**NEW ISSUE**

In the opinion of Bond Counsel, 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. Assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Tax-Exempt Bonds will not be includable in the gross income of the owners thereof for Federal income tax purposes. See "SECTION IX: OTHER INFORMATION—Tax Exemption" herein for further information. Interest on the Taxable Bonds will be includable in gross income for Federal income tax purposes.

# The City of New York

## General Obligation Bonds, Fiscal 1997 Series B, C and D
## $803,915,000 Tax-Exempt Bonds
## $178,560,000 Taxable Bonds

Dated: Date of Delivery — Due: As shown on inside cover

The Bonds will be issued as registered bonds. The Bonds 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.

Interest on the Bonds will be payable semiannually, beginning February 15, 1997, for the Series B Bonds, February 1, 1997, for the Series C Bonds, and November 1, 1996 for the Series D Bonds, and at maturity or prior redemption. The Bonds can be purchased in principal amounts of $5,000 or any integral multiple thereof. Other terms of the Bonds including optional and mandatory redemption provisions are described herein. *A detailed schedule of the Bonds is set forth inside this cover page.*

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters, subject to the approval of the legality of the Bonds by Brown & Wood LLP, New York, New York, Bond Counsel to the City, and to certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the City by Morgan, Lewis & Bockius LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by Rogers & Wells, New York, New York. It is expected that the Bonds will be available for delivery in New York, New York, on or about August 15, 1996.

**Merrill Lynch & Co.**

**Bear, Stearns & Co. Inc.** — **Lehman Brothers**
**Prudential Securities Incorporated** — **Smith Barney Inc.**

**Artemis Capital Group, Inc.** — **First Albany Corporation**
**Goldman, Sachs & Co.** — **Grigsby Brandford & Co., Inc.**
**Aubrey G. Lanston & Co. Inc.** — **J.P. Morgan & Co. Incorporated**
**Morgan Stanley & Co. Incorporated** — **Samuel A. Ramirez & Co., Inc.**

**Advest, Inc.** — **A.G. Edwards & Sons, Inc.**
**M.R. Beal & Company** — **Cambridge Partners L.L.C.**
**Citicorp Securities, Inc.** — **Lebenthal & Co., Inc.**
**PaineWebber Incorporated** — **Pryor, McClendon, Counts & Co., Inc.**
**Oppenheimer & Co., Inc.** — **Roosevelt & Cross Incorporated**
**Muriel Siebert & Co., Inc.** — **William E. Simon & Sons Municipal Securities Inc.**

August 8, 1996

## $475,000,000 General Obligation Bonds, Fiscal 1997 Series B

| | $400,000,000 Tax-Exempt Bonds | | | $75,000,000 Taxable Bonds | | |
|---|---|---|---|---|---|---|
| August 15 | Principal Amount | Interest Rate | Price or Yield | Principal Amount | Interest Rate | Price or Yield |
| 1998 | $ | % | % | $15,000,000 | 6.55% | 6.56% |
| 1999 | 1,295,000 | 4¼ | 100 | 15,000,000 | 6¾ | 6.79 |
| 2000 | 995,000 | 4½ | 100 | 15,000,000 | 6.85 | 6.88 |
| 2001 | 1,625,000 | 4¾ | 4.90 | 15,000,000 | 7 | 7.03 |
| 2002 | 3,525,000 | 5 | 5.15 | 15,000,000 | 7⅛ | 7.14 |
| 2003 | 20,070,000 | 5¼ | 5.40 | | | |
| 2004 | 21,120,000 | 5⅜ | 5.60 | | | |
| 2005 | 23,025,000 | 5½ | 5.75 | | | |
| 2006 | 23,100,000 | 5.60 | 5.85 | | | |
| 2007 | 14,800,000 | 5.70 | 5.95 | | | |
| 2008 (1) | 15,645,000 | 6¼ | 107.382 | | | |
| 2009 | 16,625,000 | 6½ | 6.05 | | | |
| 2010 | 18,475,000 | 6½ | 6.10 | | | |
| 2011 | 19,675,000 | 6½ | 6.125 | | | |
| 2012 | 21,665,000 | 5⅞ | 6.19 | | | |
| 2013 | 22,940,000 | 5⅞ | 6.20 | | | |
| 2016 | 43,070,000 | 5⅞ | 6.21 | | | |
| 2026 | 132,350,000 | 6 | 6.25 | | | |

(1) Insured by AMBAC Indemnity Corporation.

## $189,805,000 General Obligation Bonds, Fiscal 1997 Series C

| | $175,165,000 Tax-Exempt Bonds | | | $14,640,000 Taxable Bonds | | |
|---|---|---|---|---|---|---|
| February 1 | Principal Amount | Interest Rate | Price or Yield | Principal Amount | Interest Rate | Price or Yield |
| 1997 | $ 1,280,000 | 3¾ % | 100 % | $7,640,000 | 6 % | 5.65% |
| 1998 | | | | 3,500,000 | 6.275 | 100 |
| 1999 | | | | 3,500,000 | 6.585 | 100 |
| 2000 | 3,845,000 | 4½ | 100 | | | |
| 2001 | 3,900,000 | 4¾ | 4.90 | | | |
| 2002 | 4,095,000 | 5 | 5.15 | | | |
| 2003 | 4,295,000 | 5¼ | 5.40 | | | |
| 2004 | 4,520,000 | 6 | 5.60 | | | |
| 2005 | 4,975,000 | 5.60 | 5.75 | | | |
| 2006 | 5,280,000 | 5.70 | 5.85 | | | |
| 2007 | 5,575,000 | 5.70 | 5.95 | | | |
| 2008 | 5,795,000 | 6½ | 6.00 | | | |
| 2009 | 6,620,000 | 5¾ | 6.10 | | | |
| 2010 | 6,995,000 | 5¾ | 6.15 | | | |
| 2011 | 7,405,000 | 5⅞ | 6.175 | | | |
| 2012 | 7,805,000 | 6 | 6.19 | | | |
| 2016 | 35,260,000 | 5⅞ | 6.21 | | | |
| 2022 | 67,520,000 | 6 | 6.23 | | | |

## $317,670,000 General Obligation Bonds, Fiscal 1997 Series D

| | $228,750,000 Tax-Exempt Bonds | | | $88,920,000 Taxable Bonds | | |
|---|---|---|---|---|---|---|
| November 1 | Principal Amount | Interest Rate | Price or Yield | Principal Amount | Interest Rate | Price or Yield |
| 1996 | $ | % | % | $34,420,000 | 6 % | 5.47% |
| 1997 | | | | 30,000,000 | 6.193 | 100 |
| 1998 | 400,000 | 4 | 100 | 11,000,000 | 6.540 | 100 |
| 1999 | 100,000 | 4¼ | 100 | 12,000,000 | 6.721 | 100 |
| 2000 | 11,260,000 | 4½ | 100 | 1,500,000 | 6.877 | 100 |
| 2001 | 13,345,000 | 4¾ | 4.90 | | | |
| 2002 | 14,045,000 | 5 | 5.15 | | | |
| 2003 | 14,775,000 | 5¼ | 5.40 | | | |
| 2004 | 15,385,000 | 5½ | 5.60 | | | |
| 2005 | 16,265,000 | 5.60 | 5.75 | | | |
| 2006 | 17,210,000 | 5.70 | 5.85 | | | |
| 2007 | 18,320,000 | 5.70 | 5.95 | | | |
| 2008 | 18,945,000 | 5¾ | 6.05 | | | |
| 2009 | 20,140,000 | 6½ | 6.05 | | | |
| 2010 | 21,495,000 | 6½ | 6.10 | | | |
| 2011 | 22,865,000 | 5⅞ | 6.175 | | | |
| 2012 | 24,200,000 | 5⅞ | 6.19 | | | |

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**No dealer, broker, salesperson or other person has been authorized by the City or the Underwriters 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 Underwriters. 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 Underwriters may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters. No representations are made or implied by the City or the Underwriters as to any offering of any derivative instruments.**

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

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**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS 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.**

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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# 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 $982,475,000 aggregate principal amount of the City's General Obligation Bonds, Fiscal 1997 Series B, C and D (the "Bonds"). The Bonds consist of $803,915,000 tax-exempt bonds (the "Tax-Exempt Bonds") and $178,560,000 taxable bonds (the "Taxable Bonds").

## INTRODUCTORY STATEMENT

The Bonds will be general obligations of the City for the payment of which the City will pledge its faith and credit. 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, applicable redemption premium, if any, and interest on the Bonds.

The City, with a population of approximately 7.3 million, is an international center of business and culture. Its non-manufacturing economy is broadly based, with the banking and securities, life insurance, communications, publishing, fashion design, retailing and construction industries accounting for a significant portion of the City's total employment earnings. Additionally, the City is the nation's leading tourist destination. Manufacturing activity in the City is conducted primarily in apparel and printing.

The national economic downturn which began in July 1990 adversely affected the local economy, which had been declining since late 1989. As a result, the City experienced job losses in 1990 and 1991 and real Gross City Product ("GCP") fell in those two years. Beginning in calendar year 1992, the improvement in the national economy helped stabilize conditions in the City. Employment losses moderated toward year-end and real GCP increased, boosted by strong wage gains. After noticeable improvements in the City's economy during calendar year 1994, economic growth slowed in calendar year 1995, and the City's current four-year financial plan assumes that moderate economic growth will continue through calendar year 2000.

For each of the 1981 through 1995 fiscal years, the City achieved balanced operating results as reported in accordance with then applicable generally accepted accounting principles ("GAAP"). See "SECTION VI: FINANCIAL OPERATIONS—1992-1996 Statement of Operations". The City was required to close substantial budget gaps in recent years in order to maintain balanced operating results. For fiscal year 1995, the City adopted a budget which halted the trend in recent years of substantial increases in City-funded spending from one year to the next. There can be no assurance that the City will continue to maintain a balanced budget as required by State law without additional tax or other revenue increases or additional reductions in City services or entitlement programs, which could adversely affect the City's economic base.

Pursuant to the New York State Financial Emergency Act for The City of New York (the "Financial Emergency Act" or the "Act"), the City prepares a four-year annual financial plan, which is reviewed and revised on a quarterly basis and which includes the City's capital, revenue and expense projections and outlines proposed gap-closing programs for years with projected budget gaps. The City's current four-year financial plan projects substantial budget gaps for each of the 1998 through 2000 fiscal years. For information regarding the current financial plan, as well as subsequent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS" and "SECTION VII: 1997-2000 FINANCIAL PLAN". The City is required to submit its financial plans to review bodies, including the New York State Financial Control Board ("Control Board"). For further information regarding the Control Board and the Act which provides for oversight and, under certain circumstances, control of the City's financial and management practices, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Emergency Act*" and "*—Financial Control Board Oversight.*"

The City depends on State aid both to enable the City to balance its budget and to meet its cash requirements. There can be no assurance that there will not be reductions in State aid to the City from amounts currently projected or that State budgets will be adopted by the April 1 statutory deadline or that any such reductions or delays will not have adverse effects on the City's cash flow or expenditures. See

"SECTION I: RECENT FINANCIAL DEVELOPMENTS—The State". In addition, the Federal budget negotiation process could result in a reduction in or a delay in the receipt of Federal grants in the City's 1997 fiscal year which could have additional adverse effects on the City's cash flow or revenues. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions," and "—Certain Reports".

The Mayor is responsible for preparing the City's four-year financial plan, including the City's current financial plan for the 1997 through 2000 fiscal years (the "1997-2000 Financial Plan" or "Financial Plan"). The City's projections set forth in the Financial Plan are based on various assumptions and contingencies which are uncertain and which may not materialize. Changes in major assumptions could significantly affect the City's ability to balance its budget as required by State law and to meet its annual cash flow and financing requirements. Such assumptions and contingencies are described throughout this Official Statement and include the condition of the regional and local economies, the impact on real estate tax revenues of the real estate market, wage increases for City employees consistent with those assumed in the Financial Plan, employment growth, the ability to implement proposed reductions in City personnel and other cost reduction initiatives, the ability of the New York City Health and Hospitals Corporation ("HHC") and the Board of Education ("BOE") to take actions to offset reduced revenues, the ability to complete revenue generating transactions, provision of State and Federal aid and mandate relief and the impact on City revenues of proposals for Federal and State welfare reform. See "SECTION VII: 1997-2000 FINANCIAL PLAN".

Implementation of the Financial Plan is also dependent upon the City's ability to market its securities successfully. The City's financing program for fiscal years 1997 through 2000 contemplates the issuance of $5.7 billion of general obligation bonds and $4.5 billion of bonds to be issued by the proposed New York City Infrastructure Finance Authority (the "Infrastructure Finance Authority") primarily to reconstruct and rehabilitate the City's infrastructure and physical assets and to make other capital investments. The creation of the Infrastructure Finance Authority, which is subject to the enactment of State legislation, is being proposed by the City as part of the City's effort to avoid conflict with the forecast level of the constitutional restrictions on the amount of debt the City is authorized to issue. See "SECTION VIII: INDEBTEDNESS—City Indebtedness—*Limitations on the City's Authority to Contract Indebtedness*". In addition, the City issues revenue and tax anticipation notes to finance its seasonal working capital requirements. The success of projected public sales of City bonds and notes and Infrastructure Finance Authority bonds will be subject to prevailing market conditions, and no assurance can be given that such sales will be completed. If the City were unable to sell its general obligation bonds and notes or bonds of the proposed Infrastructure Finance Authority, it would be prevented from meeting its planned capital and operating expenditures. Future developments concerning the City and public discussion of such developments, as well as prevailing market conditions, may affect the market for outstanding City general obligation bonds and notes.

The City Comptroller and other agencies and public officials have issued reports and made public statements which, among other things, state that projected revenues and expenditures may be different from those forecast in the City's financial plans. It is reasonable to expect that such reports and statements will continue to be issued and to engender public comment. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Certain Reports". For information concerning the City's credit rating, see "SECTION IX: OTHER INFORMATION—Ratings".

The factors affecting the City's financial condition and the Bonds described throughout this Official Statement are complex and are not intended to be summarized in this Introductory Statement. This Official Statement should be read in its entirety.

## SECTION I: RECENT FINANCIAL DEVELOPMENTS

The fourth quarter modification to the City's financial plan for the 1996 fiscal year, submitted to the Control Board on June 21, 1996 (the "1996 Modification"), projects a balanced budget in accordance with GAAP for the 1996 fiscal year, after taking into account a discretionary transfer of $243 million. The 1996 Modification assumes $119 million of savings from a proposed increase in the investment earnings assumptions for pension assets, $39 million of which, relating to the police pension fund, the City currently does not expect to be achieved. The Financial Plan for the 1997 through 2000 fiscal years, submitted to the Control Board on June 21, 1996, which relates to the City, BOE and the City University of New York ("CUNY"), is based on the City's expense and capital budgets for the City's 1997 fiscal year, which were adopted on June 12, 1996, and includes proposed actions by the City for the 1997 fiscal year to close substantial projected budget gaps resulting from lower than projected tax receipts and other revenues and greater than projected expenditures.

**1997-2000 Financial Plan**

The 1997-2000 Financial Plan projects revenues and expenditures for the 1997 fiscal year balanced in accordance with GAAP. The projections for the 1997 fiscal year reflect proposed actions to close a previously projected gap of approximately $2.6 billion for the 1997 fiscal year. The proposed actions for the 1997 fiscal year include (i) additional agency actions totaling $1.2 billion; (ii) a revised tax reduction program which would increase projected tax revenues by $385 million due to the four year extension of the 12.5% personal income tax surcharge and other actions; (iii) savings resulting from cost containment in entitlement programs to reduce City expenditures and additional proposed State aid of $75 million; (iv) the assumed receipt of revenues relating to rent payments for the City's airports totaling $269 million, which are currently the subject of a dispute with the Port Authority; (v) the sale of the City's television station for $207 million; and (vi) pension cost savings totaling $134 million resulting from a proposed increase in the earnings assumption for pension assets from 8.5% to 8.75%, $40 million of which the City currently does not expect to be achieved.

The Financial Plan also sets forth projections for the 1998 through 2000 fiscal years and projects gaps of $1.7 billion, $2.7 billion and $3.4 billion for the 1998, 1999 and 2000 fiscal years, respectively.

The projections for the 1997 through 2000 fiscal years assume (i) approval by the Governor and the State Legislature of the extension of the 12.5% personal income tax surcharge, which is projected to provide revenue of $171 million, $447 million, $478 million and $507 million in the 1997 through 2000 fiscal years, respectively; (ii) collection of the projected rent payments for the City's airports, which may depend on the successful completion of negotiations with the Port Authority or the enforcement of the City's rights under the existing leases thereto through pending legal actions; (iii) the ability of HHC and BOE to identify actions to offset substantial City and State revenue reductions and the receipt by BOE of additional State aid; and (iv) State approval of the cost containment initiatives and State aid proposed by the City. The Financial Plan does not reflect any increased costs which the City might incur as a result of welfare legislation recently enacted by Congress. See "Section VII:1997-2000 Financial Plan—Assumptions—*Revenue Assumptions*—6. Federal and State Categorical Grants".

The City's financial plans have been the subject of extensive public comment and criticism. On July 16, 1996, the staff of the City Comptroller issued a report on the Financial Plan. The report concluded that the City's fiscal situation remains serious, and that the City faces budgetary risks of aproximately $787 million to $941 million for the 1997 fiscal year, which increase to $4.16 billion to $4.31 billion for fiscal year 2000. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Certain Reports".

On February 28, 1996, Fitch Investors Service, L.P. ("Fitch") placed the City's general obligation bonds on FitchAlert with negative implications. See "SECTION IV: OTHER INFORMATION—Ratings".

**Collective Bargaining Agreements**

The projections for the 1997 through 2000 fiscal years reflect the costs of the settlements with the United Federation of Teachers ("UFT") and a coalition of unions headed by District Council 37 of the American Federation of State, County and Municipal Employees ("District Council 37"), which together represent approximately two-thirds of the City's workforce, and assume that the City will reach agreement

with its remaining municipal unions under terms which are generally consistent with such settlements. The settlement provides for a wage freeze in the first two years, followed by a cumulative effective wage increase of 11% by the end of the five year period covered by the proposed agreements, ending in fiscal years 2000 and 2001. Additional benefit increases would raise the total cumulative effective increase to 13% above present costs. Costs associated with similar settlements for all City-funded employees would total $49 million, $459 million and $1.2 billion in the 1997, 1998 and 1999 fiscal years, respectively, and exceed $2 billion in each fiscal year after the 1999 fiscal year. There can be no assurance that the City will reach an agreement with the unions that have not yet reached a settlement with the City on the terms contained in the Financial Plan.

In the event of a collective bargaining impasse, the terms of wage settlements could be determined through statutory impasse procedures, which can impose a binding settlement except in the case of collective bargaining with the UFT, which may be subject to non-binding arbitration. On January 23, 1996, the City requested the Office of Collective Bargaining to declare an impasse against the Patrolmen's Benevolent Association ("PBA") and the Uniformed Firefighters Association ("UFA"). See "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions—1. Personal Service Costs".

**The State**

The State's budget for the State's 1996-97 fiscal year, commencing April 1, 1996, which was enacted on July 13, 1996, is balanced on a cash basis. The State closed projected budget gaps of $5.0 billion and $3.9 billion for its 1995-96 and 1996-97 fiscal years, respectively. The 1997-98 gap was projected at $1.44 billion, based on the Governor's proposed budget of December 1995. As a result of changes made in the enacted budget, the State now expects that the gap will be larger, although it is not expected to be as large as those faced in the prior two fiscal years. The Governor has indicated that he will propose to close any potential imbalance primarily through General Fund expenditure reductions.

As a result of the delay in the enactment of the State's budget for the 1996-97 fiscal year, the amount deposited by the Comptroller of the State of New York (the "State Comptroller") in the revenue anticipation note debt service account was insufficient to pay the principal of the outstanding $900 million in general obligation revenue anticipation notes which were due on June 28, 1996. Accordingly, the City transferred $212 million from the General Fund to the revenue anticipation note debt service account, in addition to the $688 million deposited by the State Comptroller, to pay the principal of such notes. For further information concerning the State, including the State's credit ratings, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions".

## SECTION II: THE BONDS

### General

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") and in accordance with a certificate of the Deputy Comptroller for Finance. The Bonds will mature and bear interest as described on the inside 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.

### 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 has in recent years resulted in retention of sufficient real estate taxes to comply with the City Covenants (as defined in "SECTION II: THE BONDS—Certain Covenants and Agreements"). If the statutory formula does not result in retention of sufficient real estate taxes to comply with the City Covenants, the City will comply with the City Covenants either by providing for early retention of real estate taxes or by making cash payments into the Fund. The principal of and interest on the Bonds will be paid from the Fund until the Act expires on July 1, 2008, and thereafter from a separate fund maintained in accordance with the City Covenants. Since its inception in 1978, the Fund has been fully funded at the beginning of each payment period.

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.

The rights of the owners of Bonds to receive interest, principal 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 sources 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 then 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 (in each case, as defined in "SECTION II: THE BONDS—Certain Covenants and Agreements") may be within the discretion of a court. For further information concerning rights of owners of Bonds against the City, see "SECTION VIII: INDEBTEDNESS—City Indebtedness".

### 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 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.

**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 currently uses the debt service payment mechanism described above to perform these covenants. The City will further covenant in the Bonds to limit its issuance of bond anticipation notes as required by the Act, as in effect from time to time, and in the Series B Bonds to comply with the financial reporting requirements of the Act, as in effect from time to time.

The State pledges and agrees in the Financial Emergency Act that the State will not take any action that will impair the power of the City to comply with the covenants described in the preceding paragraph (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 Series B Bonds (other than those maturing in 2009, 2010 and 2011) 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. The City will covenant to make continuing disclosure (the "Undertaking") as summarized below under "SECTION IX: OTHER INFORMATION—Continuing Disclosure Undertaking". In the opinion of Bond Counsel, the enforceability of the City Covenants, the Undertaking, 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. The City Covenants, the Undertaking, the State Pledge and Agreement and the State Covenant shall be of no force and effect with respect to any Bond if there is a 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 such Bond.

**Use of Proceeds**

The proceeds from the sale of the Series B Bonds will be used for various municipal capital purposes and discrete municipal capital purposes. For further information concerning the City's capital projects, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures" and SECTION VII: 1997-2000 FINANCIAL PLAN—Long-Term Capital and Financing Program". Certain expenses of the City incurred in connection with the issuance and sale of the Series B Bonds, preliminary costs of surveys, maps, plans, estimates and hearings in connection with capital improvements and costs incidental to such improvements may be included in the above purposes.

The proceeds from the sale of the Series C and D Bonds will be used for refunding purposes including certain expenses of the City incurred in connection with the issuance and sale of the Series C and D Bonds. The proceeds from the sale of the Series C and D Bonds are expected to be used to refund the bonds identified in Appendix C hereto by providing for the payment of the principal of and interest and redemption premium, if any, on such bonds to the extent and to the payment dates shown. The proposed refunding is subject to the delivery of the Series C and D Bonds.

**Redemption**

Thirty days' notice shall be given to the holders of Bonds to be redeemed prior to maturity. The City may select amounts and maturities of Bonds for redemption in its sole discretion. On and after any redemption date, interest will cease to accrue on the Bonds called for redemption.

**Optional Redemption**

The Series B Bonds maturing after August 15, 2006 (other than those due in 2009, 2010 and 2011) will be subject to redemption at the option of the City on or after August 15, 2006, in whole or in part, by lot within each maturity, on any date, at the following redemption prices, plus accrued interest to the date of redemption:

| Redemption Dates | Redemption Price as Percentage of Par |
|---|---|
| August 15, 2006 through August 14, 2007 | 101½% |
| August 15, 2007 through August 14, 2008 | 100¾ |
| August 15, 2008 and thereafter | 100 |

The Series C Bonds maturing after February 1, 2006 (other than those due in 2008) will be subject to redemption at the option of the City on or after August 1, 2006, in whole or in part, by lot within each maturity, on any date, at the following redemption prices, plus accrued interest to the date of redemption:

| Redemption Dates | Redemption Price as Percentage of Par |
|---|---|
| August 1, 2006 through July 31, 2007 | 101½% |
| August 1, 2007 through July 31, 2008 | 100¾ |
| August 1, 2008 and thereafter | 100 |

The Series D Bonds maturing after November 1, 2006 (other than those due in 2009 and 2010) will be subject to redemption at the option of the City on or after November 1, 2006, in whole or in part, by lot within each maturity, on any date, at the following redemption prices, plus accrued interest to the date of redemption:

| Redemption Dates | Redemption Price as Percentage of Par |
|---|---|
| November 1, 2006 through October 31, 2007 | 101½% |
| November 1, 2007 through October 31, 2008 | 100¾ |
| November 1, 2008 and thereafter | 100 |

The Taxable Bonds will not be subject to redemption prior to maturity.

**Mandatory Redemption**

The Series B Bonds maturing on August 15, 2016 and 2026, are Term Bonds subject to mandatory redemption, by lot within each stated maturity, on each August 15 at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, in the amounts set forth below:

| | Principal Amount to be Redeemed (In Thousands) | |
|---|---|---|
| Year | 2016 Maturity | 2026 Maturity |
| 2014 | $ 24,285 | |
| 2015 | 9,470 | |
| 2016 | 9,315* | |
| 2017 | | $ 9,865 |
| 2018 | | 11,170 |
| 2019 | | 10,935 |
| 2020 | | 11,590 |
| 2021 | | 12,290 |
| 2022 | | 13,025 |
| 2023 | | 14,510 |
| 2024 | | 15,380 |
| 2025 | | 16,305 |
| 2026 | | 17,280* |

*Stated Maturity

The Series C Bonds maturing on February 1, 2016 and 2022, are Term Bonds subject to mandatory redemption, by lot within each stated maturity, on each February 1 at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, in the amounts set forth below:

| | Principal Amount to be Redeemed (in Thousands) | |
|---|---|---|
| Year | 2016 Maturity | 2022 Maturity |
| 2013 | $ 8,310 | |
| 2014 | 8,475 | |
| 2015 | 8,975 | |
| 2016 | 9,500* | |
| 2017 | | $10,060 |
| 2018 | | 10,605 |
| 2019 | | 11,280 |
| 2020 | | 11,955 |
| 2021 | | 12,600 |
| 2022 | | 11,020* |

*Stated Maturity

At the option of the City, there shall be applied to or credited against any of the required amounts the principal amount of any such Term Bonds that have been defeased, purchased or redeemed and not previously so applied or credited.

Defeased Term Bonds shall at the option of the City no longer be entitled, but may be subject, to the provisions thereof for mandatory redemption.

**Bond Insurance**

The following information pertaining to AMBAC Indemnity Corporation ("AMBAC Indemnity") has been supplied by AMBAC Indemnity. 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 policies to be issued by AMBAC Indemnity 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 E—SPECIMEN INSURANCE POLICY".

*AMBAC Insured Bonds*

AMBAC Indemnity has made a commitment to issue a municipal bond insurance policy (the "AMBAC Policy") relating to the Series B Bonds that mature in 2008 (the "AMBAC Insured Bonds") effective as of the date of issuance of the AMBAC Insured Bonds. Under the terms of the AMBAC Policy, AMBAC Indemnity will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "AMBAC Insurance Trustee") that portion of the principal of and interest on the AMBAC Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the City (as such terms are defined in the AMBAC Policy). AMBAC Indemnity will make such payments to the AMBAC Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which AMBAC Indemnity shall have received notice of Nonpayment from the City's Fiscal Agent. The insurance will extend for the term of the AMBAC Insured Bonds and, once issued, cannot be canceled by AMBAC Indemnity.

The AMBAC Policy will insure payment only on stated maturity dates and on any mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the AMBAC Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding AMBAC Insured Bonds, AMBAC Indemnity will remain obligated to pay principal of and interest on outstanding AMBAC Insured Bonds on the originally scheduled interest and

principal payment dates including any mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the AMBAC Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the City's Fiscal Agent has notice that any payment of principal of or interest on an AMBAC Insured Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, unappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

The AMBAC Policy does **not** insure any risk other than Nonpayment, as defined in the AMBAC Policy. Specifically, the AMBAC Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than any mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the AMBAC Policy, payment of principal requires surrender of AMBAC Insured Bonds to the AMBAC Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such AMBAC Insured Bonds to be registered in the name of AMBAC Indemnity to the extent of the payment under the AMBAC Policy. Payment of interest pursuant to the AMBAC Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the AMBAC Insured Bond, appurtenant coupon, if any, or right to payment of principal or interest on such AMBAC Insured Bond and will be fully subrogated to the surrendering Bondholder's rights to payment.

