	2,135.4	3.3	2,467.1	3.5
Churches, Synagogues, etc.	34.0	0.1	29.9	0.1	30.9	0.1	30.5	0
Asylums and Homes	36.4	0.1	40.3	0.1	48.7	0.1	53.4	0.1
Office Buildings	14,899.2	27.0	16,780.7	28.4	18,493.0	28.8	20,980.8	29.9
Places of Public Assembly	92.7	0.2	96.6	0.2	99.6	0.2	107.9	0.2
Outdoor Recreation Facilities ...	66.0	0.1	69.4	0.1	75.0	0.1	85.4	0.1
Condominiums	914.2	1.7	1,252.8	2.1	2,144.4	3.3	2,812.9	4.0
Residence Multi-Use	183.9	0.3	206.3	0.3	228.7	0.4	267.5	0.4
Transportation Facilities	24.9	0	27.1	0	24.4	0	26.5	0
Utility Bureau Properties	0.1	0	0.1	0	0.1	0	0.1	0
Vacant Land	509.2	0.9	538.6	0.9	613.5	1.0	758.8	1.1
Educational Structures	87.7	0.2	86.3	0.1	106.4	0.2	119.4	0.2
Selected Government								
Installations	5.4	0	6.9	0	2.5	0	2.4	0.0
Miscellaneous	219.9	0.4	218.4	0.4	219.0	0.3	227.9	0.3
Real Estate of Utility								
Corporations and Special								
Franchises	9,372.8	17.0	8,881.2	15.0	8,311.8	13.0	7,424.6	10.6
Total	\$55,089.4	100.0%	\$59,111.6	100.0%	\$64,141.6	100.0%	\$70,053.9	100.0%

Note: Details may not add up to totals due to rounding. Totals do not include the value of certain property eligible for the veterans' real property tax exemption.

Source: The City of New York, Department of Finance, Bureau of Real Property Assessment.

No single taxpayer accounts for 10% or more of the City's real property tax. For the 1990 fiscal year, the assessed valuation of real estate of utility corporations is \$4.6 billion. The following table presents the 42 non-utility, non-residential properties having the greatest assessed valuation in the 1990 fiscal year as indicated in the tax rolls.

Largest Real Estate Taxpayers (1)

<u>Property</u>	<u>1990 Fiscal Year Assessed Valuation</u>	<u>Property</u>	<u>1990 Fiscal Year Assessed Valuation</u>
Exxon Building	\$213,000,000	Bristol Meyers	\$120,800,000
Pan Am Building	212,000,000	Burlington House	118,700,000
55 Water Street Building	204,800,000	Architects Building	117,400,000
General Motors Building	170,200,000	American Brands Building	115,720,000
The Chase Manhattan Building	168,200,000	Morgan Guaranty Trust	115,000,000
McGraw-Hill Building	167,810,000	Dai-Ichi Seimei - Citicorp Center	114,073,600
One New York Plaza Building	161,200,000	Produce Exchange	113,000,000
Empire State Building	158,780,000	Simon & Schuster Building	110,677,000
Equitable Life Association	155,571,651	Carpet Center	104,480,000
One Liberty Plaza	145,000,000	American Express Plaza	104,200,000
International Building	144,538,000	Continental Illinois Center	101,500,000
One Penn Plaza	143,150,000	Mobil Building	101,400,000
Time & Life Building	137,400,000	One Banker Trust Plaza Building	100,600,000
Sperry Rand Building	136,800,000	W.R. Grace Building	91,120,000
Tishman Building	134,000,000	Chemical Bank Building	91,120,000
Paramount Plaza	133,300,000	Citibank - Citicorp	90,601,420
Solow Building	132,540,000	Marine Midland Building	88,500,000
Equitable Tower	128,128,327	595 Lexington Avenue	88,360,000
Celanese Building	123,200,000	The Equitable Building	86,200,000
Manufacturers Hanover Plaza	121,000,000	Seagram Building	85,820,000
J.C. Penney Building	120,970,000	Park Avenue Plaza	85,412,000

(1) Excludes real estate of public utilities.

Source: The City of New York, Department of Finance, Bureau of Real Property Assessment.

BROWN & WOOD

APPENDIX B

555 CALIFORNIA STREET
SAN FRANCISCO, CA. 94104
TELEPHONE: 415-398-3909
FACSIMILE: 415-397-4621

ONE WORLD TRADE CENTER
NEW YORK, N.Y. 10048

TELEPHONE: 212-839-5300
FACSIMILE: 212-839-5599

815 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20006
TELEPHONE: 202-223-0220
FACSIMILE: 202-223-0485

10900 WILSHIRE BOULEVARD
LOS ANGELES, CA. 90024
TELEPHONE: 213-208-4343
FACSIMILE: 213-208-5740

BLACKWELL HOUSE
GUILDHALL YARD
LONDON EC2V 5AB
TELEPHONE: 606-1888
FACSIMILE: 796-1807

February 23, 1990

HONORABLE ELIZABETH HOLTZMAN
Comptroller
The City of New York
Municipal Building
New York, New York 10007

Dear Comptroller Holtzman:

We have acted as bond counsel in connection with the issuance on this date by The City of New York (the "City"), a municipal corporation of the State of New York (the "State"), of \$250,000,000 General Obligation Bonds, Fiscal 1990 Series F (the "Bonds").