The insurance provided by the AMBAC Policy is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

AMBAC Indemnity is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $2,440,000,000 (unaudited) and statutory capital of approximately $1,387,000,000 (unaudited) as of March 31, 1996. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company. Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's") and Fitch have each assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

AMBAC Indemnity has entered into pro rata reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by AMBAC Indemnity under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Bonds.

AMBAC Indemnity makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by AMBAC Indemnity and presented under the heading "AMBAC Insured Bonds".

The parent company of AMBAC Indemnity, AMBAC Inc., is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. AMBAC, Inc.'s Common Stock is listed on the NYSE.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

The following documents filed by AMBAC, Inc. with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement.

(1) AMBAC, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1995, filed on April 1, 1996;

(2) AMBAC, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, filed on May 15, 1996;

(3) AMBAC, Inc.'s Current Report on Form 8-K dated January 31, 1996, filed on February 28, 1996;

(4) AMBAC, Inc.'s Current Report on Form 8-K dated March 13, 1996, filed on March 14, 1996; and

(5) AMBAC, Inc.'s Current Report on Form 8-K/A, First Amendment to Current Report on Form 8-K dated March 13, 1996, filed on March 15, 1996.

All documents subsequently filed by AMBAC, Inc. pursuant to the requirements of the Exchange Act after the date of this Official Statement, will be available in the same manner described above.

**Bond Certificates**

*Book-Entry Only System*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. Reference to the Bonds under the caption "Bond Certificates" shall mean all Bonds that are deposited with DTC from time to time. The Bonds will be issued as fully-registered notes registered in the name of Cede & Co. (DTC's partnership nominee) and deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, 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. DTC holds securities that its direct participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange,

Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (under this caption, "*Book-Entry Only System*", a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to DTC is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

No assurance can be given by the City that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The City is not responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or 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.

*Discontinuance of the Book-Entry Only System*

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 to the registered owners thereof on the maturity date of the Bonds in immediately available funds at the office of the Fiscal Agent, The Chase Manhattan Bank, N.A., if by hand, One Chase Manhattan Plaza—Level 1B, New York, New York 10081, Attn: Municipal Bond Redemption Window; if by mail, 4 Chase Metrotech Center, Brooklyn, New York 11245, Attn: Box 2020, 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 last business day (for the Series B Bonds) or the fifteenth day (for the Series C and D Bonds) of the calendar month immediately preceding the applicable interest payment date.

## SECTION III: GOVERNMENT AND FINANCIAL CONTROLS

### Structure of City 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. Responsibility for governing the City is currently vested by the City Charter in the Mayor, the City Comptroller, the City Council, the Public Advocate and the Borough Presidents.

—*The Mayor.* Rudolph W. Giuliani, the Mayor of the City, took office on January 1, 1994. 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 commissioners of the City's various 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 has powers and responsibilities relating to land use and City contracts and 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.

—*The City Comptroller.* Alan G. Hevesi, the Comptroller of the City, took office on January 1, 1994. 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 Office of the City Comptroller is responsible under the City Charter and pursuant to State Law and City investment guidelines for managing and investing City funds for operating and capital purposes. The City Comptroller is also a member of the Control Board and is a trustee, the custodian and the delegated investment manager of the City's five pension systems. The investments of those pension system assets, aggregating approximately $60 billion, are made pursuant to the directions of the respective Boards of Trustees.

—*The City Council.* The City Council is the legislative body of the City and consists of the Public Advocate and 51 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 adopt the City's annual Expense Budget and Capital Budget (as defined below). 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. The City Council has powers and responsibilities relating to franchises and land use and as provided by State law.

—*The Public Advocate.* Mark Green, the Public Advocate, took office on January 1, 1994. The Public Advocate is elected in a general election for a four-year term. The Public Advocate may preside at meetings of the City Council without voting power, except in the case of a tie vote. The Public Advocate is first in the line of succession to the Mayor in the event of the disability of the Mayor or a vacancy in the office. The Public Advocate appoints a member of the City Planning Commission and has 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 Borough Presidents.* Each of the City's five boroughs elects a Borough President who serves for a four-year term concurrent with other City elected officials. The Borough Presidents consult with the Mayor in the preparation of the City's annual Expense Budget and Capital Budget. Five percent of discretionary increases proposed by the Mayor in the Expense Budget and, with certain exceptions, five percent of the appropriations supported by funds over which the City has substantial discretion proposed by the Mayor in the Capital Budget, must be based on appropriations proposed by the

Borough Presidents. Each Borough President also appoints one member to BOE and has various responsibilities relating to, among other things, reviewing and making recommendations regarding applications for the use, development or improvement of land located within the borough, monitoring and making recommendations regarding the performance of contracts providing for the delivery of services in the borough, and overseeing the coordination of a borough-wide public service complaint program.

On March 1, 1994, proposed legislation enabling Staten Island to separate from the City was submitted to the State Legislature. Separation would take effect upon approval of such enabling legislation. Based upon the advice of the State Assembly's "home rule" counsel, the Speaker of the Assembly has determined that the City must issue a "home rule message", which requires a formal request of action by the State Legislature by either (i) the Mayor and a majority of the City Council or (ii) two-thirds of the City Council, before the proposed legislation may be voted upon by the Assembly. In June 1994, a proceeding was commenced by the members of the Assembly representing Staten Island against the speaker and the Assembly "home rule" counsel challenging the validity of their determination and seeking to have it rescinded. On January 17, 1995, the State Supreme Court, Albany County, dismissed the petition. On February 22, 1996, the Appellate Division, Third Department affirmed the dismissal. If any such enabling legislation were passed, it may be subject to legal challenge and would require approval by the United States Department of Justice under the Federal Voting Rights Act. It cannot be determined at this time what the content of such proposed legislation will be, whether it will be enacted into law by the State Legislature, and if so, what legal challenges might be commenced contesting the validity of such legislation.

On November 2, 1993, the voters of the City approved a referendum amending the City Charter to provide that no person shall be eligible to be elected to or serve in the office of Mayor, Public Advocate, Comptroller, Borough President or Council member if that person had previously held such office for two or more full consecutive terms, unless one full term or more has elapsed since that person last held such office. This Charter amendment applies only to terms of office commencing after January 1, 1994, and is subject to approval by the United States Department of Justice under the Federal Voting Rights Act. The City will place on the November 1996 election ballot a referendum that if approved would extend this term limit to three or more consecutive terms with certain exceptions.

**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") and for submitting the Budgets to the City Council for its review and adoption. 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.

The City Council is responsible for adopting the Expense Budget and the Capital Budget. Pursuant to the City Charter, the City Council may increase, decrease, add or omit specific units of appropriation in the Budgets submitted by the Mayor and add, omit or change any terms or conditions related to such appropriations. The City Council is also responsible, pursuant to the City Charter, for approving modifications to the Expense Budget and adopting amendments to the Capital Budget beyond certain latitudes allowed to the Mayor under the City Charter. However, the Mayor has the power to veto any increase or addition to the Budgets or any change in any term or condition of the Budgets approved by the City Council, which veto is subject to an override by a two-thirds vote of the City Council, and the Mayor has the power to implement expenditure reductions subsequent to adoption of the Expense Budget in order to maintain a balanced budget. In addition, the Mayor has the power to determine the non-property tax revenue forecast on which the City Council must rely in setting the property tax rates for adopting a balanced City budget.

*OMB*

OMB, with a staff of approximately 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 Budgets and four-year financial plans. In addition, the City prepares a Ten-Year Capital Strategy.

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. All Covered Organizations, as hereinafter defined, are also required to maintain budgets that are balanced when reported in accordance with GAAP. From time to time certain Covered Organizations have had budgets providing for operations on a cash basis but not balanced under GAAP.

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.

*Office of the Comptroller*

The City Comptroller is the City's chief fiscal officer and is responsible under the City Charter for reviewing and commenting on the City's Budgets and financial plans, including the assumptions and methodologies used in their preparation. The City Comptroller, as an independently elected public official, is required to report annually to the City Council on the state of the City's economy and finances and periodically to the Mayor and the City Council on the financial condition of the City and to make recommendations, comments and criticisms on the operations, fiscal policies and financial transactions of the City. Such reports, among other things, have differed with certain of the economic, revenue and expenditure assumptions and projections in the City's financial plans and Budgets. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Certain Reports".

The Office of the Comptroller, with a professional staff of approximately 620, establishes the City's accounting and financial reporting practices and internal control procedures. The City Comptroller is also responsible for the preparation of the City's annual financial statements, which, since 1978, have been required to be reported in accordance with GAAP.

The Comprehensive Annual Financial Report of the Comptroller for the 1994 fiscal year, which includes, among other things, the City's financial statements for the 1994 fiscal year, has received the GFOA award of the Certificate of Achievement for Excellence in Financial Reporting, the fifteenth consecutive year the Comprehensive Annual Financial Report of the Comptroller has won such award.

All contracts for goods and services requiring the expenditure of City moneys must be registered with the City Comptroller. No contract can be registered unless funds for its payment have been appropriated by the City Council or otherwise authorized. The City Comptroller also prepares vouchers for payments for such goods and services and cannot prepare a voucher unless funds are available in the Budgets for its payment.

The City Comptroller is also required by the City Charter to audit all City agencies and has the power to audit all City contracts. The Office of the Comptroller conducts both financial and management audits and has the power to investigate corruption in connection with City contracts or contractors.

The Mayor and City Comptroller are responsible for the issuance of City indebtedness. The City Comptroller oversees the payment of such indebtedness and is responsible for the custody of certain sinking funds.

*Financial Reporting and Control Systems*

Since 1978, the City's financial statements have been required to be audited by independent certified public accountants and to be presented in accordance with GAAP. The City has completed fourteen consecutive fiscal years with a General Fund surplus when reported in accordance with then applicable GAAP.

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 each of OMB and 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.

City funds held for operation and capital purposes are managed by the Office of the City Comptroller, with specific guidelines as to investment vehicles. The City does not invest such funds in leveraged products or use reverse repurchase agreements. The City invests primarily in obligations of the United States Government, its agencies and instrumentalities, and repurchase agreements with primary dealers. The repurchase agreements are collateralized by United States Government treasuries, agencies and instrumentalities, held by the City's custodian bank and marked to market daily.

More than 95% of the aggregate assets of the City's five defined benefit pension systems are managed by outside managers, supervised by the Office of the City Comptroller, and the remainder is held in cash or managed by the City Comptroller. Allocations of investment assets are determined by each fund's board of directors. As of December 31, 1995 aggregate pension assets were allocated as follows: 54% US equities; 35% US fixed income; 9% international equities; 1% international fixed income; and 1% cash.

*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 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") covering the four-year period beginning with such fiscal year. BOE, the New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, "New York City Transit" or "NYCT"), HHC and the New York City Housing Authority (the "Housing Authority" or "HA") are examples of Covered Organizations. 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 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 were 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 (including collective bargaining agreements), long-term and short-term borrowings, and the four-year financial plan and modifications thereto 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 a Control Period upon the occurrence or substantial likelihood and imminence of the occurrence of any one 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, or (v) joint certification by the State and City Comptrollers that they could not at that time make a joint certification that sales of securities in the public credit market by or for the benefit of the City during the immediately preceding fiscal year and the current fiscal year satisfied its capital and seasonal financing requirements during such period and that there is a substantial likelihood that such securities can be sold in the general public market from the date of the joint certification through the end of the next succeeding fiscal year in amounts that will satisfy substantially all of the capital and seasonal financing requirements of the City during such period in accordance with the financial plan then in effect.

*Financial Control Board Oversight*

The Control Board, with MAC and OSDC, reviews and monitors revenues and expenditures of the City and the 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 requirement to submit four-year financial plans and budgets for review was in response to the severe financial difficulties and loss of access to the credit markets encountered by the City in 1975. The Control Board must reexamine the financial plan on at least a quarterly basis to determine its conformance to statutory standards.

During a Control Period, in addition to the requirements described above, the Control Board is required to establish procedures with respect to the disbursement of monies to the City and the Covered Organizations from the Control Board Fund created by the Act.

The ex officio members of the Control Board are George E. Pataki, Governor of the State of New York (Chairman); H. Carl McCall, Comptroller of the State of New York; Rudolph W. Giuliani, Mayor of The City of New York; Alan G. Hevesi, Comptroller of The City of New York. In addition, there are three private members appointed by the Governor, Heather L. Ruth, President of the Public Securities Association; Stanley S. Shuman, Executive Vice President of Allen & Company, Incorporated; and Robert G. Smith, Ph.D., President of Smith Affiliated Capital Corp. The Executive Director of the Control Board is appointed jointly by the Governor and the Mayor and Cornelius F. Healy is currently serving as Executive Director of the Control Board. 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 Rosemary Scanlon.

## SECTION IV: 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 1995, while unrestricted Federal aid has been sharply reduced. The City projects that local revenues will provide approximately 68.2% of total revenues in the 1997 fiscal year while Federal aid, including categorical grants, will provide 11.5%, and State aid, including unrestricted aid and categorical grants, will provide 20.3%. 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 "SECTION VII: 1997-2000 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 40.2% of its total tax revenues and 21.5% of its total revenues for the 1997 fiscal year from the real estate tax. For information concerning tax revenues and total revenues of the City for prior fiscal years, see "SECTION VI: FINANCIAL OPERATIONS—1992-1996 Statement of Operations".

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 payments 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 less interest on temporary debt and the aggregate amount of business improvement district charges subject to the 2.5% tax limitation. The table below sets forth the percentage of the debt service levy to the total levy. The most recent calculation of the operating limit does not fully reflect the current downturn in the real estate market, which is expected to lower the operating limit in the future. The City Council has adopted a distinct tax rate for each of the four categories of real property established by State legislation.

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

| Fiscal Year | Total Levy(1) | Levy Within Operating Limit | Debt Service Levy(2) | Percent of Debt Service Levy to Total Levy | Operating Limit | Percent of Levy Within Operating Limit to Operating Limit | Rate Per $100 of Full Valuation(3) | Average Tax Rate Per $100 of Assessed Valuation |
|---|---|---|---|---|---|---|---|---|
| | | | | (Dollars in Millions) | | | | |
| 1993.... | $8,392.5 | $6,469.9 | $1,922.6 | 22.9% | $11,945.0 | 54.2% | $1.60 | $10.59 |
| 1994.... | 8,113.2 | 5,920.9 | 2,192.2 | 27.0 | 13,853.8 | 42.7 | 1.30 | 10.37 |
| 1995.... | 7,889.8 | 5,613.9 | 2,275.9 | 28.8 | 13,446.5 | 41.7 | 1.14 | 10.37 |
| 1996.... | 7,871.4 | 5,261.6 | 2,609.8 | 33.2 | 8,633.4 | 60.9 | 1.88 | 10.37 |
| 1997.... | 7,835.1 | 5,007.7 | 2,827.4 | 36.1 | 7,857.3 | 63.7 | 2.46 | 10.37 |

(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) Full valuation is based on the special equalization ratios (discussed below) and the billable assessed valuation. Special equalization ratios and full valuations are revised periodically as a result of surveys by the State Board of Real Property Services.

*Assessment*

The City has traditionally assessed real property at less than market (full) value. The State Board of Real Property Services (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 "SECTION VIII: 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 recent surveys. Ratios, and therefore full values, may be revised when new surveys are completed. The ratios and full values used to compute the 1997 fiscal year operating limit, which are shown in the table below, have been established by the State Board and include the results of the calendar year 1993 market value survey. For information concerning litigation asserting that the special equalization ratios calculated by the State Board in the 1991 calendar year violate State law because they substantially overestimate the full value of City real estate for the purposes of calculating the operating limit for the 1992 fiscal year, and that the City's real estate tax levy for operating purposes in the 1992 fiscal year exceeded the State Constitutional limit, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*".

**BILLABLE ASSESSED AND FULL VALUE OF TAXABLE REAL ESTATE(1)**

| Fiscal Year | Billable Assessed Valuation of Taxable Real Estate(2) | ÷ | Special Equalization Ratio | = | Full Valuation(2) |
|---|---|---|---|---|---|
| 1993 | $79,370,561,446 | | 0.2965 | | $267,691,606,901 |
| 1994 | 78,364,554,204 | | 0.2627 | | 298,304,355,554 |
| 1995 | 76,202,446,309 | | 0.2384 | | 319,641,133,846 |
| 1996 | 76,029,436,876 | | 0.2209 | | 344,180,338,959 |
| 1997 | 75,668,457,434 | | 0.2069 | | 365,724,782,185 |
| | | | | Average: | 319,108,443,489 |

(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 1997 fiscal year, the billable assessed value of real estate categorized by the City as exempt is $61.5 billion, or 44.9% of the $137.0 billion billable assessed value of all real estate (taxable and exempt).

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

State law provides for the classification of all real property in the City into one of four statutory classes. Class one primarily includes one-, two-, and three-family homes; class two includes certain other residential property not included in class one; class three includes most utility real property; and class four includes all other real property. The total tax levy consists of four tax levies, one for each class. Once the tax levy is set for each class, the tax rate for each class is then fixed annually by the City Council by dividing the levy for such class by the billable assessed value for such class.

Assessment procedures differ for each class of property. For fiscal year 1997, class one was assessed at approximately 8% of market value and classes two, three and four were assessed at 45% of market value. In addition, individual assessments on class one parcels cannot increase by more than six percent per year or twenty percent over a five-year period. Market value increases and decreases for most of class two and all of class four are phased in over a period of five years. Increases in class one market value in excess of applicable limitations are not phased in over subsequent years. There is also no phase in for class three property.

Class two and class four real property have three assessed values: actual, transition and billable. Actual assessed value is established for all tax classes without regard to the five-year phase-in requirement applicable to most class two and all class four properties. The transition assessed value reflects this phase-in. Billable assessed value is the basis for tax liability, and is the lower of the actual or transition assessment.

The share of the total levy that can be borne by each class is regulated by the provisions of the Real Property Tax Law. Each class's share of the total tax levy is updated annually to reflect new construction, demolition, alterations or changes in taxable status and is subject to limited adjustment to reflect market value changes among the four classes. Fiscal year 1997 tax rates were set on June 12, 1996 reflecting a provision of State law that limits the market value adjustment for 1997 to a 2½% increase in any class's share compared to its share in 1996.

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 "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*". For further information regarding the City's potential exposure in certain of these proceedings, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note H. LONG-TERM OBLIGATIONS—*Judgments and Claims*".

The State Board annually certifies various class ratios and class equalization rates relating to the four classes of real property in the City. "Class ratios", which are determined for each class by the State Board by calculating the ratio of assessed value to market value, are used in real property tax *certiorari* proceedings involving allegations of inequality of assessments. The City believes that the State Board overestimated market values for class two and class four properties in calculating the class ratios for the 1991 and 1992 assessment rolls and has commenced proceedings challenging these class ratios. A lowering of the market value determination by the State Board for classes two and four would raise the class ratios and could result in a reduction in tax refunds issued as a result of tax *certiorari* proceedings. For further information regarding the City's proceeding, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*".

*Trend in Taxable Assessed Value*

During the decade prior to fiscal year 1993, real property tax revenues grew substantially. Because State law provides for increases in assessed values of most properties to be phased into property tax bills over five-year periods, billable assessed values continued to grow and real property tax revenue increased through fiscal year 1993 even as market values declined during the local recession. For the 1994 fiscal year, billable assessed valuation for taxable property decreased by approximately 1.25% over the $79.3 billion final valuation for fiscal year 1993. Actual assessed valuation decreased approximately 3.0% in fiscal year 1994 from the prior fiscal year valuation of $81.7 billion. These results reflect changes made to the assessment percentages for class three property, which resulted in a 46% increase in class three billable assessed value. After adjusting for the change in assessment percentages, billable assessed values for all classes declined by 3.6%.

For the 1994 and 1995 fiscal years, billable assessed valuation continued to decline, by 1.3 percent and 2.8 percent, respectively. The bulk of the decline was due to continued weakness in Class 4. For the 1996 fiscal year, billable assessed valuation in total was essentially unchanged from the prior year (a decline of 0.2%), as the rate of decline in Class 4 slowed and slight increases in the valuations of the other classes offset the Class 4 decline. For the 1996 fiscal year, actual assessed valuation increased by 0.8 percent, the first improvement since fiscal year 1991. Fiscal year 1997 billable assessed valuation on the final assessment roll decreased by $356 million from fiscal year 1996 to $75.5 billion. Billable assessed value is expected to achieve growth approaching the rate of inflation by 1999.

*Collection of the Real Estate Tax*

Real estate tax payments are due each July 1 and January 1, 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 on July 1, October 1, January 1 and April 1. Since July 1, 1991, an annual interest rate of 9% compounded daily is imposed upon late payments on properties for which the annual tax bill does not exceed $2,750 except in the case of (i) any parcel with respect of which the real property taxes are held in escrow and paid by a mortgage escrow agent and (ii) parcels consisting of vacant or unimproved land. Since July 1, 1991, an interest rate of 18% compounded daily is imposed upon late payments on all other properties. These interest rates are set annually.

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. In addition, the City is authorized to sell real property tax liens and receivables on Class 1 properties which are delinquent for at least three years and Class 2, 3 and 4 properties which are delinquent for at least one year.

The real estate tax is accounted for on a modified accrual basis. Revenue accrued is limited to prior year payments received, offset by refunds made, within the first two months of the following fiscal year. In deriving the real estate tax revenue forecast, 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 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. Delinquent real estate taxes generally increase during a recession and when the real estate market deteriorates. Delinquent real estate taxes generally decrease as the City's economy and real estate market recover.

In June 1994, the City sold to Tax Collections Trust, a Delaware trust, the City's delinquent real property tax receivables outstanding as of May 31, 1994 for $201 million plus a residual interest in the receivables. In April 1995, the City sold to Asset Securitization Cooperative Corporation, a California cooperative corporation, the City's delinquent real property tax receivables outstanding as of April 1, 1995 for $223 million, with the City retaining a residual interest in the receivables. In fiscal year 1996, the City sold to NYCTL 1996-1 Trust, a Delaware business trust, real property tax liens for which the City received approximately $182 million in cash. Amounts shown in the table below are adjusted as indicated in the notes.

REAL ESTATE TAX COLLECTIONS AND DELINQUENCIES
(In Millions)

| Fiscal Year | Tax Levy(1) | Tax Collections on Current Year Levy(2) | Tax Collections as a Percentage of Tax Levy | Prior Year (Delinquent Tax) Collections(3) | Refunds | Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent | Delinquent as of end of Fiscal Year(4) | Delinquency as a Percentage of Tax Levy |
|---|---|---|---|---|---|---|---|---|
| 1990..... | $6,872.4 | $6,507.1 | 94.7% | $109.6 | $ (74.1) | $(135.0) | $(230.2) | 3.35% |
| 1991(5)..... | 7,681.3 | 7,199.2 | 93.7 | 149.7 | (62.7) | (166.4) | (315.7) | 4.11 |
| 1992..... | 8,318.8 | 7,748.4 | 93.1 | 193.7 | (124.3) | (200.2) | (370.2) | 4.45 |
| 1993..... | 8,392.5 | 7,766.1 | 92.5 | 227.7 | (107.2) | (215.2) | (411.2) | 4.90 |
| 1994..... | 8,113.2 | 7,520.3 | 92.7 | 223.1 | (199.1) | (189.5) | (403.4) | 4.97 |
| 1995..... | 7,889.8 | 7,377.4 | 93.5 | 210.8 | (164.2) | (130.8) | (381.6) | 4.84 |
| 1996(6)..... | 7,871.4 | 7,353.0 | 93.4 | 414.0 | (275.0) | (129.2) | (288.9) | 3.67 |
| 1997(6)..... | 7,835.1 | 7,229.9 | 92.3 | 176.0 | (317.9) | (239.8) | (365.3) | 4.66 |

(1) As approved by the City Council.

(2) Quarterly collections on current year levy. Amounts for fiscal years 1994, 1995 and 1996 are adjusted to eliminate the effects of the 1994 and 1995 sales of delinquent tax receivables.

(3) Adjusted to exclude the effect of sales of delinquent tax receivables. Figures include $182 million of proceeds from the 1996 sale of real property tax liens and $55 million from an expected tax lien sale in 1997.

(4) These figures include taxes due on certain publicly owned property and exclude delinquency on shelter rent and exempt property restored in 1995 and 1996.

(5) Does not include supplemental levy of $61.7 million raised in mid-year for Criminal Justice Fund.

(6) Forecast

**Other Taxes**

The City expects to derive 59.8% of its total tax revenues for the 1997 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 banking corporation tax imposed on the income of banking corporations doing business in the City; and (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).

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 State legislation. Without State authorization, the City may locally impose property taxes to fund general operations in an amount not to exceed 2½% of property values in the City as determined under a State mandated formula. In addition, the State cannot restrict the City's authority to levy and collect real estate taxes in excess of the 2½% limitation in the amount necessary to pay principal of and interest on City indebtedness. For further information concerning the City's authority to impose real property taxes, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax". 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, reserve fund requirements and operating expenses, with the balance, if any, payable to the City.

Revenues from taxes other than the real property tax, including Audits and Criminal Justice Fund, in the 1995 fiscal year decreased by $126 million or approximately 1.2% from the 1994 fiscal year, primarily due to decreases in the general corporation tax, banking corporation tax, and other taxes. The following table sets forth revenues from taxes, other than the real property tax, by category for each of the City's 1992 through 1996 fiscal years.

| | 1992 | 1993(1) | 1994 | 1995 | 1996(2) |
|---|---|---|---|---|---|
| | | | (In Millions) | | |
| Personal Income(3) | $3,223 | $3,451 | $ 3,530 | $ 3,591 | $ 3,861 |
| General Corporation | 964 | 978 | 1,193 | 1,079 | 1,103 |
| Banking Corporation | 310 | 362 | 497 | 250 | 349 |
| Unincorporated Business Income | 340 | 389 | 382 | 379 | 473 |
| Sales | 2,262 | 2,379 | 2,451 | 2,588 | 2,719 |
| Commercial Rent | 649 | 624 | 629 | 624 | 522 |
| Real Property Transfer | 123 | 125 | 149 | 167 | 174 |
| Mortgage Recording | 121 | 118 | 134 | 170 | 151 |
| Utility | 183 | 190 | 208 | 197 | 212 |
| All Other(4) | 561 | 588 | 622 | 593 | 605 |
| Audits | 528 | 519 | 570 | 601 | 647 |
| Total | $9,264 | $9,723 | $10,365 | $10,239 | $10,816 |

(1) A change in certain accounting standards issued by the Governmental Accounting Standards Board applicable to the City resulted in a restatement of the figures for the 1993 fiscal year and the results of operations for the 1993 fiscal year. Such restatement is reflected in the City's audited financial statements for the 1994 fiscal year. For further information concerning such change in accounting standards, see "SECTION VI: FINANCIAL OPERATIONS—1992-1996 Statement of Operations".

(2) Forecast

(3) Personal Income Tax includes $110 million of Criminal Justice Fund revenues in the 1993 fiscal year, $200 million in fiscal year 1994, $167 million in fiscal year 1995 and $185 million in fiscal year 1996.

(4) All Other includes, among others, the stock transfer tax, New York City Off-Track Betting Corporation ("OTB") net revenues, 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 and fees at the Community Colleges, reimbursement to the City from the proceeds of water and sewer rates charged by the New York City Water Board (the "Water Board") for costs of delivery of water and sewer services and paid to the City by the Water Board for its lease interest in the water and sewer

system, rents collected from tenants in City-owned property and from the Port Authority with respect to airports, and the collection of fines. The following table sets forth amounts of miscellaneous revenues for each of the City's 1992 through 1996 fiscal years.

| | 1992 | 1993 | 1994 | 1995 | 1996(1) |
|---|---|---|---|---|---|
| | | | (In Millions) | | |
| Licenses, Permits and Franchises | $ 210 | $ 213 | $ 225 | $ 222 | $ 236 |
| Interest Income | 133 | 87 | 82 | 95 | 107 |
| Charges for Services | 369 | 397 | 389 | 396 | 411 |
| Water and Sewer Payments | 644 | 709 | 718 | 738 | 752 |
| Rental Income | 158 | 162 | 133 | 127 | 132 |
| Fines and Forfeitures | 404 | 380 | 369 | 417 | 422 |
| Other | 316 | 478 | 659 | 722 | 613 |
| Total | $2,234 | $2,426 | $2,575 | $2,717 | $2,673 |

(1) Forecast

Effective on July 1, 1985, fees and charges collected from the users of the water and sewer system of the City became revenues of the Water Board, a public benefit corporation all of the members of which are appointed by the Mayor. The Water Board currently holds a long-term leasehold interest in the water and sewer system pursuant to a lease between the Water Board and the City (the "Lease"). See "SECTION VII: 1997-2000 FINANCIAL PLAN—Long-Term Capital and Financing Program" for information relating to the proposed transfer of title to the water and sewer system to the Water Board which would result in the elimination of the rental payable to the City under the Lease but would not affect the Water Board's obligation to pay, from system revenues, the City's costs of operating and maintaining the system.

Miscellaneous revenues for the 1992 fiscal year include one time collections from audits of $50 million and the sale of mortgages of $35 million. The increase in miscellaneous revenues for the 1993 fiscal year is mainly due to a one time collection from the transfer of surplus funds from the Rehabilitation Mortgage Insurance Corporation amounting to $23 million, a litigation settlement amounting to $46 million and on-going payments from HHC amounting to $161 million. The increase in miscellaneous revenues for the 1994 fiscal year was primarily due to $81 million being made available to the City by the municipal labor unions from surplus funds in the Stabilization Funds to offset the cost of the January 1993 labor settlement. In addition, fire officers and superior police officers agreed to transfer $72 million to the City from the Variable Supplements Fund. Miscellaneous revenues for the 1995 fiscal year include $200 million from the recovery of prior year FICA overpayments and $120 million from the sale of upstate jails to the state of New York. Fiscal year 1996 includes an increase of $170 million resulting from actions at HHC and a one-time collection of $28 million from HFA.

**Unrestricted Intergovernmental 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. In recent years, however, such allocation has been based on prior year levels in lieu of the statutory formula. For a further discussion of unrestricted State aid, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—5. Unrestricted Intergovernmental Aid".

The following table sets forth amounts of unrestricted Federal and State aid received by the City in each of its 1992 through 1996 fiscal years.

| | 1992 | 1993 | 1994 | 1995 | 1996(1) |
|---|---|---|---|---|---|
| | | | (In Millions) | | |
| State Per Capita Aid | $534 | $535 | $300 | $325 | $369 |
| State Shared Taxes(2) | 27 | 8 | 27 | 16 | 16 |
| Other(3) | 265 | 164 | 340 | 262 | 270 |
| Total | $826 | $707 | $667 | $603 | $655 |

(1) Forecast
(2) 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".
(3) Included in the 1992, 1993, 1994, 1995 and 1996 fiscal years are $75 million, $88 million, $105 million, $126 million and $130 million respectively, of aid associated with the partial 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 wholly or partially 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 all or a portion of certain 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 and recent welfare legislation expected to be signed by the President, see "SECTION VII: 1997-2000 FINANCIAL PLAN— Assumptions—*Revenue Assumptions*—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 1992 through 1996 fiscal years.

| | 1992 | 1993 | 1994 | 1995 | 1996(1) |
|---|---|---|---|---|---|
| | | | (In Millions) | | |
| Federal | | | | | |
| JTPA | $ 86 | $ 128 | $ 106 | $ 108 | $ 110 |
| Community Development(2) | 187 | 193 | 264 | 281 | 355 |
| Welfare | 2,108 | 2,111 | 2,321 | 2,318 | 2,540 |
| Education | 744 | 867 | 882 | 857 | 853 |
| Other | 297 | 311 | 387 | 442 | 788 |
| Total | $3,422 | $3,610 | $3,960 | $4,006 | $4,646 |
| State | | | | | |
| Welfare | $1,773 | $1,767 | $1,897 | $1,984 | $1,680 |
| Education | 3,072 | 3,309 | 3,380 | 3,769 | 3,762 |
| Higher Education | 119 | 117 | 134 | 125 | 152 |
| Health and Mental Health | 201 | 189 | 207 | 235 | 256 |
| Other | 270 | 279 | 285 | 317 | 287 |
| Total | $5,435 | $5,661 | $5,903 | $6,430 | $6,137 |

(1) Forecast
(2) 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.

## SECTION V: 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 HFA and the City University Construction Fund ("CUCF"). For information regarding expenditures for City services, see "SECTION VI: FINANCIAL OPERATIONS—1992-1996 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 84% 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 equally by the City and the State.

The Federal government fully funds and 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. New York State law requires that this standard be supplemented with additional payments that vary according to an individual's living arrangement. Since September 30, 1978, the State has assumed responsibility for the entire cost of both the State and City shares of this SSI supplement. State assumption of the City's share has been extended through September 1997.

The City also provides funding for many other social services such as day care, foster care, family planning, services for the elderly and special employment services for welfare recipients some of which are mandated, and may be wholly or partially subsidized, by either the Federal or State government. For further information regarding recent welfare legislation expected to be signed by the President, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—6. Federal and State Categorical Grants".

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 1996-1997 school year is estimated to be 1,085,050. Actual enrollment in fiscal years 1992 through 1996 has been 973,263, 995,465, 1,016,728, 1,034,235 and 1,057,344, respectively. Between fiscal years 1992 and 1996, the percentage of the City's total budget allocated to BOE has remained relatively stable at approximately 25.44%; in fiscal year 1997 the percentage of the City's total budget allocated to BOE is projected to be 26.2%. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Service Costs—*Board of Education*". The City's system of higher education, consisting of its Senior Colleges and Community Colleges, is operated under the supervision of CUNY. The City is projected to provide approximately 30.2% of the costs of the Community Colleges in the 1997 fiscal year. The State has full responsibility for the costs of operating the Senior Colleges, although the City is 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 and a network of neighborhood health centers. 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. On February 23, 1995, the Mayor announced that the City would seek to privatize three of the City's municipal hospitals: Coney Island Hospital, Elmhurst Hospital Center and

Queens Hospital Center. The goal of the privatization initiative is to improve efficiency in the delivery of services while relieving the City of the costs associated with owning and operating the three hospitals. Any lower costs resulting from the privatization of these hospitals are not reflected in the Financial Plan. The City has signed a non-binding Letter of Intent, providing for the leasing of the Coney Island Hospital by a private hospital management corporation, which is subject to negotiation of a definitive agreement and required regulatory approval.

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 reduced the City's share of Medicaid costs in 1983 from its previous level of 25% of the cost of all Medicaid eligible care. 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 Medicaid costs for Federally eligible recipients.

The City's expense budget has increased during the five-year period ended June 30, 1995, due to, among other factors, the costs of labor settlements, the number of full-time City employees, higher mandated costs, including increases in public and medical assistance, and the impact of inflation on various other than personal service 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 1992 through 1996 fiscal years.

| | 1992 | 1993 | 1994 | 1995 | 1996(1) |
|---|---|---|---|---|---|
| Education | 83,863 | 86,981 | 88,639 | 88,340 | 85,945 |
| Police(2)(3) | 41,736 | 42,649 | 45,652 | 43,040 | 43,717 |
| Social Services and Homeless Services | 28,890 | 28,810 | 26,013 | 23,948 | 23,482 |
| City University | 3,516 | 3,682 | 4,071 | 3,579 | 3,576 |
| Environmental Protection and Sanitation | 16,560 | 16,714 | 16,046 | 15,258 | 15,178 |
| Fire(3)(4) | 15,646 | 15,830 | 15,871 | 15,649 | 15,764 |
| All Other | 54,491 | 54,184 | 50,491 | 47,486 | 47,434 |
| Total | 244,702 | 248,850 | 246,783 | 237,300 | 235,096 |

(1) As of May 31, 1996.
(2) Fiscal year 1995 includes the impact of the Transit Authority and Housing Authority Police Department mergers with the NYPD.
(3) For comparison purposes, the previous fiscal years have been restated to include the Transit Authority and Housing Authority Police Departments and EMS.
(4) Fiscal year 1996 includes the impact of the EMS merger with the New York City Fire Department.

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 1991 through 1995 fiscal years.

| | 1992 | 1993 | 1994 | 1995 | 1996(1) |
|---|---|---|---|---|---|
| Transit Authority(2)(3) | 43,622 | 44,388 | 44,949 | 44,954 | 42,925 |
| Housing Authority(2)(3) | 12,518 | 13,698 | 13,837 | 13,820 | 14,033 |
| HHC(3)(4) | 42,423 | 44,445 | 44,195 | 39,243 | 38,587 |
| Total(5) | 98,563 | 102,531 | 102,981 | 98,017 | 95,545 |

(1) As of March 31, 1996.
(2) In fiscal year 1995, the Transit Authority and Housing Authority Police Departments merged with the New York Police Department.
(3) For comparison purposes, the previous fiscal years have been restated to include the Transit Authority and Housing Authority Police Departments and EMS.
(4) In fiscal year 1996, EMS merged with the New York City Fire Department.
(5) 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 for certain awards arrived at through impasse procedures. During a Control Period, and subject to the foregoing exception, the Control Board would be required to disapprove collective bargaining agreements that are inconsistent with the City's current financial plan.

Under applicable law, the City may not make unilateral changes 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 the City's most recently negotiated collective bargaining settlement, as well as assumptions with respect to the cost of future labor settlements and related effects on the 1997-2000 Financial Plan, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—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 "SECTION IX: OTHER INFORMATION—Pension Systems".

**Capital Expenditures**

The City makes substantial capital expenditures to reconstruct, rehabilitate and expand 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, physical assets and capital program, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Long-Term Capital and Financing Program" and "APPENDIX A—ECONOMIC AND SOCIAL FACTORS".

The City utilizes a three-tiered capital planning process consisting of the Ten-Year Capital Strategy (previously, the Ten-Year Capital Plan), the Four-Year Capital Program and the current-year Capital Budget. The Ten-Year Capital Strategy, which is published once every two years in conjunction with the Executive Budget, 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 Capital Budget defines for each fiscal year specific projects and the timing of their initiation, design, construction and completion.

On January 17, 1995, the City published a Preliminary Ten-Year Capital Strategy for fiscal years 1996 through 2005 (the "Preliminary Ten-Year Capital Strategy"). The Preliminary Ten-Year Capital Strategy totaled $45.7 billion, of which approximately 92% would be financed with City funds. On April 27, 1995, the City published the Ten-Year Capital Strategy for fiscal years 1996 through 2005 (the "Ten-Year Capital Strategy"). The Ten-Year Capital Strategy totaled $40.6 billion, of which approximately 92% would be financed with City funds. The Mayor reduced the size of the preliminary capital program by approximately $2.1 billion cumulatively through fiscal year 1999. The reduced program, which is detailed in the Ten-Year Capital Strategy, was implemented to meet the constraint of the forecast level of the State Constitutional limitation on the City's debt incurring powers. See "SECTION VIII: INDEBTEDNESS—City Indebtedness—

*Limitations on the City's Authority to Contract Indebtedness*". Therefore, all programmatic detail currently in the Ten-Year Capital Strategy reflects the reduction, as well as added programmatic needs which may have arisen since the Preliminary Ten-Year Capital Strategy. However, the Ten-Year Capital Strategy does not reflect the additional proposed reduction of capital expenditures recently announced by OMB for the 1997 fiscal year and each of the next three fiscal years. See "SECTION VIII: INDEBTEDNESS— City Indebtedness — *Limitations on the City's Authority to Contract Indebtedness*". The Ten-Year Capital Strategy includes an assumption that the debt service costs relating to $2.8 billion of the educational capital program for the ten-year period will be paid from incremental building aid payments from the State, to which the City will be entitled as a result of the scope of its capital program authorized for educational facilities. This aid requires an annual allocation and appropriation from the State. The Ten-Year Capital Strategy provides $2.1 billion for the Board of Education for fiscal years 1996 through 1999. This represents a 23% reduction from amounts previously allocated to the Board of Education for 1996-1999. The Board of Education must modify its Five-Year Capital Plan to allocate this reduced level of funding. The Ten-Year Capital Strategy also assumes that $200 million of these education commitments will be financed by non-general obligation financed debt. The issuance of this debt will require state legislation. Included in the City's 1997 Adopted Capital Budget is an increase to the Education Capital Plan of $1.39 billion. This amount is planned to be committed by the end of calendar year 2000. It will be used primarily for capital rehabilitation work in school buildings that is necessary to bring the schools to an engineering state of good repair. See "SECTION VII: 1997-2000 FINANCIAL PLAN". The Ten-Year Capital Strategy assumes that approximately $245 million of the City's capital contribution to the MTA for the 1995 fiscal year will be deferred until the 1997 fiscal year. The Ten-Year Capital Strategy also assumes that the Wicks Law will be repealed by the State legislature, and that the City will achieve savings of $1.4 billion over the ten-year period due to increased capital program efficiency once the law is repealed. In a recent session of the State legislature, an attempt to change the Wicks Law to provide municipalities with alternative contracting methods was not successful.

The Ten-Year Capital Strategy includes (i) $9.3 billion to construct new schools and improve existing educational facilities; (ii) $4.2 billion for expanding and upgrading the City's housing stock; (iii) $2.2 billion for reconstruction or resurfacing more than 10,000 lane miles of City streets; (iv) $1.3 billion for continued City-funded investment in mass transit; (v) $4.0 billion for the continued reconstruction and rehabilitation of all four East River bridges and 410 other bridge structures; (vi) $532 million to expand current jail capacity; and (vii) $2.2 billion for construction and improvement of court facilities.

Those programs in the Ten-Year Capital Strategy financed with City funds are currently expected to be funded primarily from the issuance of general obligation bonds and revenue bonds issued by the Infrastructure Finance Authority. Debt service on such bonds is paid out of the City's operating revenues. From time to time in the past, during recessionary periods when operating revenues have come under increasing pressure, capital funding levels have been reduced from those previously contemplated in order to reduce debt service costs. For information concerning the City's long-term financing program for capital expenditures, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Long-Term Capital and Financing Program".

The City's capital expenditures, including expenditures funded by State and Federal grants, totaled $18.6 billion during the 1992 through 1996 fiscal years. City-funded expenditures, which totaled $17.1 billion during the 1992 through 1996 fiscal years, have been financed through the issuance of bonds by the City, the

Water Authority and, commencing in fiscal years 1993 and 1994, respectively, HHC and the Dormitory Authority. The following table summarizes the major categories of capital expenditures in the past five fiscal years.

| | 1992 | 1993 | 1994 | 1995 | 1996(1) | Total |
|---|---|---|---|---|---|---|
| | | | (In Millions) | | | |
| Education | $ 681 | $ 754 | $ 722 | $ 875 | $ 827 | $ 3,859 |
| Environmental Protection | 894 | 746 | 616 | 705 | 744 | 3,705 |
| Transportation | 364 | 341 | 423 | 444 | 504 | 2,076 |
| Transit Authority(2) | 329 | 250 | 221 | 150 | 215 | 1,165 |
| Housing | 639 | 431 | 387 | 292 | 287 | 2,036 |
| Hospitals | 155 | 167 | 163 | 137 | 125 | 747 |
| Sanitation | 153 | 188 | 151 | 114 | 143 | 749 |
| All Other(3) | 678 | 740 | 660 | 958 | 1,254 | 4,290 |
| Total Expenditures(4) | $3,893 | $3,617 | $3,343 | $3,675 | $4,099 | $18,627 |
| City-funded Expenditures(5) | $3,582 | $3,395 | $3,301 | $3,237 | $3,604 | $17,119 |

(1) Forecast

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

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

(4) Total Expenditures for the 1992 through 1996 fiscal years include City, State and Federal funding and represent amounts which include an accrual for work-in-progress. The figures for the 1992 through 1995 fiscal years are derived from the Comprehensive Annual Financial Report of the Comptroller.

(5) City-funded Expenditures do not include accruals, but represent actual cash expenditures occurring during the fiscal year.

In January 1996, the City issued a condition assessment and a proposed maintenance schedule for 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. For information concerning a report which sets forth the recommended capital investment to bring certain identified assets of the City to a state of good repair, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Long-Term Capital and Financing Program".

## SECTION VI: FINANCIAL OPERATIONS

The City's General Purpose Financial Statements and the auditors' opinion thereon are presented in "APPENDIX B—FINANCIAL STATEMENTS". Further details are set forth in the Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 1995, which is available for inspection at the Office of the Comptroller. For a summary of the City's significant accounting policies, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A". For a summary of the City's operating results for the previous five fiscal years, see "SECTION VI: FINANCIAL OPERATIONS—1992-1996 Statement of Operations". The information contained in the Official Statement regarding the City's 1996 fiscal year is unaudited and is the current financial plan forecast for the 1996 fiscal year. See "SECTION VI: FINANCIAL OPERATIONS—Forecast of 1996 Results". The City's operating results for the fiscal year which ended June 30, 1996 will not be finalized until audited results are available at the end of October 1996. However, included in the City's forecast of expenditures for the 1996 fiscal year is an unallocated General Reserve of $40 million. The City believes that this reserve should be adequate to provide for any year-end adjustments and would form the basis for a GAAP surplus for the General Fund for the City's 1996 fiscal year.

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 1996 results or the Financial Plan.

The estimates and projections contained in this Section 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 based upon numerous assumptions and are subject to certain contingencies and periodic revisions which may involve substantial change. Consequently, the City makes no representation or warranty that these estimates and projections will be realized.

**1992-1996 Statement of Operations**

The following table sets forth the City's results of operations for its 1992 through 1995 fiscal years and the forecasted results for the 1996 fiscal year reported in accordance with GAAP.

The information contained in this table regarding the City's 1996 fiscal year is unaudited and is the current financial plan forecast for the 1996 fiscal year. See "SECTION VI: FINANCIAL OPERATIONS—Forecast of 1996 Results". The City's operating results for fiscal year 1996 will not be finalized until audited results are available at the end of October 1996. However, included in the City's forecast of expenditures for the 1996 fiscal year is an unallocated General Reserve of $40 million. The City believes that this reserve should be adequate to provide for any year-end adjustments and would form the basis for a GAAP surplus for the General Fund for the City's 1996 fiscal year.

The information regarding the 1992 through 1995 fiscal years 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 1994 and 1995 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS". The 1992 through 1993 financial statements are not separately presented in this Official Statement. For further information regarding the City's revenues and expenditures, see "SECTION IV: SOURCES OF CITY REVENUES" and "SECTION V: CITY SERVICES AND EXPENDITURES".

| | Fiscal Year(1) | | | | |
|---|---|---|---|---|---|
| | Actual | | | | (Forecast) |
| | 1992 | 1993 | 1994(2) | 1995 | 1996 |
| | (In Millions) | | | | |
| Revenues and Transfers | | | | | |
| Real Estate Tax(3) | $ 7,818 | $ 7,886 | $ 7,773 | $ 7,474 | $ 7,299 |
| Other Taxes(4) | 9,264 | 9,723 | 10,365 | 10,239 | 10,816 |
| Miscellaneous Revenues | 2,234 | 2,426 | 2,575 | 2,717 | 2,673 |
| Other Categorical Grants | 95 | 129 | 128 | 143 | 327 |
| Unrestricted Federal and State Aid | 826 | 707 | 667 | 603 | 655 |
| Federal Categorical Grants | 3,422 | 3,610 | 3,960 | 4,006 | 4,646 |
| State Categorical Grants | 5,435 | 5,661 | 5,903 | 6,430 | 6,137 |
| Less: Disallowances Against Categorical Grants | (72) | (26) | (19) | (21) | (15) |
| Total Revenues and Transfers | $29,022 | $30,116 | $31,352 | $31,591 | $32,538 |
| Expenditures and Transfers | | | | | |
| Social Services | $ 7,108 | $ 7,430 | $ 8,030 | $ 8,112 | $ 8,200 |
| Board of Education | 6,626 | 7,213 | 7,561 | 7,863 | 7,793 |
| City University | 458 | 571 | 353 | 348 | 389 |
| Public Safety and Judicial | 3,586 | 3,759 | 3,846 | 4,121 | 4,447 |
| Health Services | 1,276 | 1,452 | 1,620 | 1,737 | 1,932 |
| Pensions | 1,370 | 1,427 | 1,274 | 1,273 | 1,322 |
| Debt Service(4) | 2,502 | 2,103 | 2,136 | 2,320 | 2,567 |
| MAC Debt Service Funding(4) | 540 | 370 | 354 | 29 | 132 |
| All Other | 5,552 | 5,827 | 6,173 | 5,783 | 5,756 |
| Total Expenditures and Transfers | $29,018 | $30,152 | $31,347 | $31,586 | $32,538 |
| Surplus(5) | $ 4 | $ (36) | $ 5 | $ 5 | $ 0 |

(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 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 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 "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A".

(2) In October, 1993, the City reported a General Fund operating surplus of $5,079,000 for the 1993 fiscal year as reported in accordance with then applicable GAAP. The City has been required to restate its fiscal year 1993 financial statements because the City has implemented for the 1994 fiscal year Governmental Accounting Standards Board ("GASB") Statement Number 22, which provides for a change in the method of recognizing certain tax receipts. For purposes of presenting comparative financial statements for the 1994 fiscal year, the City was required to restate the fiscal year 1993 financial statements as if the Statement were adopted in fiscal year 1993. Accordingly, for purposes of presenting fiscal year 1993 financial statements on a comparative basis, the opening fund balance of fiscal year 1993 was restated from $82,974,000 to $311,435,000 and the surplus for the 1993 fiscal year was restated from $5,079,000 to $(36,025,000).

(3) Real Estate Tax for the 1992, 1993, 1994, 1995 and 1996 fiscal years includes $131 million, $128 million, $147.5 million, $147 million and $150 million, respectively, of Criminal Justice Fund revenues. Real Estate Tax for fiscal years 1994, 1995, and 1996 also includes $201 million and $223 million from the sale of the City's delinquent tax receivables outstanding as of May 31, 1994 and April 1, 1995, and $182 million from the sale of real property tax liens, respectively.

(4) 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, reserve fund requirements and for operating expenses. 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, payments by the City of debt service on City obligations held by MAC. Other Taxes include transfers of net OTB revenues. Other Taxes for the 1992 fiscal year includes $1.5 million of Criminal Justice Fund revenues from the City lottery. For further information regarding the City's revenues from Other Taxes, see "SECTION IV: SOURCES OF CITY REVENUES—Other Taxes".

(5) The General Fund surplus is the surplus after discretionary transfers and expenditures. The City had General Fund operating surpluses of $71 million, $72 million, $371 million and $570 million before discretionary transfers and expenditures for the 1995, 1994, 1993 and 1992 fiscal years, respectively. The Financial Plan projects a discretionary transfer of $243 million for the 1996 fiscal year.

**Forecast of 1996 Results**

The following table compares the forecast for the 1996 fiscal year contained in the financial plan submitted to the Control Board on July 11, 1995 (the "July 1995 Forecast") with the 1996 Modification submitted to the Control Board on June 21, 1996 (the "June 1996 Forecast"). These forecasts were prepared on a basis consistent with GAAP. This table should be read in conjunction with the "Actions to Close the Gaps" and "Assumptions" below. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS".

| | July 1995 Forecast | June 1996 Forecast | Increase (Decrease) from July 1995 Forecast |
|---|---|---|---|
| | | (In Millions) | |
| REVENUES | | | |
| Taxes | | | |
| General Property Tax | $ 7,124 | $ 7,149 | $ 25 (1) |
| Other Taxes | 9,820 | 9,984 | 164 (2) |
| Tax Audit Revenue | 653 | 647 | (6) |
| Criminal Justice Fund | 335 | 335 | 0 |
| Miscellaneous Revenues | 3,534 | 3,317 | (217)(3) |
| Unrestricted Intergovernmental Aid | 549 | 655 | 106 |
| Anticipated State Actions | 50 | 0 | (50) |
| Anticipated Federal Actions | 75 | 0 | (75) |
| Other Categorical Grants | 145 | 327 | 182 (4) |
| Inter-Fund Revenues | 257 | 240 | (17) |
| Less: Intra-City Revenues | (667) | (644) | 23 |
| Disallowances Against Categorical Grants | (15) | (15) | 0 |
| Total City Funds | $21,860 | $21,995 | $ 135 |
| Federal Categorical Grants | 3,670 | 4,646 | 976 (4) |
| State Categorical Grants | 5,930 | 6,137 | 207 (4) |
| Total Revenues | $31,460 | $32,778 | $1,318 |
| EXPENDITURES | | | |
| Personal Service | $15,679 | $16,214 | $ 535 (5) |
| Other Than Personal Service | 13,367 | 14,469 | 1,102 (6) |
| Debt Service | 2,604 | 2,567 | (37)(7) |
| MAC Debt Service Funding | 277 | 132 | (145) |
| General Reserve | 200 | 40 | (160) |
| | $32,127 | $33,422 | $1,295 |
| Less: Intra-City Expenses | (667) | (644) | 23 |
| Total Expenditures | $31,460 | $32,778 | $1,318 |
| GAP TO BE CLOSED | $ 0 | $ 0 | $ 0 |

(1) The forecasted increase in the property tax results from an increase in proceeds from the tax lien sale and from payments resulting from published notices of the City's intention to sell tax liens.

(2) The forecasted increase in Other Taxes is primarily due to a projected increase in the personal income tax of $85 million, a projected increase in the general corporation tax of $6 million, a projected increase in the banking corporation tax of $42 million, projected increases in the unincorporated business tax and the sales tax of $58 million and $6 million, respectively, and a projected increase of $23 million in the utility and all other tax revenues. Offsetting these increases are projected decreases in the commercial rent tax of $26 million, and $30 million in the mortgage recording and real property transfer taxes.

(3) The decrease in Miscellaneous Revenues is primarily due to a delay in the sale of the Water and Sewer system offset by increases in various other revenue sources.

(4) The increase in Federal, State and Other Categorical Grants is due in part to modifications to such grants that were processed from July 1995 to March 1996 as well as adjustments to the expenditure forecast.

(5) The increase in the Personal Service forecast is substantially due to budget modifications processed from July 1995 to March 1996, reallocation and timing of transitional labor savings of $124 million, re-estimates of employee health insurance costs of $100 million offset by pension savings and other adjustments to the expenditure forecast.

(6) The increase in the Other Than Personal Service forecast is due in part to budget modifications that have been processed since July 1995 and adjustments to the expenditure forecast offset by various reduction programs that have been implemented since the July 1995 Forecast.

(7) The decrease in Debt Service costs is due primarily to $137 million in refunding savings, asset sales of $258 million, savings in short-term interest of $16 million, offset by a restoration of Debt Service appropriation for water and sewer debt of $154 million, other Debt Service increases of $65 million and an accrual in 1996 of $155 million for discretionary adjustments in Debt Service payments between the 1996 and 1997 fiscal years.

## SECTION VII: 1997-2000 FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 1997 through 2000 fiscal years as contained in the 1997-2000 Financial Plan. This table should be read in conjunction with the accompanying notes, "Actions to Close the Gaps" and "Assumptions", below. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS".

| | 1997-2000 Fiscal Years(1)(2) | | | |
|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 |
| | (In Millions) | | | |
| REVENUES | | | | |
| Taxes | | | | |
| General Property Tax(3) | $ 7,088 | $ 7,244 | $ 7,469 | $ 7,752 |
| Other Taxes(4) | 10,407 | 10,837 | 11,352 | 11,897 |
| Tax Audit Revenue | 659 | 659 | 659 | 659 |
| Tax Reduction Program(5) | (25) | (188) | (366) | (432) |
| Miscellaneous Revenues | 4,468 | 3,549 | 3,117 | 2,894 |
| Unrestricted Intergovernmental Aid | 523 | 510 | 509 | 513 |
| Anticipated State Actions | 50 | — | — | — |
| Other Categorical Grants | 293 | 275 | 281 | 280 |
| Inter-Fund Revenues(6) | 260 | 260 | 258 | 256 |
| Less: Intra-City Revenues | (647) | (647) | (646) | (644) |
| Disallowances Against Categorical Grants | (15) | (15) | (15) | (15) |
| Total City Funds | $23,061 | $22,484 | $22,618 | $23,160 |
| Federal Categorical Grants | 3,771 | 3,600 | 3,586 | 3,582 |
| State Categorical Grants | 6,149 | 6,071 | 6,106 | 6,087 |
| Total Revenues | $32,981 | $32,155 | $32,310 | $32,829 |
| EXPENDITURES | | | | |
| Personal Service(7) | $16,237 | $16,813 | $17,612 | $18,812 |
| Other Than Personal Service | 14,128 | 14,064 | 14,256 | 14,271 |
| Debt Service(4) | 2,735 | 3,015 | 3,124 | 3,241 |
| MAC Debt Service Funding(4) | 328 | 394 | 423 | 370 |
| General Reserve | 200 | 200 | 200 | 200 |
| Total Expenditures | $33,628 | $34,486 | $35,615 | $36,894 |
| Less: Intra-City Expenses | (647) | (647) | (646) | (644) |
| Net Total Expenditures | $32,981 | $33,839 | $34,969 | $36,250 |
| GAP TO BE CLOSED | $ 0 | (1,684) | ($2,659) | ($3,421) |
| CITY GAP-CLOSING PROGRAM | $ 0 | $ 1,684 | $ 2,659 | $ 3,421 |

(1) The four-year financial plan for the 1996 through 1999 fiscal years, as submitted to the Control Board on July 11, 1995, contained the following projections for the 1996-1999 fiscal years; (i) for 1996, total revenues of $31.460 billion and total expenditures of $31.460 billion; (ii) for 1997, total revenues of $31.620 billion and total expenditures of $32.508 billion, with a gap to be closed of $.888 billion; (iii) for 1998, total revenues of $32.055 billion and total expenditures of $33.514 billion, with a gap to be closed of $1.459 billion; (iv) for 1999, total revenues of $32.906 billion and total expenditures of $34.344 billion with a gap to be closed of $1.438 billion.