The Bonds are issued pursuant to the provisions of the Constitution of the State, the Local Finance Law of the State, and the Charter of the City, and in accordance with a certificate of the Deputy Comptroller for Finance of the City dated the date hereof.

Based on our examination of existing law, such legal proceedings and such other documents as we deem necessary to render this opinion, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued in accordance with the Constitution and statutes of the State and the Charter of the City and constitute valid and legally binding obligations of the City for the payment of which the City has validly pledged its faith and credit, and all real property within the City subject to taxation by the City is subject to the levy by the City of ad valorem taxes, without limit as to rate or amount, for payment of the principal of and interest on the Bonds.

2. Assuming continuing compliance by the City with certain of its covenants and with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding use, expenditure and investment of its bond proceeds and the timely payment of certain investment earnings to the United States Treasury, interest on the Bonds is not includable in the gross income of the owners of the Bonds for purposes of Federal income taxation.

3. Interest on the Bonds is not a specific preference item for purposes of the Federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which we render no opinion, as a result of ownership of Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax and environmental tax) of interest that is excluded from gross income.

4. The difference between the principal amount of the Bonds maturing in 1996 through 1998, inclusive, and in 2000 and thereafter and the initial offering price of such Bonds to the public represents original issue discount which is excluded as interest from gross income for Federal

income tax purposes under Section 103 of the Code. The Code further provides that such interest accrues on an actuarial basis, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of such Bonds will be increased by the amount of such accrued interest.

5. Interest on the Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

The rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the extent constitutionally applicable, and the enforcement of related contractual and statutory covenants of the City and the State may also be subject to the exercise of the State's police powers and of judicial discretion in appropriate cases.

Very truly yours,

Financial Guaranty Insurance
Company
175 Water Street
New York, New York 10038
(212) 607-3000



Municipal Bond New Issue Insurance Policy

Issuer:

Policy Number:

Control Number:

Bonds:

Premium:

Financial Guaranty Insurance Company ("Financial Guaranty", a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to Citibank, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds" which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to

Financial Guaranty Insurance
Company
175 Water Street
New York, New York 10038
(212) 607-3000



Municipal Bond New Issue Insurance Policy

interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bond to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officers in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Gerald L. Friedman

President

[Signature]
Executive Vice President

Effective Date:

Authorized Representative

Citibank, N.A. acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

[Signature]

Authorized Officer

STIPULATED

Financial Guaranty Insurance
Company
175 Water Street
New York, New York 10038
(212) 607-3000



Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number:

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officers in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersigning of its duly authorized representative.

Donald L. Thompson
President

John A. Taylor
Executive Vice President

Effective Date

Authorized Representative

Acknowledged as of the Effective Date written above:

[Signature]
Authorized Officer
Citibank, N.A., as Fiscal Agent

A1487



12611 / 5935

FORM G-36

FULL NAME OF ISSUER AND DESCRIPTION OF ISSUE

CITY OF NEW YORK

G.O. BONDS, FISCAL 1990 SERIES F (ULT)

STATE

NEW YORK

CITY/COUNTY

NEW YORK / NEW YORK

PAR VALUE OF ISSUE

\$ 250,000,000

DATE OF FINAL MATURITY

8-1-2019

DATED DATE

2-23-1990

CUSIP NUMBERS (and corresponding maturity dates)

1991 - 649646 VR4

1992 - VS2

1993 - 649647 TT1

1994 - TV8

1995 - 649648 SGB

1996 - SH6

1997 - 649649 QA1

1998 - QB9

1999 - 649650 KA5

2000 - KB3

2001 - 649651 GL4

2002 - GM2

2003 - 649652 GK4

2004 - GL2

2005 - 649653 GA4

2006 - GB2

2007 - 649654 FP0

2008 - FQB

2009 - 649655 EGB

2010 - EH6

2011 - 649656 DPT

2012 - DQ5

2013 - 649657 DAB

2014 - DBL

2015 - 649658 DXB

2016 - BY6

2017 - 649659 BH1

2018 - BT7

2019 - 649660 FR3

MANAGING UNDERWRITER SMITH BARNEY, HARRIS VITMAN & CO., INC.

R E C E I V E D
AUG 3 1990
M.S.R.B.