The four-year financial plan for the 1995 through 1998 fiscal years, as submitted to the Control Board on July 8, 1994, contained the following projections for the 1995-1998 fiscal years: (i) for 1995, total revenues of $31.635 billion and total expenditures of $31.365 billion; (ii) for 1996, total revenues of $31.561 billion and total expenditures of $33.026 billion with a gap to be closed of $1.465 billion; (iii) for 1997, total revenues of $31.922 billion and total expenditures of $33.913 billion with a gap to be closed of $1.991 billion; and (iv) for 1998, total revenues of $32.582 billion and total expenditures of $35.002 billion with a gap to be closed of $2.420 billion.

The four-year financial plan for the 1994 through 1997 years, as submitted to the Control Board on August 30, 1993, contained the following projections for the 1994-1997 fiscal years: (i) for 1994, total revenues of $31.247 billion and total expenditures of $31.247 billion; (ii) for 1995, total revenues of $31.141 billion and total expenditures of $32.416 billion, with a gap to be closed of $1.275 billion; (iii) for 1996, total revenues of $31.986 billion and total expenditures of $33.756 billion, with a gap to be closed of $1.770 billion; (iv) for 1997, total revenues of $32.831 billion and total expenditures of $34.756 billion with a gap to be closed of $2.022 billion.

*(footnotes continued on next page)*

*(footnotes continued from previous page)*

(2) The Financial Plan combines the operating revenues and expenditures of the City, 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 Covered Organizations and PBCs which provide governmental services to the City, such as the Transit Authority, are separately constituted and their revenues (other than net OTB revenues), are not included in the Financial Plan; 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) Includes $55 million, $40 million, $30 million, and $25 million for the sale of real property tax liens in fiscal years 1997-2000, respectively, and property tax relief for owners of condominiums and co-operatives totaling $8.5 million in the 1997 fiscal year, $70 million in the 1998 fiscal year, $120 million in the 1999 fiscal year and $175 million in fiscal year 2000.

(4) 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, reserve fund requirements and operating expenses. 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. Other Taxes include transfers of net OTB revenues. This also includes the extension of the 12½% personal income tax surcharge through tax year 2000.

(5) Tax Reduction Program includes reform of the business taxes, a further reduction of the commercial rent tax rate, exemption of certain intra-family transfers of real property from the real property transfer tax, and elimination of the vault charge and the tax on coin operated amusement devices, totaling $25 million in the 1997 fiscal year, $188 million in the 1998 fiscal year, $366 million in the 1999 fiscal year and $432 million in fiscal year 2000.

(6) 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.

(7) For an explanation of projected expenditures for personal service costs, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. PERSONAL SERVICE COSTS".

Various actions proposed in the Financial Plan are uncertain. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS". If these measures cannot be implemented, the City will be required to take other actions to decrease expenditures or increase revenues to maintain a balanced financial plan. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Certain Reports", "—Assumptions".

**Actions to Close the Gaps**

In connection with the Financial Plan, the City has outlined a gap-closing program for the 1998 through 2000 fiscal years to substantially reduce the remaining $1.7 billion, $2.7 billion and $3.4 billion projected budget gaps for such fiscal years. This program, which is not specified in detail, assumes additional agency programs to reduce expenditures or increase revenues by $674 million, $959 million and $1.1 billion in the 1998 through 2000 fiscal years, respectively; additional reductions in entitlement cost of $400 million, $750 million and $1.0 billion in the 1998 through 2000 fiscal years, respectively; additional savings of $250 million, $300 million and $500 million in the 1998 through 2000 fiscal years, respectively, resulting from restructuring City government by consolidating operations, privatization and mandate management and other initiatives; additional proposed Federal and State aid of $105 million, $200 million and $300 million in the 1998 through 2000 fiscal years, respectively; additional revenue initiatives and asset sales of $155 million, $350 million and $400 million in the 1998 through 2000 fiscal years, respectively; and the availability in each of the 1998 through 2000 fiscal years of $100 million of the General Reserve.

The City's projected budget gaps for the 1999 and 2000 fiscal years do not reflect the savings expected to result from prior years' programs to close the gaps set forth in the Financial Plan. Thus, for example, recurring savings anticipated from the actions which the City proposes to take to balance the fiscal year 1998 budget are not taken into account in projecting the budget gaps for the 1999 and 2000 fiscal years.

Although the City has maintained balanced budgets in each of its last fifteen fiscal years, and is projected to achieve balanced operating results for the 1996 fiscal year, there can be no assurance that the gap-closing actions proposed in the Financial Plan can be successfully implemented or 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 1997-2000 Financial Plan is based on numerous assumptions, including the condition of the City's and the region's economy and a modest employment recovery and the concomitant receipt of economically sensitive tax revenues in the amounts projected. The 1997-2000 Financial Plan is subject to various other

uncertainties and contingencies relating to, among other factors, the extent, if any, to which wage increases for City employees exceed the annual wage costs assumed for the 1997 through 2000 fiscal years; continuation of projected interest earnings assumptions for pension fund assets and current assumptions with respect to wages for City employees affecting the City's required pension fund contributions; the willingness and ability of the State, in the context of the State's current financial condition, to provide the aid contemplated by the Financial Plan and to take various other actions to assist the City; the ability of HHC, BOE and other such agencies to maintain balanced budgets; the willingness of the Federal government to provide the amount of Federal aid contemplated in the Financial Plan; adoption of the City's budgets by the City Council in substantially the forms submitted by the Mayor; the ability of the City to implement proposed reductions in City personnel and other cost reduction initiatives, and the success with which the City controls expenditures; the impact of conditions in the real estate market on real estate tax revenues; the City's ability to market its securities successfully in the public credit markets; and unanticipated expenditures that may be incurred as a result of the need to maintain the City's infrastructure. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS". Certain of these assumptions have been questioned by the City Comptroller and other public officials. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Certain Reports".

The State's budget for the State's 1996-97 fiscal year, commencing on April 1, 1996, was enacted by the Legislature on July 13, 1996. The State Financial Plan for the 1996-97 fiscal year was formulated on July 25, 1996 and is based on the State's budget as enacted by the Legislature and signed into law by the Governor, as well as actual results for the first quarter of the current fiscal year. The 1996-97 State Financial Plan will be updated in October and January. The 1996-97 State Financial Plan is projected to be balanced on a cash basis. Total General Fund receipts and transfers from other funds are projected to be $33.17 billion, while total General Fund disbursements and transfers to other funds are projected to be $33.12 billion. After adjustments for comparability, the adopted 1996-97 budget projects a year-over-year increase in General Fund disbursements of 0.2 percent. As compared to the Governor's proposed budget as revised on March 20, 1996, the State's adopted budget for 1996-97 increases General Fund spending by $842 million, primarily from increases for education, special education and higher education ($563 million). Resources used to fund these additional expenditures include $540 million in increased revenues projected for 1996-97 based on higher than projected tax collections during the first half of calendar 1996, $110 million in projected receipts from a new State tax amnesty program, and other resources including certain non-recurring resources.

The economic and financial condition of the State may be affected by various financial, social, economic and political factors. Those factors can be very complex, may vary from fiscal year to fiscal year, and are frequently the result of actions taken not only by the State and its agencies and instrumentalities, but also by entities, such as the Federal government, that are not under the control of the State. In addition, the State Financial Plan is based upon forecasts of national and State economic activity. Economic forecasts have frequently failed to predict accurately the timing and magnitude of changes in the national and the State economies. Many uncertainties exist in forecasts of both the national and State economies, including consumer attitudes toward spending, the extent of corporate and governmental restructuring, Federal fiscal and monetary policies, the level of interest rates, and the condition of the world economy, which could have an adverse effect on the State. Actual results could differ materially and adversely from projections and those projections may be changed materially and adversely from time to time.

The 1996-97 State Financial Plan includes actions that will have an effect on the budget outlook for State fiscal year 1996-97 and beyond. The State Division of the Budget estimates that the 1996-97 State Financial Plan contains actions that provide non-recurring resources or savings totaling approximately $1.3 billion, or 3.9% of total General Fund receipts. These include the use of $481 million in surplus funds available from the Medical Malpractice Insurance Association, $134 million in savings from a refinancing of certain pension obligations, $88 million in projected savings from bond refundings, and $36 million in surplus fund transfers. The balance is composed of $314 million in resources carried forward from the State's 1995-96 fiscal year and various other actions, including that portion of the proposed tax amnesty program that is projected to be non-recurring.

The State closed projected budget gaps of $5.0 billion and $3.9 billion for its 1995-96 and 1996-97 fiscal years, respectively. The 1997-98 gap was projected at $1.44 billion, based on the Governor's proposed budget of December 1995. As a result of changes made in the enacted budget, that gap is now expected to be larger.

However, the gap is not expected to be as large as those faced in the prior two fiscal years. The Governor has indicated that he will propose to close any potential imbalance primarily through General Fund expenditure reductions and without increases in taxes or deferrals of scheduled tax reductions.

The out-year projection will be impacted by a variety of factors. Enacted tax reductions, which reduced receipts in the 1996-97 State fiscal year by an incremental $2.4 billion, are projected to reduce receipts in the 1997-98 State fiscal year by an additional increment of $2.1 billion. The use of up to $1.3 billion of non-recurring resources in 1996-97, and the annualized costs of certain program increases in the 1996-97 enacted budget, will both add additional pressure in closing the 1997-98 gap. However, actions undertaken in the State's 1996-97 fiscal year, such as workforce reductions, health care and education reforms, and strict controls on State agency spending, are expected to provide larger recurring savings in State fiscal year 1997-98. Sustained growth in the State's economy and continued declines in welfare caseload and Medicaid costs would produce additional savings in the 1997-98 Financial Plan. Finally, future federal reforms of welfare and/or Medicaid could potentially provide savings to the State in State fiscal year 1997-98.

Congress has recently passed the Personal Responsibility and Work Opportunity Reconciliation Act which makes significant changes to current welfare programs that could impact the State's out-year projections. The Governor has appointed a task force to consider the impact of this Legislation on the State. See Section VII: 1997-2000 FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—6. Federal and State Categorical Grants".

In recent years, State actions affecting the level of receipts and disbursements, the relative strength of the State and regional economy, actions of the Federal government and other factors have created structural budget gaps for the State. These gaps resulted from a significant disparity between recurring revenues and the costs of maintaining or increasing the level of support for State programs. To address a potential imbalance in any given fiscal year, the State would be required to take actions to increase receipts and/or reduce disbursements as it enacts the budget for that year, and under the State Constitution, the Governor is required to propose a balanced budget each year. There can be no assurance, however, that the Legislature will enact the Governor's proposals or that the State's actions will be sufficient to preserve budgetary balance in a given fiscal year or to align recurring receipts and disbursements in future fiscal years.

In recent years, the State has failed to adopt a budget prior to the beginning of its fiscal year. A delay in the adoption of the State's budget beyond the statutory April 1 deadline could delay the projected receipt by the City of State aid, and there can be no assurance that State budgets in future fiscal years will be adopted by the April 1 statutory deadline.

The State's Annual Information Statement, updates and any supplements may be obtained by contacting the Division of the Budget, State Capitol, Albany, New York 12224, Tel.: (518) 473-8705.

On January 13, 1992, Standard & Poor's reduced its ratings on the State's general obligation bonds from A to A− and, in addition, reduced its ratings on the State's moral obligation, lease purchase, guaranteed and contractual obligation debt. Standard & Poor's also continued its negative rating outlook assessment on State general obligation debt. On April 26, 1993, Standard & Poor's revised the rating outlook assessment to stable. On February 14, 1994, Standard & Poor's raised its outlook to positive and, on October 3, 1995, confirmed its A- rating. On January 6, 1992, Moody's reduced its ratings on outstanding limited-liability State lease purchase and contractual obligations from A to Baa1. On October 2, 1995, Moody's reconfirmed its A rating on the State's general obligation long-term indebtedness.

The projections and assumptions contained in the 1997-2000 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 May 1996. For information regarding certain recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS".

*Revenue Assumptions*

1. GENERAL ECONOMIC CONDITIONS

The Financial Plan assumes that after noticeable improvements in the City's economy during calendar year 1994 and a slowing of economic growth in calendar year 1995, economic growth will continue to slow in calendar year 1996, with local employment increasing modestly through fiscal year 2000. This assumption is based on continuing stable monetary policy and progress on Federal deficit reduction. However, there can be no assurance that the economic projections assumed in the Financial Plan will occur or that the tax revenues projected in the Financial Plan to be received will be received in the amounts anticipated.

The following table presents a forecast of the key economic indicators for the calendar years 1996 through 2000. This forecast is based upon information available in May 1996.

FORECAST OF KEY ECONOMIC INDICATORS

| | Calendar Years | | | | |
|---|---|---|---|---|---|
| **U.S. ECONOMY** | **1996** | **1997** | **1998** | **1999** | **2000** |
| *Economic Activity and Income* | | | | | |
| Real GDP (billions of 1992 dollars) | 6,879.5 | 7,019.1 | 7,183.0 | 7,364.6 | 7,524.9 |
| Percent Change | 2.1 | 2.0 | 2.3 | 2.5 | 2.2 |
| Pre-tax Corporate Profits ($ billions) | 623.6 | 644.8 | 664.8 | 694.7 | 746.1 |
| Percent Change | 3.8 | 3.4 | 3.1 | 4.5 | 7.4 |
| Personal Income ($ billions) | 6,383.9 | 6,681.8 | 7,005.9 | 7,374.1 | 7,760.3 |
| Percent Change | 4.6 | 4.7 | 4.9 | 5.3 | 5.2 |
| Non-Agricultural Employment (millions) | 118.2 | 119.3 | 120.9 | 123.0 | 125.0 |
| Change From Prior Year | 1.6 | 1.1 | 1.7 | 2.0 | 2.0 |
| Unemployment Rate | 5.7 | 5.8 | 5.7 | 5.5 | 5.4 |
| CPI-All Urban (1982-84=100) | 156.7 | 161.0 | 165.6 | 170.6 | 175.9 |
| Percent Change | 2.8 | 2.7 | 2.9 | 3.0 | 3.1 |
| Federal Funds Rate | 5.3 | 5.4 | 5.5 | 5.5 | 5.5 |
| **NEW YORK CITY ECONOMY** | | | | | |
| Personal Income ($ billions) | 228.4 | 237.9 | 247.6 | 258.3 | 269.5 |
| Percent Change | 5.1 | 4.1 | 4.1 | 4.3 | 4.3 |
| Non-Agricultural Employment (thousands) | 3,333.7 | 3,357.8 | 3,375.4 | 3,398.9 | 3,414.6 |
| Change From Prior Year | 15.6 | 24.1 | 17.6 | 23.5 | 15.7 |
| Real Gross City Product (billions of 1992 dollars) | 310.4 | 315.8 | 321.8 | 328.6 | 334.5 |
| Percent Change | 3.7 | 1.7 | 1.9 | 2.1 | 1.8 |
| CPI-All Urban NY-NJ Area (1982-84=100) | 166.9 | 171.4 | 176.4 | 181.6 | 187.2 |
| Percent Change | 2.9 | 2.7 | 2.9 | 3.0 | 3.1 |

SOURCE: OMB 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, assumptions relating to 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 the operating limit. See "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax".

The delinquency rate for the 1995 fiscal year was 4.84% and is projected to be 4.9% for the 1996 fiscal year. The 1997-2000 Financial Plan project delinquency rates of 4.7%, 4.5%, 4.4% and 4.3%, respectively, for the 1997 through 2000 fiscal years. For information concerning the delinquency rates for prior years, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Collection of the Real Estate Tax*". For a description of proceedings seeking real estate tax refunds from the City, see "SECTION IX: OTHER INFORMATION—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 1997-2000 Financial Plan. The amounts set forth below include projected tax program revenues and excludes the Criminal Justice Fund and audit revenues.

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| | | (In Millions) | | |
| Personal Income(1) | $ 4,001 | $ 4,206 | $ 4,441 | $ 4,688 |
| General Corporation | 1,132 | 1,128 | 1,130 | 1,148 |
| Banking Corporation | 364 | 371 | 387 | 396 |
| Unincorporated Business Income | 501 | 546 | 608 | 680 |
| Sales | 2,830 | 2,954 | 3,083 | 3,217 |
| Commercial Rent | 398 | 405 | 424 | 444 |
| Real Property Transfer | 196 | 209 | 224 | 234 |
| Mortgage Recording | 164 | 174 | 186 | 198 |
| Utility | 217 | 222 | 226 | 230 |
| All Other(2) | 604 | 623 | 643 | 662 |
| Total | $10,407 | $10,838 | $11,352 | $11,897 |

(1) Personal Income includes revenues which would be generated by extension of the 14% personal income tax surcharge beyond calendar year 1997 and extension of the 12.5% personal income tax surcharge beyond calendar year 1996, resulting in revenues aggregating to $171 million, $555 million, $902 million and $954 million in the 1997, 1998, 1999 and 2000 fiscal years, respectively, and the Personal Income projections assume renewal of both surcharges, which requires enactment of State legislation.

(2) All Other includes, among others, stock transfer tax, the OTB net revenues, cigarette, beer and liquor taxes, the hotel tax and the automobile use tax. Stock transfer tax is $114 million in each of the 1997 through 2000 fiscal years.

The 1997-2000 Financial Plan reflects the following assumptions regarding projected baseline revenues from Other Taxes: (i) with respect to personal income tax revenues, growth in income in fiscal year 1997 due in part to slowing growth in profits on Wall Street and wage growth in fiscal year 1997, and no change in the Federal tax treatment of capital gains; (ii) with respect to the general corporation tax, slowing growth in the outlook for the manufacturing, trade and business service sectors, and in securities industry payments in fiscal year 1997 and subsequent years, and the impact of limited liability company legislation which will reduce the number of corporate entities over time; (iii) with respect to the banking corporation tax, modest growth in liability estimates reflecting a slowdown in securities activities and loan growth; (iv) with respect to the unincorporated business tax, an increase in the number of business entities subject to this tax as a result of the impact of limited liability companies; (v) with respect to the sales tax, moderate economic growth in fiscal year 1997 and improved wage income starting in fiscal year 1998; (vi) with respect to the mortgage recording and real property transfer taxes, moderate growth in the 1997 fiscal year reflecting improved affordability in the residential market, and growth in asking rents and declines in vacancy rates in the commercial market and an improved local economy; (vii) with respect to the commercial rent tax, slightly improved occupancy and higher rentals but growth in revenue more than offset in fiscal year 1997 due to increases in the exemption threshhold, elimination of the tax outside Manhattan, and a 25% reduction in the tax in Manhattan; and (viii) with respect to the All Other category, the current general economic forecast. The 1997-2000 Financial Plan also assumes the timely extension by the State Legislature of the current rate structures for the non-resident earnings tax, for the resident personal income tax, for the general corporation tax, for the two special sales taxes and for the cigarette tax. Legislation extending these taxes to December 31, 1997 has been enacted.

4. MISCELLANEOUS REVENUES

The following table sets forth amounts of miscellaneous revenues projected to be received by the City in the 1997-2000 Financial Plan.

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| | | (In Millions) | | |
| Licenses, Permits and Franchises | $ 246 | $ 246 | $ 246 | $ 247 |
| Interest Income | 76 | 77 | 77 | 76 |
| Charges for Services | 402 | 401 | 402 | 402 |
| Water and Sewer Payments(1) | 642 | 633 | 626 | 624 |
| Rental Income | 451 | 351 | 166 | 166 |
| Fines and Forfeitures | 528 | 494 | 491 | 483 |
| Other | 1,476 | 700 | 463 | 252 |
| Intra-City Revenues | 647 | 647 | 646 | 644 |
| Total | $4,468 | $3,549 | $3,117 | $2,894 |

(1) Received from the Water Board. For further information regarding the Water Board, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Long-Term Capital and Financing Program".

The 1997-2000 Financial Plan projects that aggregate miscellaneous revenues categories will remain relatively stable with offsetting increases and declines. Rental Income in the 1997 and 1998 fiscal years includes $270 million and $180 million from the Port Authority as rent payments for the City's airports, which is currently the subject of a dispute with the Port Authority. Other revenues in the 1997 fiscal year include, $607 million from the sale of the water and sewer system to the New York City Water Board, a $250 million payment to the City from the MTA and $207 million for the sale of WNYC. Other revenues in the 1998 fiscal year include a $200 million payment to the City from the MTA. For a description of the proposed sale of the City's water and sewer system, see "SECTION VII: 1997-2000 FINANCIAL PLAN—Long-Term Capital and Financing Program".

5. UNRESTRICTED INTERGOVERNMENTAL AID

The following table sets forth amounts of unrestricted intergovernmental aid projected to be received by the City in the 1997-2000 Financial Plan.

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| | | (In Millions) | | |
| State Revenue Sharing | $315 | $315 | $315 | $315 |
| Other Aid | 208 | 195 | 194 | 198 |
| Total | $523 | $510 | $509 | $513 |

The "Other Aid" category mainly consists of $7 million annually of the Consolidated Local Highway Assistance Program aid, approximately $133 to $142 million from aid associated with the State takeover of long-term care Medicaid costs, $20 million in 1997 of recoupment for welfare clients who were originally denied disability assistance and $35 million annually from New York State fraud audits.

The receipt of State Revenue Sharing funds could be affected by potential prior claims asserted by the State. For information concerning recent shortfalls in projected State tax revenues and the possible impact on State aid to the City, see "SECTION VII: 1997-2000 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 1997-2000 Financial Plan.

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| | | (In Millions) | | |
| Federal | | | | |
| JTPA | $ 84 | $ 84 | $ 84 | $ 84 |
| Community Development(1) | 281 | 277 | 277 | 277 |
| Welfare | 2,335 | 2,247 | 2,228 | 2,220 |
| Education | 775 | 767 | 767 | 767 |
| Other | 296 | 225 | 230 | 234 |
| Total | $3,771 | $3,600 | $3,586 | $3,582 |
| State | | | | |
| Welfare | $1,689 | $1,611 | $1,587 | $1,581 |
| Education | 3,777 | 3,787 | 3,835 | 3,842 |
| Higher Education | 154 | 155 | 155 | 155 |
| Health and Mental Health | 267 | 266 | 266 | 245 |
| Other | 262 | 252 | 263 | 264 |
| Total | $6,149 | $6,071 | $6,106 | $6,087 |

(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 1997-2000 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 "SECTION VII: 1997-2000 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 May 31, 1996, approximately 12.72% 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, possible disallowances and possible prior claims 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. It may be legally possible for substantial disallowances of aid claims to be asserted during the course of the 1997-2000 Financial Plan. The amounts of such disallowances attributable to prior years declined from $124 million in the 1977 fiscal year to $11 million in the 1995 fiscal year. This decrease reflects favorable experience with the level of disallowances in recent years, which may not continue. As of June 30, 1995, the City had an accumulated reserve of $208 million for future disallowances of categorical aid.

On June 7, 1996 the U.S. House of Representatives and the Senate issued a conference report on a concurrent resolution on the budget for Federal fiscal year 1997. This establishes the Congressional budget for the United States Government for fiscal year 1997 and sets forth budgetary levels of Federal fiscal years 1998-2002. The plan balances the Federal budget by 2002, cuts taxes for working families, reforms welfare and makes changes to the Medicare program. The budget increases domestic spending over what Congress proposed last year. The House and Senate have passed a budget resolution. The President is opposed to

many of the proposals presented in the Congressional budget resolution. In March, the President submitted his version of a budget for the 1997 Federal fiscal year. This budget provides increased funding for various programs of importance to the City. It is likely that the President's budget proposal will undergo significant revisions before it is enacted. During the week of July 29, 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act, which makes significant changes to current welfare programs and which President Clinton has indicated he intends to sign into law. Major changes include conversion of the AFDC entitlement into a block grant, the imposition of strict new work requirements and durational limits on recipients and restrictions on aid provided to immigrants. Certain provisions contained in earlier versions of the legislation, including denial of Medicaid benefits to legal immigrants, have been deleted, modified or made a state option. Most changes are phased in over time, so there is not expected to be any financial impact on the City in the 1997 fiscal year, and the 1998 fiscal year financial impact is expected to be relatively small, with possible increased costs in the subsequent fiscal years. Based on assumptions using current benefit levels and administrative requirements, the City previously made estimates of potential increased costs resulting from these changes. Such potential increased costs ranged from $70 million to $140 million in the 1998 fiscal year, $250 million to $600 million in the 1999 fiscal year and $275 million to $770 million in fiscal year 2002. Any increased costs could be borne by the State, the City or both. The estimates made by the City are preliminary and depend on a variety of factors, which are impossible to predict, including the way in which the State implements the requirements of the legislation and the modifications made to current workfare and child care programs. It is expected that the City's preliminary estimates of possible costs will change, based on policies to be developed by the State and the City in the future with respect to benefits no longer funded by the Federal government.

*Expenditure Assumptions*

1. PERSONAL SERVICE COSTS

The following table sets forth projected expenditures for personal service costs contained in the 1997-2000 Financial Plan.

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| | | (In Millions) | | |
| Wages and Salaries | $11,612 | $11,467 | $11,511 | $11,586 |
| Pensions | 1,413 | 1,508 | 1,509 | 1,615 |
| Other Fringe Benefits | 3,085 | 3,215 | 3,390 | 3,695 |
| Reserve for Collective Bargaining(1) | 127 | 623 | 1,202 | 1,916 |
| Total | $16,237 | $16,813 | $17,612 | $18,812 |

(1) The Reserve for Collective Bargaining provides funding for prospective labor settlements for all agencies.

The 1997-2000 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 decrease from an estimated level of 206,716 on June 30, 1996 to an estimated level of 203,793 by June 30, 2000, before implementation of the gap closing program outlined in the Financial Plan.

Contracts with all of the City's municipal unions expired in the 1995 and 1996 fiscal years. The City has reached settlements with unions representing approximately two-thirds of the City's workforce. The Financial Plan reflects the costs of the settlements and assumes similar increases for all other City-funded employees. For additional information see "SECTION I: RECENT FINANCIAL DEVELOPMENTS—Collective Bargaining Agreements".

The terms of wage settlements could be determined through the impasse procedure in the New York City Collective Bargaining Law, which can impose a binding settlement. Legislation passed in February 1996 will place collective bargaining matters relating to police and firefighters, including impasse proceedings, under the jurisdiction of the State Public Employment Relations Board ("PERB"), instead of the New York City Office of Collective Bargaining ("OCB"). OCB considers wage levels of municipal employees in similar cities in the United States in reaching its determinations, while PERB's determinations take into account wage levels in both private and public employment in comparable communities, particularly within the State. In addition, PERB can approve only two-year contracts, unlike OCB which can approve longer contracts.

For these reasons, among others, PERB jurisdiction could result in labor settlements which impose higher costs on the City than those reached under existing procedures. On January 23, 1996, the City requested the Office of Collective Bargaining to declare an impasse against the PBA and the UFA. In addition, on February 29, 1996, the City commenced an action in the State Supreme Court seeking a declaratory judgment confirming that OCB, rather than PERB, has jurisdiction over collective bargaining matters relating to police. On April 10, 1996, the Court issued a decision which found the legislation in violation of the home rule provisions of the State Constitution, and held that OCB and not PERB had jurisdiction over collective bargaining matters relating to police. The PBA has appealed this decision.

For a discussion of the City's pension costs, see "SECTION IX: OTHER INFORMATION—Pension Systems" and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note R".

2. OTHER THAN PERSONAL SERVICE COSTS

The following table sets forth projected OTPS expenditures contained in the 1997-2000 Financial Plan.

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| | | (In Millions) | | |
| Administrative OTPS | $ 6,446 | $ 6,597 | $ 6,691 | $ 6,767 |
| Public Assistance | 2,830 | 2,694 | 2,667 | 2,675 |
| Medical Assistance (Excluding City Medicaid Payments to HHC) | 2,138 | 2,223 | 2,302 | 2,386 |
| HHC Support | 791 | 920 | 945 | 984 |
| Other | 1,923 | 1,630 | 1,651 | 1,459 |
| Total | $14,128 | $14,064 | $14,256 | $14,271 |

Legislation has been passed by the State which prohibits the disposal of solid waste in any landfill located within the City after December 31, 2001. In addition, certain elected officials from Staten Island have commenced a lawsuit against the Mayor, the Governor, and certain appointed City and State officials alleging improper operation of the Fresh Kills landfill without certain permits required by the Clean Air Act and seeking to enjoin such operation. Further, a suit has been commenced against the City by private individuals under the Resource Conservation and Recovery Act seeking to compel the City to take certain measures or, alternatively, to close the Fresh Kills landfill by October 9, 1996. If plaintiffs are successful the City could incur additional costs in the 1997 fiscal year. It is expected that the City will incur costs preliminarily estimated at $150 million to $200 million per year resulting from implementation of alternative measures to dispose of its municipal solid waste, and will also incur substantial additional costs resulting from having to close the landfill within six years.

*Administrative OTPS*

The 1997-2000 Financial Plan contains estimates of the City's administrative OTPS expenditures for general supplies and materials, equipment and selected contractual services in the 1996 and 1997 fiscal years. Thereafter, to account for inflation, selected OTPS expenditures are projected to rise by approximately 2.7% in fiscal year 1998, 2.8% in fiscal year 1999 and 2.9% in fiscal year 2000. However, it is assumed that the savings from a procurement initiative will offset the need for funding projected increases in OTPS expenditures that result from the accounting for inflation.

*Energy*

The 1997-2000 Financial Plan assumes different rates of inflation for energy costs for each of the 1997 through 2000 fiscal years. Inflation rates for each of the 1997 through 2000 fiscal years are set forth in the following table.

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| Gasoline and Fuel Oil | 1.0% | 0.0% | 2.0% | 6.0% |
| Electricity | 2.0 | 2.0 | 2.0 | 3.0 |
| Natural Gas | 2.0 | 4.0 | 4.0 | 4.0 |

Total energy expenditures are projected at $451 million in the 1997 fiscal year, rising to $481 million in fiscal year 2000. These estimates assume a constant level of energy usage, with the exception of varying

annual workload and consumption changes from additional buildings taken by the City through *in rem* tax proceedings, the privatization initiative in the In-Rem Program and the annualization of fiscal year 1997 adjustments, where applicable.

*Public Assistance*

The average number of persons receiving income benefits under public assistance is projected to be 968,412 per month in the 1997 fiscal year. The 1997-2000 Financial Plan projects that the average number of recipients will decrease by 8% in the 1997 fiscal year from the average number of recipients in the 1996 fiscal year. The Financial Plan assumes that public assistance grant levels will increase by 4% in the 1997 fiscal year. Of total public assistance expenditures in the City for the 1997 fiscal year, the City-funded portion is projected to be $668 million. The City-funded portion of public assistance expenditures is projected to be $624 million in the 1998 fiscal year, a decrease of 7% from the 1997 fiscal year, and continues to decrease to $613 million in fiscal year 2000.

*Medical Assistance*

Medical assistance payments projected in the 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 $2.034 billion for the 1997 fiscal year and is expected to increase to $2.301 billion in fiscal year 2000. 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 1997-2000 Financial Plan do not include Medicaid costs for the mentally disabled and 80% of the non-Federal share of long-term care costs which have been assumed by the State. The 1997-2000 Financial Plan projects savings of $737 million in the 1997 fiscal year due to the State having assumed such costs, and projects such savings will increase to $836 million in fiscal year 2000.

*Health and Hospitals Corporation*

Support for HHC in the 1997-2000 Financial Plan includes City-funded Medicaid payments to HHC as well as other subsidies to HHC.

HHC operates under its own section of the 1997-2000 Financial Plan as a Covered Organization. HHC's financial plan projects City-funded expenditures of $791 million for the 1997 fiscal year, increasing to $984 million in fiscal year 2000, after taking into account a $7 million reduction in the 1997 fiscal year for Medicaid cost containment. The City-funded expenditures in the 1997 fiscal year include $55 million of general City support, $680 million of Medicaid payments to HHC and $57 million for certain intra-city payments. A balanced budget is now projected for HHC for all years of the Financial Plan. This is the result of a number of actions taken by HHC including an early retirement incentive program and other expenditure reductions and management initiatives. The HHC plan projects total revenues of $3,119 million in the 1997 fiscal year, increasing to $3,533 million in fiscal year 2000. The HHC plan projects total expenditures of $3,119 million in the 1997 fiscal year, increasing to $3,533 million in the fiscal year 2000. These projections assume: (i) no increases in wages in 1997; an increase of 3% in 1998, an increase of 3% in 1999 and an increase of 4.8% in fiscal year 2000; (ii) no increase in 1997, and an increase of 3% in 1998, 3% in 1999 and of 4.8% in fiscal year 2000, in the cost of contracts with affiliated medical schools (which provide some of the supervisory and professional staff for City hospitals); (iii) no increases in other than personal service costs in 1997; an increase of 5% in 1998, an increase of 5% in 1999 and an increase of 5% in fiscal year 2000; and (iv) Medicaid growth of 3.3% in fiscal years 1997 through 2000. In addition, significant changes have been and may be made in Medicaid, Medicare and other third-party payor programs, which could have a material adverse impact on HHC's financial condition. For additional information concerning HHC *see* "SECTION VII: 1997-2000 FINANCIAL PLAN—*Certain Reports*".

*Other*

The projections set forth the 1997-2000 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 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.

*New York City Transit*

On June 21, 1996, the City published a financial plan for New York City Transit ("NYCT") covering its 1996 through 2000 fiscal years (the "NYCT Financial Plan"). NYCT's fiscal year is the calendar year. The NYCT Financial Plan projects for its 1996 fiscal year, among other things, a cash-basis surplus of $11.7 million, which is offset by various cash flow adjustments and operating expenses of approximately $3.74 billion. City assistance to NYCT is $225.3 million for NYCT's 1996 fiscal year. A restoration of $45 million was made in each of the City's 1997-2000 fiscal years for the City's share of school fare subsidy.

The NYCT Financial Plan forecasts a cash-basis gap of $21.2 million in 1997, cash surplus of $35.8 million in 1998 and cash gaps of $54.3 million in 1999 and $102.3 million in 2000, before implementation of additional gap-closing actions. These outyear gaps are not required to be funded in the City's financial plans. The gap projected for NYCT's 1997 fiscal year occurs, in part, because expenditures are expected to decrease by .09% between the fiscal years 1996 and 1997 while revenues are expected to decrease by .9% during the same period. The plan assumes that the gaps in the 1999 and 2000 fiscal years will be closed in part by increased user charges, productivity measures, reduced service levels, additional management actions, or some combination of these actions.

On April 5, 1993, the State Legislature approved, and the Governor subsequently signed into law, legislation authorizing a five-year $9.56 billion capital plan for the MTA for 1992 through 1996, including approximately $7.4 billion in projects for NYCT, with the additional resources to be provided by additional Federal, State and City capital funds, MTA bonds and other MTA resources. The MTA submitted a 1992-1996 Capital Program based on this legislation for approval of the MTA Capital Program Review Board (the "CPRB"), as State law requires. The plan was approved on December 11, 1993. Approximately $245 million in funds for NYCT capital purposes have been deferred from the City's capital commitment plan for its 1995 fiscal year to the City's capital commitment plan for its 1997 fiscal year.

The approved MTA 1992-1996 Capital Program incorporates a one-year $1.635 billion program adopted in 1992. The MTA 1992-1996 Capital Program succeeds two previous five-year capital programs for the periods covering 1982-1986 and 1987-1991. The MTA 1987-1991 Capital Program totaled approximately $8.0 billion, including $6.2 billion for NYCT capital projects.

There can be no assurance that all the necessary governmental actions for the MTA's future capital programs will be taken, that funding sources currently identified will not be reduced or eliminated, or that parts of the capital program, will not be delayed or reduced. If the MTA Capital Program is delayed or reduced, ridership and fare revenues may decline, which could, among other things, impair the MTA's ability to meet its operating expenses without additional assistance. The MTA submitted its proposed 1995-1999 Capital Program to its Board, which was approved in November 1995 and modified in April 1996. On July 13, 1996, the State Legislature approved financing for the MTA's proposed 1995-1999 Capital Program. This program also needs to be submitted to the CPRB for approval. This program is projected to be $11.9 billion, including $9 billion in projects for NYCT. The City has pledged an additional $500 million towards this capital program.

*Board of Education*

The Stavisky-Goodman Act requires the City to allocate to BOE an amount of funds from the total budget either equal to the average proportion of the total budget appropriated for BOE in the three preceding fiscal years or an amount agreed upon by the City and BOE. In the Financial Plan 26.2% of the City's budget is allocated to BOE for the 1997 fiscal year, exceeding the amount required by the Stavisky-Goodman Act.

The 1997-2000 Financial Plan assumes student enrollment to be 1,085,050, 1,108,781, 1,127,539 and 1,143,250 in the 1997 through 2000 fiscal years, respectively.

*Judgments and Claims*

In the fiscal year ending on June 30, 1996, the City projects an expenditure of $289 million for judgments and claims. The 1997-2000 Financial Plan includes provisions for judgments and claims of $290 million, $310 million, $333 million and $358 million for the 1997 through 2000 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, 1995 amounted to approximately $2.5 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 "SECTION IX: OTHER INFORMATION—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 1995 Financial Statements include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 1995, could amount to approximately $314 million. Provision has been made for the 1997 fiscal year and in the Financial Plan for estimated average refunds of $318 million, $256 million, $242 million and $216 million for the 1997 through 2000 fiscal years, respectively. For further information concerning these claims, certain remedial legislation related thereto and the City's estimates of potential liability, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*" and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note H".

3. DEBT SERVICE

Debt service estimates for the 1997 through 2000 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.

5. GENERAL RESERVE

The 1997-2000 Financial Plan includes a reserve of $200 million for each of the 1997 through 2000 fiscal years.

**Certain Reports**

From time to time, the Control Board staff, MAC, OSDC, the City Comptroller and others issue reports and make public statements 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 and statements 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 reports and statements will continue to be issued and to engender public comment.

On July 16, 1996, the City Comptroller issued a report on the Financial Plan, which concluded that the City's fiscal situation remains serious. With respect to the 1997 fiscal year, the report identified between $787 million and $941 million in potential risks, including (i) $319 million in airport related payments from the Port Authority that are the subject of arbitration; (ii) $202 million to $266 million in risks related to BOE resulting primarily from unidentified expenditure reductions and projected State aid which has not been appropriated by the State Legislature; (iii) possible tax revenue shortfalls totaling $69 million, reflecting the potential impact that rising interest rates may have on the economy; and (iv) $144 million relating to projected overtime savings. In addition, the report noted that HHC has not provided any details with respect to assumed expenditure reductions and revenue enhancements to close a projected deficit for the 1997 fiscal year, and that HHC faces additional uncertainties, including the impact of reform of the State's health care reimbursement methodology, lower Medicaid and Medicare revenues due to proposed reductions by the Federal Government and the impact of proposals to privatize certain hospital facilities. The report also noted that the City's capital budget includes risks in the 1997 fiscal year of $777 million, including $607 million in capital from the proposed sale of the City's water and sewer system, which the City Comptroller has opposed and which was ruled unconstitutional in a unanimous decision of the Appellate Division of the State Supreme Court.

With respect to fiscal years 1998 through 2000, the report identified total risks of between $2.47 billion and $2.58 billion for the 1998 fiscal year, $3.38 billion and $3.53 billion for the 1999 fiscal year and $4.16 billion and $4.31 billion for fiscal year 2000, which include the gaps identified in the Financial Plan and the same categories of risks for fiscal years 1998 through 2000 that the report identified for the 1997 fiscal year. With respect to the City's capital budget for the 1998 through 2000 fiscal years, the report identified risks of $1.5 billion, $1.7 billion and $1.4 billion, respectively, including the risk that the proposed Infrastructure Finance Agency may not be approved by the State Legislature. The report also noted that the City's reliance on $1.5 billion of nonrecurring actions for the 1997 fiscal year to close current year budget gaps and, therefore, defer them into future fiscal years, has resulted in a rapid increase in the size of estimated budget gaps for the later years of the Financial Plan. The largest of these recent budget actions include City labor contracts, which defer major costs until the end of the contract period, bond refundings, and the sale of Mitchell-Lama mortgages.

On July 18, 1996, the staff of the OSDC issued a report on the Financial Plan. The report concluded that, while the City will end the 1996 fiscal year with a balanced budget, the City has made no progress towards structural budget balance, despite its headcount and entitlement reduction programs and higher revenue collections. The report noted that the City relied on $1.4 billion in non-recurring resources to achieve budget balance in the 1996 fiscal year and, as a result, future projected gaps have increased to the largest the City has ever faced. The report projected budget gaps of $74 million, $1.8 billion, $2.7 billion and $3.5 billion, and identified additional risks of $774 million, $1.3 billion, $1.0 billion and $1.1 billion, for the 1997 through 2000 fiscal years, respectively. The principal risks identified in the report relate to (i) uncertain State education aid and mandate relief, and unspecified expenditure reductions, relating to BOE, totaling $327 million in the 1997 fiscal year and $402 million in each of the 1998, 1999 and 2000 fiscal years; (ii) the receipt of Port Authority lease payments totaling $314 million and $226 million in the 1997 and 1998 fiscal years, respectively; (iii) State approval of a four-year extension to the City's personal income tax surcharge which would generate revenues of $171 million, $447 million, $478 million and $507 million in the 1997 through 2000 fiscal years, respectively; and (iv) the receipt of $200 million in the 1998 fiscal year in connection with a proposed sale of the New York Coliseum. The report noted that the large future budget gaps result primarily from tax cuts and the cost of labor agreements, and that revenues are projected to increase 1.2% per year during the period covered by the Financial Plan, while expenditures are projected to increase 6% per year. The report further noted that the City's economy is heavily dependent on profits in the securities sector, which are volatile, and that there is a strong likelihood of a downturn in the national and local economies during the period of the Financial Plan, which creates a risk to City tax collections beyond those quantified in the report. In addition, the report noted that HHC could face a budget gap of approximately $370 million for the 1997 fiscal year, resulting from lower hospital utilization and other factors, and, with respect to the capital plan, the report noted that the City anticipates funding over the next four years of approximately $5.7 billion which is uncertain, including financing from the proposed sale of the water and sewer system, savings from amendments to the Wicks Law and the proceeds from the sale of bonds issued by the proposed Infrastructure Finance Authority.

On July 18, 1996, the staff of the Control Board issued a report on the Financial Plan. The report identified risks totaling $594 million, $1.1 billion, $851 million and $813 million, for the 1997 fiscal year, the 1998 fiscal year, the 1999 fiscal year and fiscal year 2000, respectively. The principal risks identified in the report included (i) revenues from the proposed extension of the 12.5% personal income tax surcharge totaling $171 million, $394 million, $419 million and $445 million in the 1997 through 2000 fiscal years, respectively, which requires State legislation; (ii) implementation by BOE of various actions, totaling $56 million in the 1997 fiscal year and $334 million in each of the 1998 through 2000 fiscal years, which include unspecified reductions and uncertain State funding; (iii) the receipt of $314 million and $226 million from the Port Authority in the 1997 and 1998 fiscal years, respectively, which is the subject of arbitration; and (iv) the potential for greater than forecast overtime spending totaling between $71 and $77 million in each of the 1997 through 2000 fiscal years. Taking into account the risks identified in the report and the unprecedented gaps projected in the Financial Plan, the Control Board identified projected gaps of $2.8 billion, $3.5 billion and $4.2 billion for the 1998 fiscal year, the 1999 fiscal year and fiscal year 2000, respectively. The report concluded that the City has not addressed its underlying problems, which include inadequate and unstable revenue growth, high debt service expenditures and increasing costs of health care and employee

fringe benefits. The report noted that by fiscal year 2000, City-funded revenues will have grown by only 6.1% since the 1996 fiscal year, which is substantially below the expected rate of inflation, while expenditures are expected to grow at about the expected rate of inflation. The report noted that this problem is increased by the volatility and cyclicality of the City's tax revenues, which do not grow uniformly from one year to the next and which are sensitive to fluctuations of the securities industry. The report further noted that the City is approaching the limit on outstanding general obligation debt permitted under the State Constitution and, as a result, has proposed the creation of the Infrastructure Finance Authority. In addition, the report stated that the City's structural imbalance has led to insufficient funding for maintaining the existing capital plant through the expense budget, and questioned whether the current capital plan is affordable over the long term.

On October 9, 1995, Standard & Poor's issued a report which concluded that proposals to replace the graduated Federal income tax system with a "flat" tax could be detrimental to the creditworthiness of certain municipal bonds. The report noted that the elimination of Federal income tax deductions currently available, including residential mortgage interest, property taxes and state and local income taxes, could have a severe impact on funding methods under which municipalities operate. With respect to property taxes, the report noted that the total valuation of a municipality's tax base is affected by the affordability of real estate and that elimination of mortgage interest deduction would result in a significant reduction in affordability and, thus, in the demand for, and the valuation of, real estate. The report noted that rapid losses in property valuations would be felt by many municipalities, hurting their revenue raising abilities. In addition, the report noted that the loss of the current deduction for real property and state and local income taxes from Federal income tax liability would make rate increases more difficult and increase pressures to lower existing rates, and that the cost of borrowing for municipalities could increase if the tax-exempt status of municipal bond interest is worth less to investors. Finally, the report noted that tax anticipation notes issued in anticipation of property taxes could be hurt by the imposition of a flat tax, if uncertainty is introduced with regard to their repayment revenues, until property values fully reflect the loss of mortgage and property tax deductions.

**Long-Term Capital and Financing Program**

The City makes substantial capital expenditures 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. However, when operating revenues come under increasing pressure, funding levels of the City's capital program are reduced from those previously forecast in order to reduce debt service costs. In addition, the City's projection of total debt subject to the general debt limit that would be required to be issued to fund the Updated Ten-Year Capital Plan published in April 1995 indicated that, if no action were taken, projected debt issuance would exceed the general debt limit by a substantial amount starting in fiscal year 1998. See "SECTION VIII: INDEBTEDNESS—City Indebtedness—*Limitations on the City's Authority to Contract Indebtedness.*" 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 Strategy, the Four-Year Capital Program and the current-year Capital Budget. The Ten-Year Capital Strategy 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 Capital Budget defines specific projects and the timing of their initiation, design, construction and completion.

City-funded commitments, which were $344 million in 1979, are projected to reach $4.3 billion in 1997. City-funded expenditures, which more than tripled between fiscal years 1980 and 1985, are forecast at $3.7 billion in the 1997 fiscal year; total expenditures are forecast at $4.3 billion in 1997. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 1996 through 2005, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures".

The following table sets forth the major areas of capital commitment projected for the 1997 through 2000 fiscal years. See "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures". See "SECTION VIII: INDEBTEDNESS—City Indebtedness—*Limitations on the City's Authority to Contract Indebtedness*".

**1997-2000 CAPITAL COMMITMENT PLAN**

| | 1997 | | 1998 | | 1999 | | 2000 | |
|---|---|---|---|---|---|---|---|---|
| | City Funds | All Funds | City Funds | All Funds | City Funds | All Funds | City Funds | All Funds |
| | (In Millions) | | | | | | | |
| Mass Transit(1) | $ 497(5) | $ 497(5) | $ 231 | $ 231 | $ 231 | $ 231 | $ 231 | $ 231 |
| Roadway, Bridges | 565 | 760 | 574 | 643 | 495 | 671 | 550 | 590 |
| Environmental Protection(2) | 1,374 | 1,385 | 1,170 | 1,270 | 1,447 | 1,488 | 518 | 518 |
| Education | 712 | 713 | 858 | 859 | 796 | 799 | 1,390 | 1,392 |
| Housing | 164 | 311 | 171 | 267 | 182 | 317 | 281 | 382 |
| Sanitation | 166 | 185 | 154 | 604 | 167 | 167 | 361 | 361 |
| City Operations/Facilities | 1,186 | 1,321 | 561 | 630 | 634 | 650 | 531 | 587 |
| Economic and Port Development | 58 | 71 | 43 | 46 | 35 | 35 | 43 | 44 |
| Reserve for Unattained Commitments | (449) | (449) | (107) | (107) | (300) | (300) | (244) | (244) |
| Total Commitments(3)(4)(6) | $4,274 | $4,793 | $3,655 | $4,443 | $3,687 | $4,058 | $3,661 | $3,861 |
| Total Expenditures(4) | $3,706 | $4,255 | $3,446 | $3,958 | $3,593 | $4,114 | $3,730 | $4,179 |

(1) Excludes NYCT's non-City portion of the MTA's five-year Capital Program.
(2) Includes water supply, water mains, water pollution control, sewer projects and related equipment.
(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 and appropriations planned to be expended for capital costs, excluding amounts for original issue discount.
(5) Reflects the assumption that approximately $245 million of the City's capital contribution to the MTA for the 1995 fiscal year will be deferred until the 1997 fiscal year.
(6) Numbers may not tally due to rounding.

The following table which is based on the Financial Plan 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 1997 through 2000 fiscal years.

**1997-2000 FINANCING PROGRAM**

| | 1997 | 1998 | 1999 | 2000 | Total |
|---|---|---|---|---|---|
| | | | (In Millions) | | |
| **SOURCES OF FUNDS:** | | | | | |
| City General Obligation Bonds | $3,392 | $ 840 | $ 317 | $1,150 | $ 5,699 |
| NYC Infrastructure Finance Authority | 0 | 1,254 | 1,848 | 1,450 | 4,552 |
| Water Authority Financing(1) | 1,100 | 1,021 | 1,080 | 1,077 | 4,278 |
| HHC Financing(2) | 94 | 28 | 12 | 7 | 141 |
| DASNY Courts Financing(3) | 0 | 0 | 127 | 195 | 322 |
| Pay-As-You-Go Capital(4) | 607 | 200 | 200 | 0 | 1,007 |
| Other Sources(5) | 226 | 208 | 139 | 1 | 574 |
| Total | $5,419 | $3,551 | $3,723 | $3,880 | $16,573 |
| **USES OF FUNDS:** | | | | | |
| City Capital Improvements(6) | $3,706 | $3,446 | $3,593 | $3,729 | $14,474 |
| City G.O. Refunding | 1,603 | 0 | 0 | 0 | 1,603 |
| Water Authority Refunding | 0 | 0 | 0 | 0 | 0 |
| Reserve Fund and Other(7) | 110 | 105 | 130 | 151 | 496 |
| Total | $5,419 | $3,551 | $3,723 | $3,880 | $16,573 |

(1) Reflects Water Authority commercial paper and revenue bonds expected to be issued to finance the water and sewer system capital program. Long-term Water Authority revenue bonds to finance the system's capital program, including reserve amounts, are expected to be issued in principal amounts of $1.067 billion in 1997, $1.034 billion in 1998, $1.052 billion in 1999 and $1.114 billion in 2000. Water Authority Financing figures do not include bonds which take-out commercial paper issues from the prior fiscal year or bonds to be issued by the Water Authority to finance the acquisition of the title to the water and sewer system by the Water Board. The proposed purchase price will approximately equal the present value of the projected future rental payments under the lease. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Long-Term Capital and Financing Program".

(2) The financing program assumes that HHC will finance 100% of its capital commitments. Amounts do not reflect a specific borrowing schedule. The amounts reflected are the projected capital cash flow from HHC program commitments in fiscal years 1997 through 2000 of $141 million.

(3) The financing program assumes that the Dormitory Authority ("DASNY") will finance 100% of the City Courts capital program. Amounts do not reflect a specific borrowing schedule. The amounts reflected are the projected capital cash flow from capital commitments for City Courts in fiscal years 1997 through 2000 of $537 million and allocations for reserve funds and other costs of issuance of $42 million less $257 million remaining from the proceeds of a bond issuance by DASNY in December 1993. The restricted balances from such bond issuance are included in Other Sources in fiscal years 1997 through 2000.

(4) Pay-As-You-Go Capital is funded out of current revenue expected to be derived by the City from proceeds of the transfer of title from the water and sewer system to the Water Board. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Long-Term Capital and Financing Program".

(5) Other Sources consists primarily of changes in restricted balances and MAC program funding.

(6) City Capital Improvements includes capital cash expenditures for various City agencies, including the Department of Environmental Protection, HHC and the City courts program to be financed through DASNY.

(7) Reserve Funds and Other comprises amounts necessary to fund certain reserves and provide for costs of issuance of all Water Authority and DASNY revenue bonds and allocations for original issue discounts in connection with the issuance of general obligation bonds. The amounts allocated for original issue discounts are 2% of the general obligation capital cash needs in the 1997 through 2000 fiscal years.

A Federal law, the Americans with Disabilities Act of 1990, generally requires that various facilities be made accessible to disabled persons. The City is currently analyzing what actions are required to comply with the law. The City may incur substantial additional capital expenditures, as well as additional operating expenses to comply with the law. Compliance measures which require additional capital measures are expected to be achieved through the reallocation of existing funds within the City's capital program.

Currently, if all City capital projects 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 four-year financing program and capital program includes the issuance of revenue bonds by the Infrastructure Finance Authority, which the Mayor is proposing that the State legislature create to provide for the infrastructure financing needs for education and transportation in the City. The bonds to be issued by the Infrastructure Finance Authority will be secured by the City's personal income tax revenue and will assist the City in avoiding the constitutional debt limitation which would otherwise be exceeded starting in the 1998 fiscal year because of the volume of general obligation debt issuance otherwise required to finance the City's proposed capital plan. The amount of general obligation bond issuance assumed in the City's current financing program through the year 2000 approximates the amount which may be issued within the debt limit for that period. "SECTION VIII: INDEBTEDNESS—City Indebtedness—*Limitations on the City's Authority of Contract Indebtedness*".

The City's current four-year financing program and capital program 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. Such fees are revenues of the Water Board and the Water 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 Water Board are paid to the City to cover the City's costs of operating the water and sewer system and as rental for the system. The City's Ten-Year Capital Strategy covering fiscal years 1996 through 2005 projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately $7.2 billion of the $37.3 billion City-funded portion of the plan.

The City's Four-Year Capital Plan contemplates the transfer of title to the water and sewer system from the City to the Water Board and includes approximately $1 billion of the proceeds of such transfer to fund capital expenditures provided for in the Four-Year Capital Plan. The Four-Year Capital Plan includes $607 million of such proceeds in fiscal year 1997 and $200 million in each of the 1998 and 1999 fiscal years. The remainder of the proceeds of the proposed transfer of title would be used to defease City general obligation bonds that were issued for water and sewer purposes prior to creation of the Water Authority. Following the proposed transfer of title, no further rental payments would be payable by the Water Board to the City.

The legality of the proposed transfer of title has been challenged by the City Comptroller and others and is the subject of litigation. On March 1, 1996, the State Supreme Court, New York County, ruled that the transaction as proposed was illegal because the proposed transfer of title could not be financed with the proceeds of Water Authority bonds. On June 25, 1996, the Appellate Division, First Department, unanimously affirmed the lower court's decision. The Mayor has moved for leave to appeal the decision of the Appellate Division. In the event that the transfer of title is not effectuated, the City would be required to find alternative sources of funding or reduce the capital program by the amounts indicated above which are expected to be funded with proceeds of the transfer.

The City is subject to statutory and regulatory standards relating to the quality of its drinking water. State and Federal regulations require the City water supply to meet certain standards to avoid filtration. The City's water supply now meets all technical standards and the City's current efforts are directed toward protection of the watershed area. The City has taken the position that increased regulatory, enforcement and other efforts to protect its water supply, relating to such matters as land use and sewage treatment, will preserve the high quality of water in the upstate water supply system and prevent the need for filtration. The City has estimated that if filtration of the upstate water supply system is ultimately required, the capital expenditures required could be between $4 billion and $5 billion. The U.S. Environmental Protection Agency has granted the City a filtration avoidance waiver through calendar year 1999.

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, Infrastructure Finance Authority and HHC revenue bonds will be subject to prevailing market conditions at the times of sale. No assurance can be given that the credit markets will absorb the projected amounts of public bond sales. As a significant portion of bond financing is used to reimburse the City's General Fund for capital expenditures already incurred, if the City is unable to sell such amounts of bonds it would have an adverse effect on the City's cash position. In addition, the need of the City

to fund future debt service costs from current operations may also limit the City's capital program. The Ten-Year Capital Strategy for fiscal years 1996 through 2005 totals $40.6 billion, of which approximately 92% is to be financed with City funds. The Ten-Year Capital Strategy does not reflect the proposed reduction of capital expenditures recently announced by OMB for the 1997 fiscal year and each of the next three fiscal years. See "SECTION VIII: INDEBTEDNESS—City Indebtedness—*Limitations on the City's Authority to Contract Indebtedness*". Federal tax law provisions which restrict 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. Congressional developments affecting Federal taxation generally could reduce the market value of tax-favored investments and increase the City's debt-service costs in carrying out the currently tax-exempt major portion of its capital plan. For information concerning litigation which, if determined against the City, could have an adverse impact on the amount of debt the City can have outstanding under the general debt limit (defined as 10% of the average full value of taxable real estate in the City for the most recent five years), see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*".

In January 1996, the City issued an assessment of the asset condition and a proposed maintenance schedule for the major portions 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 assessment includes an estimate of the capital investment needed from an engineering perspective to bring the assets to a state of good repair. Subsequently, in May 1996, the City issued a report that compares the recommended capital investment with the capital spending allocated by the City in the Four-Year Capital Program to the specifically identified inventoried assets. The reports do not reflect any policy considerations which could affect the appropriate amount of investment, such as whether there is a continuing need for a particular facility or whether additional changes are necessary to meet current usage requirements. In addition, the recommended capital investment for each inventoried asset is not readily comparable to the capital spending allocated by the City in the Four-Year Capital Program and the Ten-Year Capital Strategy. Only a portion of the funding set forth in the Four-Year Capital Program is allocated to specifically identified assets, and funding in the subsequent years of the Ten-Year Capital Strategy is even less identifiable with individual assets. In large part because of the difficulties in comparability at a detailed asset-by-asset level, the report indicates a substantial difference between the amount of investment recommended in the report for all inventoried City assets and amounts allocated to the specifically identified inventoried assets in the Four-Year Capital Program. OMB estimates that amounts allocated in the Ten-Year Capital Strategy fund approximately 87% of the total $3.68 billion investment (excluding HHC) recommended in the report, although the report concludes that the capital investment in the Four-Year Capital Program for the specifically identified inventoried assets funds 68% of the recommended investment. In addition, the report sets forth operating maintenance recommendations for the inventoried assets totalling $188 million, $122 million, $122 million and $117 million for the 1997 through 2000 fiscal years, respectively. OMB has estimated that approximately 33% of such maintenance activities for fiscal year 1997 are included in the 1997-2000 Financial Plan.

**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. The City's current monthly cash flow forecast for the 1997 fiscal year shows a need of $2.4 billion of seasonal financing for the 1997 fiscal year, a portion of which will be met with the proceeds of the issuance of $800 million of short-term obligations on or about August 1, 1996. Seasonal financing requirements for the 1996 fiscal year increased to $2.4 billion from $2.2 billion and $1.75 billion in the 1995 and 1994 fiscal years, respectively. Seasonal financing requirements were $1.4 billion and $2.25 billion in the 1993 and 1992 fiscal years, respectively. The delay in the adoption of the State's budget in certain past fiscal years has required the City to issue short-term notes in amounts exceeding those expected early in such fiscal years. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions".

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.

## SECTION VIII: 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 June 30, 1996.

**(In Thousands)**

| | | |
|---|---|---|
| Gross City Long-Term Indebtedness | $25,979,215 | |
| Less: Assets Held for Debt Service(1) | 926,810 | |
| Net City Long-Term Indebtedness | | $25,052,405 |
| Gross MAC Long-Term Indebtedness(2) | 4,683,745 | |
| Less: Assets Held for Debt Service(2) | 627,329 | |
| Net MAC Long-Term Indebtedness | | 4,056,416 |
| PBC Indebtedness(3) | | |
| Bonds Payable | 501,815 | |
| Capital Lease Obligations | 792,237 | |
| Gross PBC Indebtedness(4) | 1,294,052 | |
| Less: Assets Held for Debt Service | 127,463 | |
| Net PBC Indebtedness | | 1,166,589 |
| Combined Net City, MAC and PBC Indebtedness | | $30,275,410 |

(1) With respect to City long-term indebtedness, "Assets Held for Debt Service" consists of General Debt Service Fund assets, and $921.7 million principal amount of City serial bonds held by MAC.

(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 reserve funds for payment of principal of and interest on MAC bonds. Other MAC funds, while not specifically pledged for the payment of principal of 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 "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes C and H".

(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 "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes G and H". "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 "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes J, K, L, M and N".

(4) Amount does not include $225 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 fiscal years 1989 through 1995 and as of June 30, 1996, except for short-term debt information which is as of July 1, 1996.

| | City(1) | | MAC(2) | | Component Unit and City Guaranteed Debt(3) | Total |
|---|---|---|---|---|---|---|
| | Long-Term Net Debt(3) | Short-Term Debt | Long-Term Net Debt(4) | Short-Term Debt | | |
| | (In Millions) | | | | | |
| 1989 | $ 9,332 | — | $6,082 | — | $ 780 | $16,194 |
| 1990 | 11,779 | — | 5,713 | — | 782 | 18,274 |
| 1991 | 15,293 | — | 5,265 | — | 803 | 21,361 |
| 1992 | 17,916 | — | 4,657 | — | 782 | 23,355 |
| 1993 | 19,624 | — | 4,470 | — | 768 | 24,862 |
| 1994 | 21,731 | — | 4,215 | — | 1,114 | 27,060 |
| 1995 | 23,258 | — | 4,033 | — | 1,098 | 28,389 |
| June 30, 1996 | 25,052 | — | 4,056 | — | 1,167 | 30,275 |

(1) Amounts do not include debt of the City held by MAC. See "Outstanding Indebtedness—note 2".

(2) MAC reported outstanding long-term indebtedness without reduction for reserves, as follows: $7,307 million, $6,901 million, $6,471 million, $5,559 million, $5,304 million, $4,891 million and $4,694 million as of June 30 of each of the years 1989 through 1995.

(3) Net of reserves. See "Outstanding Indebtedness—note 2". 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 "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes G and H". For more information concerning Enterprise Funds PBCs, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes J, K, L, M and N".

(4) Calculations of net MAC indebtedness include the total bonds outstanding under MAC's Second and 1991 General Bond Resolutions and accrued interest on those bonds less the amounts held by MAC in its debt service and reserve funds.

*Rapidity of Principal Retirement*

The following table details, as of June 30, 1996, 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 | 24.09% |
| 10 years | 46.80 |
| 15 years | 66.40 |
| 20 years | 81.67 |
| 25 years | 93.52 |
| 30 years | 99.98 |

*City, MAC and City-guaranteed PBC Debt Service Requirements*

The following table summarizes future debt service requirements, as of June 30, 1996, 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: Principal Serial Bonds(1) | City Long-Term Debt: Interest(1) | Component Unit and City Guaranteed Debt(2) | MAC Funding Requirements | Total |
|---|---|---|---|---|---|
| | | | (In Thousands) | | |
| 1997 | $ 1,223,257 | $ 1,526,736 | $ 110,015 | $ 576,003 | $ 3,436,011 |
| 1998 | 1,212,982 | 1,433,502 | 116,997 | 589,074 | 3,352,555 |
| 1999 | 1,139,278 | 1,362,537 | 125,751 | 607,613 | 3,235,179 |
| 2000 | 1,079,066 | 1,308,619 | 125,749 | 542,808 | 3,056,242 |
| 2001 | 1,080,270 | 1,244,336 | 125,634 | 543,026 | 2,993,266 |
| 2002 through 2147 | 19,322,687 | 12,157,457 | 1,644,505 | 3,800,306(3) | 36,924,955 |
| Total | $25,057,540 | $19,033,187 | $2,248,651 | $6,658,830 | $52,998,208 |

(1) Excludes debt service on $921.7 million principal amount of serial bonds held by MAC.

(2) 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 "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes G and H". For more information concerning Enterprise Funds PBCs, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes J, K, L, M and N".

(3) Amount shown is for fiscal years 2002 through 2009.

*Certain Debt Ratios*

The following table sets forth information, as of December 31, for each of the fiscal years 1989 through 1995, 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 | Debt as % of Total Taxable Real Property By: Estimated Full Valuation |
|---|---|---|---|
| 1989 | $2,202 | 25.4 | 4.6 |
| 1990 | 2,490 | 26.0 | 4.5 |
| 1991 | 2,917 | 28.0 | 4.5 |
| 1992 | 3,192 | 28.5 | 4.1 |
| 1993 | 3,389 | 31.3 | 3.9 |
| 1994 | 3,691 | 35.2 | 4.4 |
| 1995 | 3,901 | 36.9 | 4.1 |

Source: Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 1995.

*Ratio of Debt to Personal Income*

The following table sets forth, for each of fiscal years 1984 through 1993, 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.

| Fiscal Year | Debt per Capita | Personal Income per Capita(1) | Debt per Capita as % of Personal Income per Capita |
|---|---|---|---|
| 1984 | $1,695 | $15,881 | 10.67% |
| 1985 | 1,723 | 16,919 | 10.18 |
| 1986 | 1,833 | 18,060 | 10.15 |
| 1987 | 1,893 | 19,238 | 9.84 |
| 1988 | 2,041 | 20,817 | 9.80 |
| 1989 | 2,202 | 22,103 | 9.96 |
| 1990 | 2,490 | 23,731 | 10.49 |
| 1991 | 2,918 | 24,464 | 11.93 |
| 1992 | 3,192 | 26,283 | 12.14 |
| 1993 | 3,389 | 27,087 | 12.51 |

Source: Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 1995.

(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 Act, the proceeds of City bond issues, other than refunding issues, 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 "SECTION II: 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 be issued only 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 July 30, 1996, the maximum amount of additional short-term debt which the City could issue was approximately $6.852 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. However, subject to the other restrictions and requirements described above, as of July 30, 1996, the maximum amount of TANs, RANs, or Budget Notes issued in the current fiscal year and maturing next fiscal year, that the City could issue was approximately $238 million under the second limitation. These limitations, and other restrictions on maturities of City notes and other requirements described above, could be amended by State legislative action.

The State Constitution 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"). For information concerning litigation which, if determined against the City, could have an adverse impact on the amount of debt the City can have outstanding under the general debt limit, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes*". 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 long-term indebtedness issued for certain types of public improvements and capital projects are considered excluded debt. The City's statutory authority for variable rate debt is limited to 10% of the general debt limit. The State Constitution also provides that, subject to legislative implementation, 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 Housing Authority) are chargeable against the City's constitutional debt limits.

The following table sets forth the calculation of the debt-incurring power of the City within the general debt limit as of June 30, 1996.

GENERAL DEBT LIMIT

| | | |
|---|---|---|
| Total Debt-Incurring Power | | $31,910,844,349 |
| Gross Debt—Funded | $25,919,154,143 | |
| Less: Excluded Debt | 1,152,090,338 | |
| | 24,767,063,805 | |
| Less: Assets of General Debt Service Fund and Balance of Appropriations for Redemption of Debt | 1,259,297,362 | |
| Net Debt | 23,507,766,443 | |
| Add: Net Contracts and Other Liabilities | 4,825,181,436 | 28,332,947,879 |
| Remaining Debt-Incurring Power Within Limit | | $ 3,577,896,470 |

The City's projections of total debt subject to the general debt limit that would be required to be issued to fund the Updated Ten-Year Capital Plan published in April 1995 indicates that, if no action were taken, projected debt issuance would exceed the general debt limit by a substantial amount starting in fiscal year 1998. To assist in keeping the City's debt issuance within the debt limit, the City is proposing the creation of the new Infrastructure Finance Authority, the debt of which would not be subject to the debt limit. State legislation will be necessary to create the Infrastructure Finance Authority.

*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 may provide for the municipality to issue 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. Each of the City and the Control Board, acting on behalf of the City, has the legal capacity to file a petition under the Federal Bankruptcy Code.

**Municipal Assistance Corporation Indebtedness**

MAC was organized in 1975 to provide financing assistance for the City and also to exercise certain review functions with respect to the City's finances. Since its creation, MAC has provided, among other things, financing assistance to the City by refunding maturing City short-term debt and transferring to the City funds received from sales of MAC bonds and notes. MAC is authorized to issue bonds and notes payable from certain stock transfer tax revenues and the City's portion of the State sales tax derived in the City and, subject to certain prior claims, State per capita aid otherwise payable by the State to the City. These revenues are paid, subject to appropriation, directly by the State to MAC to the extent they are needed for MAC debt service, MAC reserve fund requirements or MAC operating expenses; revenues which are not needed by MAC are paid by the State to the City. 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. 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 June 30, 1996, MAC had outstanding an aggregate of approximately $4.563 billion of its bonds. MAC is authorized to issue bonds and notes to refund its outstanding bonds and notes and to fund certain reserves, without limitation as to principal amount, and to finance certain capital commitments to the Transit

Authority and the New York City School Construction Authority for the 1992 through 1997 fiscal years in the event the City fails to provide such financing. For additional information regarding MAC indebtedness, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes C and H".

As of June 30, 1996, 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 $852.9 million was held by MAC as of June 30, 1995. MAC has also exchanged $1.839 billion principal amount of MAC bonds for City debt, of which approximately $68.8 million was held by MAC on June 30, 1995.

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, including $925 million for capital improvements for the Transit Authority. In May 1989, MAC entered into an agreement with the City and the State which provides for an additional $800 million, including $600 million of revenues for capital projects relating to the City's public school system. In July 1990, the City, the State and MAC entered into an agreement amending the 1986 and 1989 agreements to permit the City to fund the capital commitments to the Transit Authority and the City's public school system, which total $1.465 billion over the City's 1990 through 1997 fiscal years, with proceeds of City or MAC bonds rather than revenues made available by MAC. The State Legislature has authorized MAC to finance the capital commitments to the Transit Authority and the New York City School Construction Authority for the 1991 through 1997 fiscal years through the issuance of additional MAC bonds in the event and to the extent that the City fails to provide such financing from the issuance of City bonds. The revenues to be made available by MAC under the 1986 and 1989 agreements for the Transit Authority and the public school system will instead be used by the City for operating purposes. For fiscal year 1997, the amount that the City is scheduled to receive for operating purposes under the agreements as amended is $45 million.

**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 ("ECF"), the CUCF and the HDC. For further information regarding indebtedness of these PBCs, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes F and G". Certain other PBCs appear in the financial statements as Enterprise Funds. For information regarding Enterprise Funds PBCs, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes J, K, L, M and N".

*New York City Educational Construction Fund*

As of June 30, 1996, approximately $126.18 million principal amount of ECF bonds to 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*

As of June 30, 1996, the City had guaranteed $29.6 million principal amount of HA bonds. The Federal government has agreed to pay debt service on $23.7 million principal amount of additional HA indebtedness guaranteed by the City. The City has also guaranteed the repayment of $194.5 million principal amount of HA indebtedness to the State, of which the Federal government has agreed to pay debt service on $89.6 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 $123.5 million in the 1995 fiscal year and are projected to amount to approximately $33.8 million in the 1996 fiscal year.

*New York State Housing Finance Agency*

As of June 30, 1996, $310.7 million principal amount of HFA refunding 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.

*Dormitory Authority of the State of New York*

As of June 30, 1996, $417.2 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities in the City was outstanding. The court facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on DASNY bonds and certain fees and expenses of DASNY.

*City University Construction Fund*

As of June 30, 1996, $679 million principal amount of bonds, relating to Community College facilities, of the Dormitory Authority 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 for Community College facilities which are applied to the payment of debt service on the Dormitory Authority's bonds issued to finance the leased projects plus related overhead and administrative expenses of the Dormitory Authority.

*New York State Urban Development Corporation*

As of June 30, 1996, $57.4 million principal amount of UDC bonds subject to executed or proposed lease arrangements was outstanding. This amount differs from the amount calculated by UDC ($69.3 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*

As of June 30, 1996, $225 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, $225 million relating to the General Housing Program is required to be secured by a separate $18.1 million capital reserve fund. 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 1996 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 June 30, 1996, HDC's combined capital reserve funds amounted to approximately $18.4 million.

## SECTION IX: OTHER INFORMATION

**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, 1995 consisted of approximately 309,000 current employees, of whom approximately 79,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations. In addition, there are approximately 224,000 retirees and beneficiaries currently receiving benefits and other vested members terminated but not receiving benefits. The City also contributes to three other actuarial systems, maintains three non-actuarial retirement systems for approximately 8200 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 for the 1997 fiscal year are expected to approximate $1.41 billion. In fiscal years 1998 through 2000, these expenditures are expected to approximate $1.51 billion, $1.51 billion and $1.61 billion, respectively. These expenditures reflect the phase-in of the increased annual pension funding cost due to revisions resulting from an actuarial audit of the City pension systems. 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 subsequent years of service. For the 1995 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, were approximately 18.97% 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, 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 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.

| June 30 | Amount(1) (In Billions) |
|---|---|
| 1990 | $6.10 |
| 1991 | 4.16 |
| 1992 | 2.67 |
| 1993 | 0.49 |
| 1994 | 5.94(2) |

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

(2) Prior to June 30, 1994, amounts are the unfunded pension benefit obligation calculated in accordance with GASB Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Government Employers.* For June 30, 1994, amounts are the unfunded actuarial accrued liability produced by the method used to fund the plans and reflect implementation of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* Before adoption of this Statement, such amount was $1.85 billion.

The five major actuarial systems are funded on a basis which is designed to reduce gradually the unfunded accrued liability of those systems. Additionally, the City Actuary estimated that, as of June 30, 1995, there was approximately $268 million of unfunded liability on account of the non-actuarial retirement systems and supplemental pension programs for participants in these non-actuarial programs.

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

**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 1997-2000 Financial Plan. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 1995 amounted to approximately $2.5 billion. See "SECTION VII: 1997-2000 FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Service Costs—*Judgments and Claims*".

*Taxes*

1. Numerous real estate tax *certiorari* proceedings alleging overvaluation, inequality and illegality are pending against the City. 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 $314 million at June 30, 1995. For a discussion of the City's accounting treatment of its inequality and overvaluation exposure, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note H".

2. The City has brought proceedings challenging the final class ratios for class two and class four property certified by the State Board for the 1991 and 1992 assessment rolls. Class ratios are used in real property tax certiorari proceedings involving allegations of inequality of assessment and ratios that are too low can result in more successful claims for refunds for overpayments than appropriate. In a proceeding consolidating the City's challenges to the class ratios for the 1991 and 1992 assessment rolls, on December 15, 1994, the Supreme Court, New York County annulled the class two and class four ratios for those years and remanded the matter to the State Board for recalculation of the ratios consistent with the decision. Pursuant to a stipulation extending its time to appeal, the State Board has not yet appealed the judgment, but if the original class ratios were reinstated on appeal, it could lead to an increase in refunds, for overpayment of real property taxes paid in the 1992 and 1993 fiscal years. The State Board and the City have also agreed to toll the City's time to challenge final class ratios for classes two and four for the 1993 and 1994 assessment rolls, pending the outcome of efforts to resolve the matter without further litigation. For additional information, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Assessment*".

3. A group of real property taxpayers have brought a series of declaratory judgment actions charging that Tax Resolutions adopted by the City Council violate the State Constitution. Plaintiffs allege that the special equalization ratios calculated by the State Board of Real Property Services resulted in the overstatement of the average full valuation of real property in the City with the result that the City's real estate tax levy is in excess of the State Constitution's real estate tax limit. The first such action was dismissed by the Supreme Court, Albany County, on standing ground. The dismissal was affirmed by the Appellate Division, Third Department, and leave to appeal to the Court of Appeals was denied on November 30, 1995. Similar actions relating to the real estate tax levies for fiscal years 1993, 1994, 1995 and 1996 have been commenced by other groups of taxpayers and are pending in State Supreme Court, Albany County and New York County. Although plaintiffs do not specify the extent of the alleged real property overvaluation, an adverse determination significantly reducing such limit could subject the City to substantial liability for real property tax refunds and could have an adverse impact on the amount of debt the City can have outstanding under the general debt limit (defined as 10% of the average full value of taxable real estate in the City for the most recent five years).

4. A number of petitions for administrative review of the Commissioner of Finance's denial of refund claims are pending in which the taxpayers claim they are due refunds under the Banking Corporation and General Corporation Tax Laws due to their payment of tax on interest from Federal obligations in violation of 31 U.S.C. Section 3124(a). In addition, an action was commenced by Astoria Federal Savings and Loan Association ("Astoria Federal Savings") in New York Supreme Court, Nassau County, in which the City was not originally named as a party, seeking a declaratory judgment that, inter alia, interest on certain bonds issued pursuant to the Public Authorities Law are exempt from the City's franchise taxes. The City was granted leave to intervene in the action, and on August 29, 1994 the City's motion for summary judgment was granted. On July 8, 1996, the Appellate Division, Second Department, affirmed the judgment. The plaintiffs may seek leave to appeal to the Court of Appeals. If they do so and their positions are upheld, the City could become liable to pay substantial refunds and could experience a substantial decrease in revenues earned from such taxes.

*Miscellaneous*

1. Forty actions seeking in excess of $364 million have been commenced in State Supreme Court, New York County, against the City 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.

2. On April 3, 1990, the New York State Court of Appeals ruled, in a case brought by a group of New York City recipients of AFDC, that the New York Social Services Law requires that AFDC recipients receive for housing an adequate allowance that bears a reasonable relationship to the cost of housing and remanded the case to the trial court. The shelter allowance, while determined by the State Department of Social Services ("DSS"), is funded by contributions from the Federal, State and City governments. The City's contribution is 25% of the total allowance. If plaintiffs are ultimately successful in seeking substantial increases in the shelter allowance, it could result in substantial costs to the City.

3. Pursuant to regulations of the DSS, the New York City Human Resources Administration provides a limited number of medically disabled and/or physically handicapped persons with "sleep-in home attendants" who are assigned to live in the person's home on a 24-hour basis. On June 12, 1989, the Appellate Division, Second Department affirmed a determination by the New York State Industrial Board of Appeals ("IBA") in a proceeding initiated by one union representing sleep-in home attendants that the attendants were covered by the Minimum Wage Law. In May 1984, the union commenced a separate but related action in the Supreme Court, New York County on behalf of a number of sleep-in attendants claiming, *inter alia*, that since 1981 the attendants were entitled to compensation for a 24-hour day and at a rate in excess of the minimum wage. That action has been stayed pending the outcome of a proceeding on this issue before the IBA.

While the potential cost to the City of adverse determinations in the two proceedings cannot be determined at this time, such findings could result in substantial costs to the City depending on the number of hours deemed worked by particular attendants, the extent of State and Federal reimbursements, the number of attendants actually covered by a final determination and the rate of pay to be applied.

4. In an action brought by the New York City Coalition to End Lead Poisoning and other plaintiffs, against the City and other defendants, on May 30, 1991, the Appellate Division, First Department, denied the City's motion for leave to appeal to the Court of Appeals a decision of a lower court ordering the City to promulgate regulations consistent with local law governing the removal of lead-based paint in residential buildings. On May 4, 1993, the Supreme Court issued a decision holding the City in contempt for failing to comply with its 1990 order and fined the City approximately $14,000. On December 14, 1995, the City was held in contempt again for its continuing failure to comply with the 1990 order and the City was fined $1,250. The City could incur substantial costs if it is required to issue regulations implementing the law as currently interpreted by the courts. In addition, the litigation challenges other aspects of the City's lead poisoning prevention activities such as screening children for lead poisoning, the timeliness and adequacy of the City's enforcement programs and inspection of day care facilities. Adverse determinations on these issues could result in substantial additional costs to the City. In addition, on June 27, 1994, the United States District Court for the Southern District of New York granted a motion to add the City as a defendant in a class action brought by all tenants living in buildings owned, managed, operated or maintained by each of the defendants seeking to order such defendants (i) to notify their tenants regarding the lead hazards in defendants' buildings, (ii) to take

steps to minimize the harmful effects of lead to the tenants, (iii) to create a fund, paid for by defendants, to medically surveil and monitor certain children in these buildings, (iv) to refrain from evicting tenants and withholding security deposits, and (v) to abate the lead hazards in the buildings. On December 6, 1995, an additional plaintiff was permitted to join the class action and to add the Lead Industries Association and nine large corporations that process lead pigment or lead-based paint as defendants. A class has been certified consisting of all children under the age of seven and all pregnant women residing in housing owned by the City or where the City administers community development funds. If plaintiffs succeed in all their claims, the City would incur substantial costs. Nearly 1,000 claims have been filed against the City on behalf of children exposed to lead in City apartments. The suits seek to hold the City liable for failing to fix lead-based paint hazards in City-owned apartment buildings and for failing to enforce lead safety standards in privately owned buildings. Such claims could cost the City in excess of $500 million in the future. Finally, legislation was passed in the United States Congress that could impose substantial costs on municipalities, including the City, in connection with lead paint removal.

5. Numerous actions have been asserted against the City and the Covered Organizations alleging that the City and the Covered Organizations have failed to provide proper housing and services to homeless individuals and families in violation of the State Constitution, the State Social Services Law, the State Mental Hygiene Law, and various related regulations. In one such action brought by homeless mentally-ill patients released from City hospitals, the New York Court of Appeals has ruled that the City must, *inter alia*, assist in locating adequate and appropriate housing when such patients are discharged from in-patient care. The State Supreme Court on remand ordered Defendants to propose procedures for monitoring the post-discharge status of such patients. It is unclear at present what costs the City may incur as a result of these rulings. Adverse determinations in the other actions could also result in substantial costs to the City.

6. On December 1, 1992, certain New York City Transit Police retirees filed an action in State Supreme Court, Queens County (later transferred to New York County) challenging legislation that provides, among other things, for the payment of variable supplement fund benefits only to retired transit police officers who did not retire by reason of a disability and who retired after July 1, 1987 (the "Transit Police Variable Supplement Legislation"). Plaintiffs allege that the Transit Police Variable Supplement Legislation violates the United States and New York Constitutions as well as Federal and State statutes and seek either to have the legislation declared void or to obtain benefits equivalent to those to which the statutory beneficiaries are entitled. On September 23, 1994 the City's motion for summary judgment was granted and was subsequently affirmed by the Appellate Division, First Department on January 9, 1996. On March 29, 1996, the Court of Appeals accepted the plantiffs' appeal from the Appellate Division decision for consideration. On April 23, 1993, plaintiffs filed a second lawsuit in State Supreme Court, Queens County (also transferred to Supreme Court, New York County), against the City, the Transit Authority and the unions representing certain City employees alleging a breach of duty of fair representation and other violations of law in the enactment of the Transit Police Variable Supplement Legislation and seeking damages of $600 million of which $300 million are sought from the City. In August 1995, former uniformed members of the New York City Police Department and New York City Fire Department who retired by reason of disability brought separate actions making claims similar to those made by the Transit Police retirees in the above-described actions. On June 26, 1996, the firefighter retirees' action was dismissed by the United States District Court for the Southern District of New York.

7. In May 1991, the Natural Resources Defense Council and other petitioners initiated a proceeding in State Supreme Court, New York County, seeking to compel the City to fully implement various provisions of Local Law No. 19 ("Local Law No. 19") for the year 1989, the New York City Recycling Law, including annual targets for increasing the tonnage of solid waste that is recycled by the Department of Sanitation and its contractors. On February 22, 1994 the New York State Court of Appeals upheld a decision ordering the City to comply with the various mandates of Local Law No. 19 and remanded the case to State Supreme Court to establish a new timetable for compliance. On August 17, 1995, the Appellate Division, First Department, modified a Revised Order which contained new timetables for the City's compliance by deleting various provisions of the Revised Order and adding certain provisions previously agreed to by the litigating parties that took into account changes that had occurred since the commencement of the proceeding. The City did not appeal from the Revised Order's recycling tonnage requirements, and these requirements thus remain in effect

pursuant to the new timetables set forth in the Revised Order. On June 26, 1996, petitioners moved to enforce the recycling tonnage requirements, arguing that the City was out of compliance with them. The City contends that it is in compliance with such requirements. The City may seek to obtain amendments to Local Law No. 19. If the City is unable to obtain such amendments and is required to fully implement Local Law No. 19, the City will likely incur substantial costs.

8. On January 26, 1994, the Eastern Paralyzed Veterans Association ("EPVA") commenced an action in the United States District Court for the Southern District of New York alleging that the City had failed to take steps prescribed by the Americans with Disabilities Act and regulations promulgated thereunder to make the streets and sidewalks of the City accessible to handicapped persons. The EPVA seeks to compel the City, among other things, to implement a plan to provide curb ramps or other sloped areas at all intersections in the City by January 26, 1995. If the EPVA were to prevail in this action, performing such work in an expedited time frame would impose substantial costs on the City.

9. In January 1994, the President of the United Federation of Teachers and various parents and teachers commenced a proceeding against the City, BOE and the New York State Department of Labor alleging, as against BOE, a failure to maintain the City's school buildings in safe condition as required by the City's Building Code and the State's Education and Labor Laws and, as against the City, a failure to inspect the schools on a regular basis. The suit, which does not seek a specified amount of damages, asks that the defendants be required to perform their inspection, repair, and maintenance obligations alleged to exist under statute in regard to 37 complaints which they filed with respect to conditions at 20 schools and generally throughout the school system. If the plaintiffs were to prevail, BOE could incur substantial costs which it is not possible to estimate at this time.

10. Six separate actions are pending in the State Supreme Court in Putnam County seeking damages in the amount of approximately $10.5 billion in the aggregate for alleged injury to property caused by regulations enacted for the protection of the water supply of the City.

11. In April 1994, a coalition of towns located in the City's upstate watershed commenced litigation in New York State Supreme Court, Albany County, against the City and State alleging deficiencies in the environmental review process undertaken in connection with the City's filtration avoidance application to the United States Environmental Protection Agency, the City's proposed land use regulations, and the City's land acquisition program in the upstate watershed. In December 1994, the City answered the petition and moved for dismissal of part of this proceeding.

12. On January 30, 1995, Robert L. Schulz and certain other plaintiffs filed an action in the United States District Court for the Northern District of New York against the State, the City and various State and City officials seeking, among other things, an order cancelling the issuance of certain City bonds issued on January 31, 1995 as unconstitutional. Plaintiffs subsequently filed an amended complaint adding certain Federal officials as defendants. The action was dismissed by a decision of the Court dated April 30, 1996. An appeal was filed on June 28, 1996.

13. On January 31, 1996, an action was commenced by the United States of America against the City, the State and their respective social services agencies in the United States District Court for the Southern District of New York, alleging that the City and the State have submitted false claims to obtain incentive funding and reimbursement for foster care expenditures under the Social Security Act. The complaint seeks treble damages amounting to more than $112 million. The City's time in which to respond to the complaint has not yet expired.

14. On April 15, 1996, Stanley Hill, Executive Director of District Council 37, representatives of certain other unions, certain Federal, City and State elected officials and other plaintiffs filed an action in the Supreme Court of the State of New York, County of New York, against the Mayor which asserted, among other things, that the City has violated the provisions of the Health and Hospitals Corporation Act by failing to subsidize HHC at the minimum funding levels required for the 1994 through 1997 fiscal years, and failed to pay HHC for the value of services rendered to the City for indigent care and for prisoners, uniformed services and mortuary care to the extent that such services are not reimbursed. The plaintiffs are seeking an order requiring the City to pay to HHC at least $791,000,000 for the 1994 and 1995 fiscal years and an amount to be determined by the

Court for the 1996 and 1997 fiscal years, and preliminarily enjoining the defendant from further reducing the City's subsidy to HHC for the 1996 and 1997 fiscal years from the amount originally budgeted for the 1996 fiscal year.

**Tax Exemption**

In the opinion of Brown & Wood LLP, New York, New York, as Bond Counsel, except as provided in the following sentence, interest on the Tax-Exempt Bonds will not be includable in the gross income of the owners of the Tax-Exempt Bonds for purposes of Federal income taxation under existing law. Interest on the Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Tax-Exempt Bonds in the event of a failure by the City to comply with applicable requirements of the Code, and covenants regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and no opinion is rendered by Brown & Wood LLP as to the exclusion from gross income of the interest on the Tax-Exempt Bonds for Federal income tax purposes on or after the date on which any action is taken under the Bond proceedings upon the approval of counsel other than such firm.

Interest on the Tax-Exempt Bonds will be exempt from personal income taxes imposed by New York State or any political subdivision thereof, including New York City.

Interest on the Tax-Exempt 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 LLP renders no opinion, as a result of ownership of such Tax-Exempt 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 Tax-Exempt 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 retirement benefits, taxpayers eligible for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Tax-Exempt Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The difference, if any, between the initial public offering price to the public (excluding bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) of a maturity of the Tax-Exempt Bonds at which price a substantial amount of such maturity is sold and the amount payable at maturity constitutes original issue discount, which will be excludable from gross income to the same extent as interest on the Tax-Exempt Bonds for Federal, New York State and New York City income tax purposes. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of Tax-Exempt Bonds with original issue discount (the "Tax-Exempt OID Bonds") will be increased by such amount. A portion of the original issue discount that accrues in each year to an owner of a Tax-Exempt 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 Tax-Exempt 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 Tax-Exempt OID Bond has not received cash attributable to such original issue discount in such year.

Owners of Tax-Exempt 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 Tax-Exempt OID Bonds, other tax consequences of owning Tax-Exempt OID Bonds and other state and local tax consequences of holding such Tax-Exempt OID Bonds.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Tax-Exempt Bonds. Legislative or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Bonds.

**Taxable Bonds**

The following discussion addresses certain Federal income tax consequences to United States holders of the Taxable Bonds. It does not discuss all the tax consequences that may be relevant to particular holders. Each holder should consult his own tax adviser with respect to his particular circumstances.

Interest on the Taxable Bonds will be includable in the gross income of the owners thereof for purposes of Federal income taxation. Interest on the Taxable Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

**Ratings**

Moody's has rated the Bonds Baa1. Standard & Poor's has rated the Bonds BBB+. Fitch 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 AMBAC Insured Bonds will be received prior to August 15, 1996. The ratings on the AMBAC Insured Bonds will be based on the insurance policy to be issued by AMBAC Indemnity. Bonds insured to maturity by AMBAC Indemnity are rated "AAA" by Standard & Poor's, "Aaa" by Moody's and "AAA" by Fitch.

Such ratings reflect only the views of Moody's, Standard & Poor's and Fitch, from which an explanation of the significance of such ratings may be obtained. There is no assurance that such ratings will continue for any given period of time or that they will 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−. On July 10, 1995, Standard & Poor's revised its rating of the City's General Obligation Bonds downward to BBB+.

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, in May 1988 to A and again in February 1991 to Baa1. Since July 15, 1993, Fitch has rated City bonds A−. On February 28, 1996, Fitch placed the City's general obligation bonds on FitchAlert with negative implications.

**Underwriting**

The Tax-Exempt Bonds are being purchased for reoffering by the Underwriters, for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated; Bear, Stearns & Co. Inc.; Lehman Brothers Inc.; Prudential Securities Incorporated and Smith Barney Inc. are acting as lead Managers.

The Taxable Bonds are being purchased for reoffering by Aubrey G. Lanston & Co. Inc. ("Aubrey Lanston"), Lehman Brothers Inc. ("Lehman Brothers") and J.P. Morgan Securities Inc. ("J.P. Morgan").

The compensation for services rendered in connection with the underwriting of the Tax-Exempt Bonds shall be $5,602,540.41. The compensation for services rendered in connection with the underwriting of the Taxable Bonds purchased by Aubrey Lanston, Lehman Brothers and J.P. Morgan shall be $64,650, $45,000, and $19,268.80, respectively. The Contract of Purchase provides that the Underwriters will purchase all of the Bonds if any are purchased.

Certain of the Underwriters hold substantial amounts of City bonds and notes and MAC bonds and may, from time to time during and after the offering of the Bonds to the public, purchase and sell City bonds and notes (including the Bonds) and MAC bonds for their own accounts or for the accounts of others, or receive payments or prepayments thereon.

**Legal Opinions**

The legality of the authorization and issuance of the Bonds will be covered by the approving legal opinion of Brown & Wood LLP, New York, New York, Bond Counsel to the City. Reference should be made to the form of such opinion set forth in Appendix D 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.

Morgan, Lewis & Bockius LLP, 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. Such firm is also acting as counsel against the City in certain unrelated matters.

Certain legal matters will be passed upon by Rogers & Wells, New York, New York, counsel for the Underwriters. Such firm is also acting as counsel for and against the City in certain other unrelated matters.

**Continuing Disclosure Undertaking**

As authorized by the Act, and to the extent that (i) Rule 15c2-12 (the "Rule") of the SEC under the Exchange Act requires the Underwriters or the original purchasers to determine, as a condition to purchasing the Bonds, that the City will covenant to the effect of the Undertaking, and (ii) the Rule as so applied is authorized by a Federal law that as so construed is within the powers of Congress, the City agrees with the record and beneficial owners from time to time of the outstanding Bonds ("Bondholders") to provide:

(a) within 185 days after the end of its 1996 fiscal year and each subsequent fiscal year, to each nationally recognized municipal securities information repository and to any New York State information depository, core financial information and operating data for the prior fiscal year, including (i) the City's audited general purpose financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the City's revenues, expenditures, financial operations and indebtedness generally of the type found in this Official Statement in Sections IV, V and VIII and under the captions "1992-1996 Statement of Operations" in Section VI and "Pension Systems" in Section IX; and

(b) in a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to any New York State information depository, notice of any of the following events with respect to the Bonds, if material:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions or events affecting the tax-exempt status of the security;

(7) modifications to rights of security holders;

(8) bond calls;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the securities;

(11) rating changes; and

(12) failure of the City to comply with clause (a) above.

Event (3) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (3) may not be applicable, since the terms of the Bonds do not provide for "debt service reserves". For a description of the Bonds, see "SECTION II—THE BONDS". With respect to the following numbered events:

Events (4) and (5). The City does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the City applies for or participates in obtaining the enhancement.

Event (6). For information on the tax status of the Bonds, see "SECTION IX: OTHER INFORMATION—Tax Exemption" and "—Taxable Bonds".

Event (8). The City does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if (i) the terms, dates and amounts of redemption are set forth in detail herein, (ii) the only open issue is which Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Bondholders as required under the terms of the Bonds and (iv) public notice of the redemption is given pursuant to Exchange Act Release No. 23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or Bond purchases.

The City expects to provide the information described in clause (a) above by delivering its first bond official statement that includes its financial statements for the preceding fiscal year or, if no such official statement is issued by the 185-day deadline, by delivering the Comprehensive Annual Financial Report of the Comptroller by such deadline.

At the date hereof, there is no New York State information depository and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repository, P.O. Box 840, Princeton, New Jersey 08542-0840; Kenny Information Systems, Inc., 65 Broadway—16th Floor, New York, New York 10006; Disclosure, Inc., 5161 River Road, Bethesda, Maryland 20816, Attn: Document Acquisitions/Municipal Securities; Moody's NRMSIR Public Finance Information Center, 99 Church Street, New York, New York 10007; The Bond Buyer, 395 Hudson Street, New York, New York 10004, Attn: Municipal Disclosure; and R.R. Donnelley Financial, Municipal Securities Disclosure Archive, 559 Main Street, Hudson, Massachusetts 01749.

No Bondholder may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the Undertaking or for any remedy for breach thereof, unless such Bondholder shall have filed with the Corporation Counsel of the City evidence of ownership and a written notice of and request to cure such breach, and the City shall have refused to comply within a reasonable time. All Proceedings shall be instituted only as specified herein, in the Federal or State courts located in the Borough of Manhattan, State and City of New York, and for the equal benefit of all holders of the outstanding City bonds benefitted by the same or a substantially similar covenant, and no remedy shall be sought or granted other than specific performance of the covenant at issue.

Any amendment to the Undertaking may only take effect if:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted; the Undertaking, as amended, would have complied with the requirements of the Rule at the time of award of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; the amendment does not materially impair the interests of Bondholders as determined by parties unaffiliated with the City (such as, but without limitation, the City's financial advisor or bond counsel) and the annual financial information containing (if applicable) the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the "impact" (as that word is used in the letter from the staff of the SEC to the National Association of Bond Lawyers dated June 23, 1995) of the change in the type of operating data or financial information being provided; or

(b) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the Undertaking, ceases to be in effect for any reason, and the City elects that the Undertaking shall be deemed terminated or amended (as the case may be) accordingly.

For purposes of the Undertaking, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares investment power which includes the power to dispose, or to direct the disposition of, such security, subject to certain exceptions, as set forth in the Undertaking. Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request to the Corporation Counsel described above.

**Financial Advisor**

The City retains Public Resources Advisory Group ("PRAG") to act as financial advisor with respect to the City's financing program. PRAG is acting as financial advisor for the issuance of the Bonds.

**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 Plan, 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 business hours at the office of the Corporation Counsel.

Copies of the most recent financial plan submitted to the Control Board are available upon written request to the Office of Management and Budget, General Counsel, 6th Floor, 75 Park Place, New York, NY 10007, and copies of the most recent published Comprehensive Annual Financial Report of the Comptroller are available upon written request to the Office of the Comptroller, Deputy Comptroller for Finance, 5th Floor, Room 517, Municipal Building, One Centre Street, New York, NY 10007. Financial plans are prepared quarterly, and the Comprehensive Annual Financial Report of the Comptroller is typically prepared at the end of October of each year.

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

## 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 has made no independent verification of the information presented herein and does not warrant its accuracy.

### 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, reaching 7,890,000, and remained relatively stable between 1950 and 1970. From 1970 to 1980, however, the City's population declined substantially, falling 10.4% over the decade. The final results of the 1990 census show a moderate increase in the City's population since 1980 due to an influx of immigrants primarily from Asia, the Caribbean and Latin America. The following table provides information concerning the City's population.

POPULATION OF NEW YORK CITY

| Year | Total Population | 1970=100 | Distribution of Population By County (Borough): 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 | 7,071,639 | 89.6 | 1,168,972 | 2,231,028 | 1,428,285 | 1,891,325 | 352,029 |
| 1984(1) | 7,234,514 | 91.6 | 1,179,413 | 2,288,807 | 1,457,879 | 1,943,568 | 364,847 |
| 1985(1) | 7,274,054 | 92.1 | 1,187,894 | 2,304,368 | 1,464,286 | 1,949,579 | 367,927 |
| 1986(1) | 7,319,246 | 92.7 | 1,198,837 | 2,320,507 | 1,475,202 | 1,953,616 | 371,084 |
| 1987(1) | 7,342,476 | 93.0 | 1,210,712 | 2,324,361 | 1,481,531 | 1,952,640 | 373,232 |
| 1988(1) | 7,353,719 | 93.1 | 1,215,834 | 2,326,439 | 1,484,183 | 1,951,557 | 375,706 |
| 1989 | 7,344,175 | 93.0 | 1,213,675 | 2,316,966 | 1,486,046 | 1,950,425 | 377,063 |
| 1990 | 7,322,564 | 92.7 | 1,203,789 | 2,300,664 | 1,487,536 | 1,951,598 | 378,977 |
| 1991 | 7,307,632 | 92.6 | 1,199,483 | 2,287,814 | 1,483,602 | 1,951,374 | 385,359 |
| 1992 | 7,306,182 | 92.5 | 1,194,250 | 2,281,404 | 1,486,579 | 1,953,066 | 390,883 |
| 1993 | 7,325,648 | 92.8 | 1,195,516 | 2,279,152 | 1,495,353 | 1,959,993 | 395,634 |
| 1994 | 7,330,683 | 92.8 | 1,191,303 | 2,271,000 | 1,506,430 | 1,964,270 | 397,680 |

(1) 1984-1988 based on midyear population estimate of the Bureau of the Census as of September 1989.
Note: Does not include an undetermined number of undocumented aliens.
Source: 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 1990.

DISTRIBUTION OF POPULATION BY AGE
(In Thousands)

| Age | 1960 | % of Total | 1970 | % of Total | 1980 | % of Total | 1990 | % of Total |
|---|---|---|---|---|---|---|---|---|
| Under 5 | 687 | 8.8 | 616 | 7.8 | 471 | 6.7 | 510 | 7.0 |
| 5 to 17 | 1,478 | 19.0 | 1,619 | 20.5 | 1,295 | 18.3 | 1,177 | 16.1 |
| 18 to 24 | 663 | 8.5 | 889 | 11.3 | 826 | 11.7 | 778 | 10.6 |
| 25 to 34 | 1,056 | 13.6 | 1,076 | 13.6 | 1,203 | 17.0 | 1,369 | 18.7 |
| 35 to 44 | 1,071 | 13.8 | 916 | 11.6 | 834 | 11.8 | 1,117 | 15.2 |
| 45 to 64 | 2,013 | 25.9 | 1,832 | 23.2 | 1,491 | 21.1 | 1,419 | 19.4 |
| 65 and Over | 814 | 10.4 | 948 | 12.0 | 952 | 13.4 | 953 | 13.0 |

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

**Economic Activity, 1969-1994**

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 national economy, as evidenced by certain of the broad economic indicators. The City's economy improved after that crisis, and through 1987 certain of the key economic indicators posted steady growth. From 1987 to 1989 the rate of economic growth in the City slowed substantially as a result of the 1987 stock market crash and the beginning of the national recession. City employment declined for three consecutive years from 1990 through 1992 before increasing slightly in 1993. Trends of certain major economic indicators for the City and the nation are shown in the following table.

**Trends of Major Economic Indicators 1969-94**

| | Levels | | | | Average Annual Percent Change | | |
|---|---|---|---|---|---|---|---|
| | 1969 | 1976 | 1988 | 1994 | 1969-76 | 1976-88 | 1988-94 |
| NYC | | | | | | | |
| Population(1) (millions) | 7.9 | 7.4 | 7.3 | 7.3 | (0.9) | (0.1) | (0.1) |
| Employment(2) (millions) | 3.8 | 3.2 | 3.6 | 3.3 | (2.4) | 1.0 | (1.4) |
| Personal Income(3) (billions) | $38.8 | $58.3 | $151.8 | $204.0 | 6.0 | 8.3 | 5.1 |
| Real Per Capita Personal Income(4) | $12,861.0 | $12,858.8 | $16,684.9 | $17,591.6 | 0.0 | 2.2 | 1.2 |
| United States | | | | | | | |
| Population(1) (millions) | 201.3 | 217.6 | 244.5 | 260.9 | 1.1 | 1.0 | 1.0 |
| Employment(2) (millions) | 70.4 | 79.4 | 105.2 | 114.0 | 1.7 | 2.4 | 1.4 |
| Personal Income(3) (billions) | $778.2 | $1,455.4 | $4,172.8 | $5,750.2 | 9.4 | 9.1 | 5.5 |
| Real Per Capita Personal Income(4) | $10,464.2 | $11,721.4 | $14,387.6 | $14,859.7 | 1.6 | 1.6 | 0.5 |

(1) 1970, 1980 and 1990 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 average dollars for 1982-1984.

**Employment Trends**

From 1969 to 1977, economic activity in the City declined sharply while the U.S. economy expanded, despite two national recessions (1969 to 1970 and 1973 to 1975) during this period. Locally, total employment dropped 16.1 percent, from 3,798,000 jobs to 3,188,000 jobs, or 2.2 percent per year over the eight-year period. A loss of 287,000 jobs, or 5.2 percent per year, to 539,000 jobs in the manufacturing sector accounted for nearly half of the City's total employment loss during this period. Employment in the finance, insurance and real estate ("FIRE") sector declined by 50,000 jobs, or 1.4 percent per year, to 414,000 jobs, while service sector employment remained relatively constant at 783,000 jobs.

The ripple effects of the decline in the manufacturing and FIRE sectors of the City's economy, along with stagnation in the services sector, caused declines during the 1969 to 1977 period in other sectors sensitive to the health of the rest of the local economy. In particular, government employment fell 0.9 percent per year to 508,000 jobs; transportation and public utilities employment dropped 2.8 percent per year to 258,000 jobs; wholesale and retail trade employment declined 2.3 percent per year to 620,000 jobs; and construction employment decreased 6.0 percent per year to 64,000 jobs.

Conversely, from 1969 to 1977, U.S. real GDP rose on average 2.6 percent per year and employment increased at an average annual rate of 2.0 percent. Thus, as the nation emerged from the OPEC-induced recession in 1973 to 1975, a continuing local economic decline plunged the City into a fiscal crisis that led it to the brink of bankruptcy.

The City's economy during the period from 1977 to 1987 contrasts sharply with the 1969 to 1977 period. During the 1977 to 1987 period, the City's economy expanded along with that of the nation. From the late 1970s to the late 1980s, U.S. real GDP rose 2.5 percent per year, despite a severe recession from 1980 to 1982. But unlike growth in the 1969 to 1977 period when U.S. inflation accelerated and interest rates rose, in

the 1977 to 1987 period, inflation generally decelerated and interest rates dropped by 50 percent from their 1981 peak. This provided a powerful impetus to the financial markets and the result was a bull market which nearly tripled stock prices and increased the volume of shares traded by 800 percent. As a consequence, the City's FIRE sector employment grew dramatically and carried the rest of the local economy along with it.

Due to the strong growth in the FIRE and service sectors, total City employment rose 1.2 percent a year to reach 3,590,000 in 1987, the highest level in a decade and a half. More specifically, during the 1977 to 1987 period, FIRE employment grew 2.9 percent per year to 550,000 jobs; service sector employment rose 3.5 percent per year to 1,108,000 jobs; wholesale and retail trade employment increased 0.3 percent per year to 638,000 jobs; government employment grew 1.3 percent per year to 580,000 jobs; and construction employment increased 6.3 percent per year to 119,000 jobs. Meanwhile, manufacturing employment continued its long-term decline, dropping 3.4 percent per year to 380,000 jobs, and transportation and public utilities employment also continued to decline, decreasing nearly 1.8 percent per year to 215,000 jobs.

Another turning point in the City's economy was the October 1987 stock market crash. During 1988, the U.S. economy boomed with real GDP growth of 3.8 percent and an increase in employment of 3.2 percent, both above their average annual growth rates for the period from 1969 to 1987 of 2.6 and 2.1 percent, respectively. The City's economy, however, stagnated, and the ripple effects of job losses resulting from post-crash layoffs of more than 20,000 employees in the FIRE sector, where wages are 50 percent above the City average, caused City growth in 1988 essentially to disappear. After increases of 35,000 jobs a year from 1977 to 1987, City employment increased by only 15,000 jobs, or 0.4 percent, in 1988. All of that increase was attributable to government employment, which added 15,800 jobs. Service sector employment added 14,600 jobs, less than half its average annual growth in the 1977 to 1987 period, and such growth was more than offset by declines in employment in the FIRE and manufacturing sectors.

During 1989, the U.S. economy grew strongly with an increase in real GDP of 3.4 percent and an increase in employment of 2.6 percent. The City's economy, however, continued to stagnate, with continued declines in employment in the FIRE and manufacturing sectors and very weak growth in government employment.

The national economic downturn which began in July 1990 adversely affected the local economy, which had been declining since late 1989. As a result, the City experienced significant job losses in 1990 with total employment declining by 1.2 percent or 42,000 jobs. Employment increased only in the service, transportation and public utilities and government sectors, at rates of 0.2 percent, 5.1 percent (due to a strike in 1989) and 1.0 percent, respectively. These increases were, however, more than offset by the job losses in the other major sectors, specifically, the FIRE, wholesale and retail trade, manufacturing and construction sectors which experienced decreases of 2.1 percent, 3.5 percent, 6.1 percent and 4.9 percent, respectively.

During 1991, both the national and local economies continued to decline, with the City declining at a faster rate than the nation. Local employment decreased by 191,000 jobs, or 5.4 percent, and the nation experienced job losses totalling 1.2 million, or 1.1 percent. In 1992, job losses moderated in the City, with employment in the City decreasing by 93,000 jobs, or 2.8 percent, and employment in the U.S. increased by 0.3 percent. In 1993, employment in the U.S. increased by 2.1 million jobs. Employment in the City began to improve, experiencing a moderate gain of 2,000 jobs in 1993. In 1994, local employment increased by 27,000 jobs, the first significant gain since 1987 and in 1995, City employment increased by only 7,000 jobs due to the government sector cutbacks of 25,000 jobs. U.S. employment increased by 3.4 million in 1994 and 3.0 million in 1995. As of June 1996, employment in the U.S. has increased by 2.5 million jobs and employment in the City increased by 31,000 jobs from June 1995.

Certain City employment information is presented in the tables below. These tables are derived from the Establishment Survey and the Current Population Survey which use significantly different estimation techniques that are not comparable.

*Non-Agricultural Payroll Employment: Establishment Survey*

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

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

| Sector | Peak Employment(1) Year | Peak Employment(1) Level | Average Annual Employment 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Private Sector | | | | | | | | | | | |
| Non-Manufacturing ..... | 1989 | 2647.2 | 2630.1 | 2638.8 | 2647.2 | 2621.1 | 2474.3 | 2404.4 | 2414.8 | 2463.6 | 2503.6 |
| Services..... | 1995 | 1176.9 | 1108.4 | 1123.1 | 1147.2 | 1149.0 | 1096.9 | 1093.1 | 1115.8 | 1148.0 | 1180.1 |
| Wholesale and Retail trade ..... | 1969 | 749.1 | 637.6 | 634.3 | 630.2 | 608.3 | 565.3 | 545.6 | 537.9 | 544.1 | 556.2 |
| Finance, Insurance and Real Estate ..... | 1987 | 549.7 | 549.7 | 542.4 | 530.5 | 519.6 | 493.6 | 473.5 | 471.6 | 480.3 | 474.1 |
| Transportation and Public Utilities ..... | 1969 | 323.9 | 214.9 | 218.4 | 218.1 | 229.1 | 218.4 | 204.8 | 203.4 | 201.5 | 203.6 |
| Contract Construction . | 1962 | 139.1 | 118.8 | 120.1 | 120.8 | 114.9 | 99.8 | 87.1 | 85.8 | 89.3 | 89.3 |
| Mining ..... | 1967 | 2.5 | 0.7 | 0.5 | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 |
| Manufacturing..... | 1960 | 946.8 | 379.6 | 370.1 | 359.5 | 337.5 | 307.8 | 292.8 | 288.8 | 280.5 | 273.0 |
| Durable..... | 1960 | 303.6 | 100.0 | 97.7 | 94.3 | 88.0 | 77.3 | 72.5 | 70.8 | 69.3 | 67.8 |
| Non-Durable ..... | 1960 | 643.2 | 279.6 | 272.4 | 265.2 | 249.5 | 230.5 | 220.3 | 218.0 | 211.2 | 205.3 |
| Government(2) ..... | 1990 | 607.6 | 580.4 | 596.1 | 601.5 | 607.6 | 592.6 | 584.1 | 579.7 | 566.6 | 541.5 |
| Total Non-Agricultural ... | 1969 | 3797.7 | 3590.0 | 3605.0 | 3608.2 | 3566.2 | 3374.8 | 3281.3 | 3283.4 | 3310.7 | 3318.1 |

**RECENT MONTHLY TRENDS**
**(Total Payroll Employment in Thousands)**

| Year | Jan | Feb | Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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..... | 3480.5 | 3492.2 | 3524.0 | 3525.0 | 3536.9 | 3552.5 | 3543.9 | 3535.3 | 3544.0 | 3566.5 | 3585.2 | 3600.7 |
| 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..... | 3557.8 | 3575.3 | 3609.4 | 3603.9 | 3603.8 | 3625.1 | 3578.3 | 3583.0 | 3595.4 | 3611.2 | 3651.4 | 3665.0 |
| 1989..... | 3566.9 | 3584.6 | 3611.2 | 3617.5 | 3622.2 | 3641.5 | 3592.5 | 3584.6 | 3594.7 | 3601.6 | 3623.9 | 3657.6 |
| 1990..... | 3555.9 | 3563.1 | 3588.9 | 3578.2 | 3601.7 | 3606.0 | 3549.4 | 3553.9 | 3556.2 | 3540.1 | 3548.4 | 3553.1 |
| 1991..... | 3389.2 | 3387.7 | 3407.6 | 3394.9 | 3396.5 | 3405.9 | 3339.8 | 3335.4 | 3341.6 | 3357.2 | 3371.0 | 3370.3 |
| 1992..... | 3258.5 | 3258.0 | 3282.0 | 3289.2 | 3292.4 | 3296.1 | 3276.9 | 3265.8 | 3264.3 | 3285.7 | 3295.4 | 3311.7 |
| 1993..... | 3221.6 | 3236.5 | 3259.4 | 3273.3 | 3282.4 | 3291.0 | 3283.4 | 3283.0 | 3276.6 | 3312.8 | 3330.7 | 3349.4 |
| 1994..... | 3244.1 | 3258.5 | 3295.1 | 3305.4 | 3214.7 | 3321.1 | 3305.6 | 3305.2 | 3310.1 | 3337.0 | 3359.2 | 3372.2 |
| 1995..... | 3266.9 | 3279.3 | 3306.9 | 3309.1 | 3320.2 | 3328.0 | 3311.0 | 3302.1 | 3313.7 | 3342.2 | 3361.2 | 3377.1 |
| 1996..... | 3267.4 | 3295.3 | 3324.9 | 3336.0 | 3347.6 | 3359.2 | | | | | | |

(1) For the period 1960 through 1995.
(2) Excludes military establishments.

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.

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

*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)(3) | |
|---|---|---|---|---|---|---|---|
| | Total | Employed | Unemployed | New York City | United States | New York City | United States |
| | (In Thousands) | | | | | | |
| 1982 | 3,093 | 2,798 | 296 | 55.2% | 64.3% | 9.5% | 9.7% |
| 1983 | 3,047 | 2,759 | 288 | 53.8 | 64.4 | 9.4 | 9.6 |
| 1984 | 3,081 | 2,806 | 275 | 53.9 | 64.7 | 8.9 | 7.5 |
| 1985 | 3,227 | 2,966 | 262 | 56.1 | 65.1 | 8.1 | 7.2 |
| 1986 | 3,219 | 2,983 | 237 | 55.5 | 65.6 | 7.4 | 7.0 |
| 1987 | 3,244 | 3,058 | 186 | 55.6 | 65.9 | 5.7 | 6.2 |
| 1988 | 3,210 | 3,050 | 160 | N/A | 66.2 | 5.0 | 5.5 |
| 1989 | 3,364 | 3,132 | 232 | 58.8 | 66.8 | 6.9 | 5.3 |
| 1990 | 3,334 | 3,103 | 231 | 57.0 | 66.7 | 6.9 | 5.5 |
| 1991 | 3,276 | 2,991 | 285 | 56.4 | 66.3 | 8.7 | 6.8 |
| 1992 | 3,262 | 2,902 | 360 | 56.3 | 66.8 | 11.0 | 7.6 |
| 1993 | 3,237 | 2,901 | 335 | 55.9 | 66.7 | 10.4 | 7.4 |
| 1994 | 3,198 | 2,919 | 278 | 55.5 | 66.6 | 8.7 | 6.1 |
| 1995 | 3,171 | 2,912 | 259 | N/A | 66.6 | 8.2 | 5.6 |

RECENT MONTHLY TRENDS

| Year | Unemployment | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jan | Feb | Mar | Apr | May | June | July | Aug | Sept | Oct | Nov | Dec |
| 1985 | 8.9 | 9.0 | 8.8 | 8.4 | 8.1 | 7.7 | 7.9 | 7.8 | 7.8 | 8.1 | 7.6 | 7.3 |
| 1986 | 8.0 | 8.1 | 8.0 | 7.8 | 7.6 | 7.3 | 7.8 | 7.2 | 6.8 | 7.0 | 6.5 | 6.2 |
| 1987 | 7.0 | 6.5 | 6.1 | 5.6 | 5.6 | 5.7 | 6.0 | 5.4 | 5.0 | 5.6 | 5.5 | 4.9 |
| 1988 | 5.2 | 4.8 | 4.7 | 4.4 | 4.5 | 4.5 | 5.2 | 5.2 | 5.2 | 5.5 | 5.3 | 5.3 |
| 1989 | 6.3 | 6.1 | 5.7 | 7.5 | 7.5 | 7.2 | 7.4 | 7.2 | 7.1 | 7.2 | 6.8 | 6.6 |
| 1990 | 7.2 | 7.0 | 6.8 | 6.4 | 6.5 | 6.4 | 7.1 | 6.9 | 7.2 | 7.5 | 7.2 | 6.8 |
| 1991 | 7.8 | 7.9 | 8.2 | 8.3 | 8.5 | 8.5 | 9.1 | 9.0 | 8.7 | 9.3 | 9.6 | 9.5 |
| 1992 | 10.6 | 10.7 | 10.7 | 10.4 | 10.7 | 11.1 | 11.8 | 11.5 | 11.3 | 11.5 | 11.1 | 11.0 |
| 1993 | 11.9 | 11.4 | 10.7 | 10.2 | 10.1 | 9.9 | 10.3 | 9.9 | 9.7 | 10.3 | 10.1 | 9.8 |
| 1994 | 10.3 | 10.0 | 9.7 | 9.1 | 8.7 | 8.5 | 8.9 | 8.4 | 7.8 | 8.1 | 7.6 | 7.2 |
| 1995 | 8.1 | 8.4 | 8.4 | 8.1 | 8.0 | 8.0 | 8.4 | 8.2 | 8.1 | 8.3 | 8.0 | 8.0 |
| 1996 | 8.6 | 8.5 | 9.3 | 8.8 | 8.4 | 8.5 | | | | | | |

(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) Beginning in late 1992 the Current Population survey (which provides household employment and unemployment statistics) methodology was revised for September 1992 and thereafter. As a result, the methodology used for such period differs from the methodology used for the period prior to September 1992 and, consequently, the pre-September 1992 data is inconsistent with the data for September 1992 and thereafter.

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.

### Consumer Prices and Wage Rates

The City's economic growth during 1977 to 1987, fueled by the boom in the financial sector, aggravated local inflationary pressures. Since 1983, the local Consumer Price Index increased more than the national average, rising 4.6 percent per year on average through 1989 versus 3.6 percent per year for the nation. This was a reversal of the trend in the 1970s and early 1980s, when local inflation lagged the national rate by a percentage point. In 1988, local prices rose 4.9 percent, or 0.8 percentage points faster than the national rate, and in 1989, local inflation measured 5.6 percent compared to the national 4.8 percent rate. In 1990, prices at the local and national levels experienced a sharp increase over 1989, climbing 6.1 percent and 5.4 percent,

respectively. Largely responsible for the surge in prices in 1990 was a steep upturn in energy prices created by an OPEC agreement and the Middle East crisis. In 1991, the local inflation rate was 4.5%, which was 0.3 of a percentage point higher than the national rate of 4.2%. In 1992, inflation was generally subdued both locally and nationally with prices in the New York area rising 3.6% compared to 3.0% nationally. In 1993, inflation remained subdued locally and nationally with prices rising 3.0% at both levels. In 1994, the New York area inflation rate discounted the national inflation rate by two-tenths of a percentage point, with prices rising 2.4% locally versus 2.6% nationally. In 1995, the local inflation rate was less than the national rate by three-tenths of a percentage point, at 2.5% versus 2.8% nationally. In June 1996, the local rate of inflation was 2.7% versus 2.8% for the U.S.

The growth in the financial sector in the 1980s accelerated wage rate increases in the City, which had run at about the national average of 7.6% per year from 1975 to 1981, a period of double-digit inflation. Inflation has subsided since 1981; however, bolstered by high bonus payments in the financial sector, with its multiplier effects on other industries, overall wage rates climbed 7.1% per year from 1982 to 1988, or approximately 2.5 percentage points above the U.S. rate. In 1988, the premium over the national wage rate increased to nearly 4 percentage points, as local wages, boosted by record bonus payments on Wall Street for 1987, rose 8.5% compared to 4.6% for the nation.

In 1989, given the sharp decrease in FIRE sector bonus payments and base compensation, local wage rates rose only 3.4%, versus the national increase of 3.2%. As the stock market stabilized, local wage rates increased 6.6% versus 4.7% for the nation in 1990, and in 1991 wage rates increased 4.0% versus 3.6% for the nation. In 1992, boosted by FIRE sector bonus payments, local wage rates increased 11.3% versus 5.3% for the nation. Due to a shift of bonuses normally paid out in early 1993 into late 1992, the 1993 growth rates for both local and national wage rates were artificially low (1.3% locally versus 1.5% for the nation). In 1994 and 1995, local wage rates increased 1.4% and 6.2%, respectively, compared to 1.7% and 3.1% for the nation.

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

| | Percent Increase Over Prior Year | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Area(1) | 1970 | 1975 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| New York-NE. N.J.(2) | 7.4 | 7.6 | 11.3 | 9.8 | 5.8 | 4.7 | 5.0 | 3.7 | 3.3 | 5.1 | 4.9 | 5.6 | 6.1 | 4.5 | 3.6 | 3.0 | 2.4 | 2.5 |
| Philadelphia, Pa.-N.J. | 6.8 | 8.3 | 13.1 | 10.2 | 4.9 | 2.9 | 4.7 | 4.5 | 2.5 | 4.8 | 4.8 | 4.8 | 5.9 | 4.7 | 3.1 | 2.5 | 2.9 | 2.6 |
| Chicago, Ill.-Northwestern Ind. | 5.7 | 7.9 | 14.4 | 9.6 | 6.8 | 4.0 | 3.8 | 3.8 | 2.1 | 4.1 | 3.9 | 5.1 | 5.4 | 4.1 | 2.9 | 3.1 | 2.2 | 3.2 |
| San Francisco-Oakland(3) | 5.1 | 9.9 | 15.1 | 13.0 | 6.9 | 1.0 | 5.8 | 4.0 | 3.0 | 3.5 | 4.4 | 4.9 | 4.5 | 4.4 | 3.3 | 2.7 | 1.6 | 2.0 |
| L.A.-Long Beach, Anaheim, Calif. | 5.2 | 10.6 | 15.8 | 9.7 | 6.0 | 1.8 | 4.6 | 4.6 | 3.3 | 4.2 | 4.6 | 5.1 | 5.9 | 4.1 | 3.6 | 2.5 | 1.4 | 1.5 |
| U.S. city average | 5.9 | 9.1 | 13.5 | 10.4 | 6.2 | 3.2 | 4.4 | 3.5 | 1.9 | 3.7 | 4.1 | 4.8 | 5.4 | 4.2 | 3.0 | 3.0 | 2.6 | 2.8 |

(1) Area is generally the Standard Metropolitan Statistical Area (the "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 the 1990 census.

(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.

(3) The Consumer Price Index for San Francisco-Oakland was reported bi-monthly prior to 1987.

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

Information on consumer price trends in the New York-Northeastern New Jersey metropolitan area for certain items is set forth in the table below.

BY EXPENDITURE CLASS

| Expenditure Class | Average Annual % Increase 1985-95 | | % Increase 1995 | | % Increase June 1996 over June 1995 | |
|---|---|---|---|---|---|---|
| | U.S. | New York-NE. N.J. | U.S. | New York-NE. N.J. | U.S. | New York-NE. N.J. |
| All Items | 3.5 | 4.1 | 2.8 | 2.5 | 2.8 | 2.7 |
| Food and Beverages | 3.5 | 3.8 | 2.8 | 2.6 | 3.1 | 2.6 |
| Housing | 3.3 | 4.2 | 2.6 | 2.2 | 2.8 | 2.1 |
| Apparel and Upkeep | 2.3 | 1.9 | (1.1) | (0.2) | 0.3 | 1.1 |
| Transportation | 2.7 | 3.1 | 3.6 | 2.9 | 2.1 | 3.9 |
| Medical Care | 6.3 | 7.0 | 4.5 | 4.2 | 3.6 | 3.5 |
| Entertainment | 3.6 | 3.9 | 2.5 | 3.1 | 3.7 | 2.9 |
| Other Goods and Services | 6.1 | 6.3 | 4.2 | 4.2 | 4.2 | 4.0 |

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

**Personal 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. As a result of the surge in wage rates and employment, growth in personal income in New York City also increased in the mid-1980s. From 1971 to 1981, income growth in the City was below the U.S. rate by nearly four percentage points, as U.S. employment grew and City employment for most of that period declined. From 1982 to 1994 (the most recent year for which local personal income data are available), New York City personal income averaged 6.5 percent growth compared to 6.4 percent for the nation. The following table sets forth recent information regarding personal income in the City.

PERSONAL INCOME IN NEW YORK CITY(1)

| Year | Personal Income | | | Per Capita Personal Income | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | NYC Total (In Billions) | Average Annual % Change | | | Average Annual % Change | | New York City as a Percent of | | |
| | | NYC | U.S. | NYC | NYC | U.S. | U.S. | Suburban Counties(2) | Metropolitan Area(3) |
| 1983 | $103.9 | 8.0% | 6.4% | $14,474 | 6.9% | 5.4% | 117.3% | 85.5% | 96.2% |
| 1984 | 114.3 | 10.0 | 10.9 | 15,801 | 9.2 | 9.9 | 116.5 | 84.1 | 95.9 |
| 1985 | 122.3 | 7.0 | 7.3 | 16,819 | 6.4 | 6.4 | 116.6 | 83.4 | 95.8 |
| 1986 | 131.4 | 7.4 | 6.0 | 17,956 | 6.8 | 5.1 | 118.5 | 82.7 | 95.7 |
| 1987 | 140.3 | 6.8 | 6.3 | 19,107 | 6.4 | 5.4 | 119.7 | 82.3 | 95.7 |
| 1988 | 151.8 | 8.2 | 7.6 | 20,636 | 8.0 | 6.6 | 121.2 | 83.2 | 95.7 |
| 1989 | 161.7 | 6.5 | 7.6 | 22,012 | 6.7 | 6.6 | 121.3 | 83.5 | 95.8 |
| 1990 | 173.7 | 7.5 | 6.7 | 23,726 | 7.8 | 5.6 | 123.8 | 85.2 | 96.2 |
| 1991 | 178.8 | 2.9 | 3.7 | 24,464 | 3.1 | 2.6 | 124.4 | 86.2 | 96.2 |
| 1992 | 192.0 | 7.4 | 6.0 | 26,276 | 7.4 | 4.8 | 127.5 | 89.4 | 96.7 |
| 1993 | 197.2 | 2.7 | 4.1 | 26,924 | 2.5 | 3.0 | 126.9 | 88.5 | 96.8 |
| 1994 | 204.0 | 3.4 | 4.9 | 27,833 | 3.4 | 3.8 | 126.3 | 88.5 | 96.6 |

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

(3) Based on Primary Metropolitan Statistical Area ("PMSA") which includes New York City, Putnam, Rockland and Westchester 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. There are important implications of this structural shift from the manufacturing to the FIRE and services sectors. First, 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 to 1989, its earnings share increased by about 9 percentage points, which reflects its high per employee income. However, the sudden shock in the financial industry of the October 1987 stock market crash had a disproportionally adverse effect on the City's employment and income relative to the nation. Payroll employment data indicates that through December 1991 the City's FIRE sector lost 71,000 jobs since the October 1987 crash, significantly offsetting the employment gains in other sectors. The City's and the nation's employment and income by industry sector are set forth in the following table.

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

| | Employment | | | | Earnings(2) | | | |
|---|---|---|---|---|---|---|---|---|
| | 1977 | | 1995 | | 1977 | | 1994 | |
| Sector | NYC | U.S. | NYC | U.S. | NYC | U.S. | NYC | U.S. |
| Private Sector | | | | | | | | |
| Non-Manufacturing | 67.2% | 57.8% | 75.1% | 67.6% | 70.8% | 57.2% | 79.6% | 64.6% |
| Services | 24.6 | 18.6 | 35.5 | 28.1 | 24.9 | 17.9 | 35.0 | 27.9 |
| Wholesale and Retail Trade | 19.5 | 22.4 | 16.5 | 23.3 | 16.0 | 17.2 | 11.0 | 16.0 |
| Finance, Insurance and Real Estate | 13.0 | 5.4 | 14.4 | 6.0 | 16.0 | 5.8 | 24.9 | 7.5 |
| Transportation and Public Utilities | 8.1 | 5.7 | 6.0 | 5.3 | 10.9 | 7.7 | 6.0 | 6.8 |
| Contract Construction | 2.0 | 4.7 | 2.7 | 4.5 | 2.4 | 6.5 | 2.7 | 5.4 |
| Mining | 0.0 | 1.0 | 0.0 | 0.5 | 0.4 | 1.8 | 0.0 | 0.9 |
| Manufacturing | 16.9 | 23.9 | 8.4 | 15.8 | 14.8 | 25.9 | 7.5 | 18.5 |
| Durable | 5.1 | 14.0 | 2.1 | 9.1 | 4.3 | 16.4 | 1.8 | 11.3 |
| Non-Durable | 11.8 | 9.8 | 6.3 | 6.7 | 10.5 | 9.5 | 5.7 | 7.3 |
| Government(3) | 15.9 | 18.3 | 16.4 | 16.5 | 14.4 | 16.9 | 12.7 | 16.2 |
| 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 1994 preliminary data.

(3) Excludes military establishments.

Sources: 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.

**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. While figures for 1988 and 1989 indicate a decrease in public assistance recipients, the number of recipients has increased since 1990.

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 tables set forth the number of persons receiving public assistance in the City.

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

| Year(1) | Total | Average Annual Change (%) | Home Relief | AFDC | AFDC Unemployed Parent | AFDC Predetermination Grant |
|---|---|---|---|---|---|---|
| 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 | (2.6) | 149.3 | 642.0 | 12.0 | 14.6(2) |
| 1990 | 858.3 | 4.9 | 139.7 | 641.4 | 12.8 | 64.5 |
| 1991 | 939.4 | 9.4 | 166.5 | 677.5 | 15.0 | 80.4 |
| 1992 | 1,007.7 | 7.3 | 189.3 | 710.1 | 15.9 | 92.3 |
| 1993 | 1,085.6 | 7.7 | 214.1 | 764.6 | 27.6 | 79.2 |
| 1994 | 1,140.6 | 5.1 | 229.9 | 801.9 | 40.3 | 68.5 |
| 1995 | 1,109.5 | (2.7) | 207.7 | 799.4 | 46.5 | 55.9 |

(1) Figures do not include aged, disabled or blind persons who were transferred from public assistance to the 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 comprises persons receiving public assistance as predetermination grant recipients pending AFDC eligibility for only October through December of 1989.

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)

| Year | Jan. | Feb. | Mar. | Apr. | May | June | July | Aug. | Sept. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 |
| 1990 | 823.6 | 827.6 | 839.0 | 841.7 | 849.7 | 859.6 | 859.8 | 871.4 | 871.7 | 880.2 | 883.1 | 892.3 |
| 1991 | 895.9 | 899.9 | 914.0 | 923.2 | 929.2 | 936.8 | 945.1 | 953.8 | 955.2 | 969.5 | 972.8 | 977.2 |
| 1992 | 988.8 | 985.4 | 987.1 | 989.1 | 994.4 | 999.7 | 1,005.2 | 1,011.6 | 1,018.3 | 1,031.9 | 1,027.3 | 1,053.7 |
| 1993 | 1,047.5 | 1,053.9 | 1,068.0 | 1,078.9 | 1,081.8 | 1,089.0 | 1,092.0 | 1,096.7 | 1,101.0 | 1,103.7 | 1,104.9 | 1,112.5 |
| 1994 | 1,111.3 | 1,115.2 | 1,136.4 | 1,137.6 | 1,139.8 | 1,140.6 | 1,146.0 | 1,147.4 | 1,149.4 | 1,151.9 | 1,154.6 | 1,157.7 |
| 1995 | 1,150.5 | 1,155.3 | 1,160.6 | 1,140.5 | 1,128.5 | 1,119.4 | 1,100.6 | 1,101.4 | 1,084.8 | 1,071.1 | 1,054.8 | 1,046.4 |
| 1996 | 1,041.4 | 1,045.1 | 1,042.7 | 1,037.7 | 1,025.1 | 1,007.9 | | | | | | |

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.

**Retail Sales**

The City is a major retail trade market, and has the greatest volume of retail sales of any city in the nation. After a very large increase in 1980, retail sales growth in New York City moderated in 1981. Between 1984 and 1986, retail sales, particularly of durable goods, grew at an increased rate, outpacing the nation in 1985 and 1986. Retail sales increased slightly by 0.2% in 1987 mainly because consumers shifted their purchases into 1986 (sales increased 17.3%) 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, but in 1988, sales increased by 10.8%. By 1989 and 1990, however, the local recession became

apparent as retail sales in the City increased only slightly by 0.4% and then declined by 0.8%, respectively, over the previous years' figures. Retail sales decreased in 1991 by 4.4%, by 3.4% in 1992 and by 3.6% in 1993. The retail sales figures for 1992 are based on a different sample of data than for 1991; therefore, year over year comparisons for 1992 may be distorted. Retail sales figures prior to 1992 were based, and, for 1993 and thereafter will be based, on the same sample of data as the prior year figures. Trends in the City's retail sales are shown in the table below.

RETAIL SALES IN NEW YORK CITY

| Year | Total Retail Sales (In Billions) | | Annual Percent Change | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Total Retail Sales | | Non-Durable(1) | | Durable(2) | |
| | NYC | U.S. | NYC | U.S. | NYC | U.S. | NYC | U.S. |
| 1983 | $ 29.0 | $1,167.4 | 9.8% | 9.4% | 5.5% | 6.2% | 20.0% | 16.3% |
| 1984 | 30.9 | 1,283.8 | 6.3 | 10.0 | 4.5 | 6.8 | 10.0 | 16.2 |
| 1985 | 33.8 | 1,373.8 | 9.4 | 7.0 | 6.4 | 5.6 | 15.3 | 9.7 |
| 1986 | 39.6 | 1,449.2 | 17.3 | 5.5 | 9.1 | 3.7 | 32.1 | 8.6 |
| 1987 | 39.6 | 1,538.8 | (0.2) | 6.2 | 1.0 | 6.1 | (2.0) | 6.3 |
| 1988 | 43.7 | 1,648.6 | 10.6 | 7.1 | 9.7 | 5.9 | 11.9 | 9.2 |
| 1989 | 43.7 | 1,758.4 | (0.2) | 6.7 | 1.6 | 7.8 | (2.9) | 4.9 |
| 1990 | 42.9 | 1,845.1 | (1.7) | 4.9 | 1.8 | 6.8 | (7.3) | 1.8 |
| 1991 | 40.7 | 1,856.1 | (5.2) | 0.6 | (0.8) | 2.6 | (12.9) | (2.9) |
| 1992 | 38.8 | 1,944.6 | (4.7) | 4.8 | 2.5 | 3.1 | (19.0) | 7.9 |
| 1993 | 37.8 | 2,072.5 | (2.4) | 6.6 | (3.2) | 4.2 | (0.5) | 10.7 |
| 1994 | 38.9 | 2,227.8 | 2.7 | 7.5 | 1.4 | 4.4 | 5.9 | 12.7 |
| 1995 | 40.4 | 2,341.7 | 3.9 | 5.1 | (0.7) | 3.9 | 14.6 | 7.0 |

(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, stationery 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.

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

**Business Activity**

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

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 securities, banking, law, accounting and advertising firms. While the City had experienced a substantial number of business relocations during the previous decade, the number of relocations declined significantly after 1976, although declines in back office employment continued. 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 1970s and continued to grow rapidly through the 1980s. 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.

Many factors have been cited as placing the City during the early 1970s 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 1988 fiscal year, average per capita City taxes were $1,812 and average per capita State taxes paid by residents of the State were $1,462, a combined tax burden of $3,274 per capita. Nationwide, per capita local taxes averaged $698 and per capita state taxes averaged $1,074 for the 1988 fiscal year for a combined tax burden of $1,772.

The cost of energy in the City is one of the highest in the nation, particularly for electricity. In May 1991, electric costs in the City for industrial users was ranked the third highest among electric utility service areas in the nation.

During certain prior periods, in particular the mid-1960s and from 1977 through most of 1982, the demand for office space in the City greatly exceeded the available supply, and as a result, the rental cost of available space escalated sharply. However, at the end of 1982 and in early 1983, construction activity increased and the office market softened. Data from Cushman & Wakefield indicates that the office market in the City, particularly in the downtown area where older, poorly maintained buildings had been vacated, had been softening from the mid-1980's through 1992. Recent data shows some improvement, with the overall vacancy rate in Manhattan at approximately 14.4% as of June 1996.

**Hotel Occupancy Rate**

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 percent of capacity. Despite current economic conditions worldwide, tourism continues as one of the City's major economic strengths. Based on revised estimates, during 1988, 25.5 million people visited the City, a sharp rise over 1987, and they 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 percent increase from 1987. In 1988, 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. The table below shows the number of visitors to the City and the City's hotel occupancy rate for each year since 1988.

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 |
|---|---|---|
| 1988 | 25.0 | 76.7% |
| 1989 | 24.7 | 74.8 |
| 1990 | 24.8 | 72.2 |
| 1991 | 24.4 | 67.6 |
| 1992 | 24.8 | 68.9 |
| 1993 | 23.9 | 70.3 |
| 1994 | 24.6 | 75.2 |
| 1995 | 25.1 | 78.5 |

(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.

**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 on behalf of the New York City Water Board 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 one landfill. The capacity of the Fresh Kills landfill is expected to last until approximately 2015. The City's Ten-Year Capital Strategy 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 has also entered into an administrative settlement with the State Department of Environmental Conservation which will require the City to spend approximately $200 million over ten years to install pollution control systems at the Fresh Kills landfill.

The City's mass transit system includes a subway system which covers over 238 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, the Ten-Year Capital Strategy, for fiscal years 1996-2005 which projects available capital funds over this period of $40.6 billion, of which approximately 92% will be financed with City sources. A portion of these funds is for rehabilitation or replacements of various elements of the infrastructure.

**Housing**

The housing stock in the City in 1991 consisted of 2,980,762 housing units, excluding units in special places, primarily institutions such as hospitals and universities. The 1991 housing inventory represented an increase of 140,505 units, or 5.0%, since 1987. While the total population of the City grew by 1.7% between 1987 and 1991, housing in the City remains in short supply. The following table presents the housing inventory in the City.

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

| Ownership/Occupancy Status | 1981 | 1984 | 1987 | 1991 | 1993 |
|---|---|---|---|---|---|
| Total Housing Units | 2,792 | 2,803 | 2,840 | 2,980 | 2,986 |
| Owner Units | 755 | 807 | 837 | 858 | 827 |
| Owner-Occupied | 746 | 795 | 817 | 829 | 806 |
| Vacant for Sale | 9 | 12 | 19 | 10 | 21 |
| Rental Units | 1,976 | 1,940 | 1,932 | 2,027 | 2,047 |
| Renter-Occupied | 1,934 | 1,901 | 1,884 | 1,951 | 1,977 |
| Vacant for Rent | 42 | 40 | 47 | 76 | 70 |
| Vacant Not Available For Sale Or Rent(2) | 62 | 56 | 72 | 94 | 112 |

(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: U.S. Bureau of the Census, 1981, 1984, 1987, 1991 and 1993 New York City Housing and Vacancy Surveys, as quoted in Blackburn, Anthony J., "Housing New York City", The City of New York Department of Housing Preservation and Development (New York, June 1995)

The 1991 Housing and Vacancy Report indicates that rental housing units predominate in the City. Of all occupied housing units in 1991, 29.8% were conventional home-ownership units, cooperatives or condominiums and 70.2% 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 3.78% in 1991, 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. This significant reduction is primarily a result of the City's housing improvement efforts.

After a significant decline during the early 1970s, 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**

Office building construction in the Manhattan Central Business District is currently undergoing a substantial decline after experiencing significant growth during the 1980s. 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. However, in 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, then the largest amount since 1973.

During the late 1970s demand for office space, as a result of increased employment in the service 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. Vacancy rates have continued to rise as a result of the 1987 stock market crash and subsequent retrenchment of the FIRE sector. By the end of 1990, vacancy rates for the Manhattan commercial market were close to 17%, as office construction continued and very little new space was occupied. As of March 1996, the overall office vacancy rate in Manhattan was 14.6%.

With respect to housing construction 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.

Since 1988, office building and housing construction activity has slowed substantially.

**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 "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax".

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

| | Fiscal Year | | | | | |
|---|---|---|---|---|---|---|
| County (Borough) | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
| Bronx (The Bronx) | $ 4,516 | $ 4,719 | $ 4,983 | $ 4,831 | $ 4,789 | $ 4,830 |
| Kings (Brooklyn) | 9,896 | 9,950 | 10,440 | 10,390 | 10,423 | 10,546 |
| New York (Manhattan) | 48,755 | 49,143 | 46,892 | 44,956 | 44,747 | 44,003 |
| Queens (Queens) | 12,666 | 12,776 | 13,185 | 13,112 | 13,173 | 13,352 |
| Richmond (Staten Island) | 2,635 | 2,590 | 2,678 | 2,730 | 2,720 | 2,764 |
| Total | $78,468 | $79,179 | $78,178 | $76,019 | $75,852 | $75,495 |

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 1992 | | Fiscal Year 1993 | | Fiscal Year 1994 | | Fiscal Year 1995 | | Fiscal Year 1996 | | Fiscal Year 1997 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Assessed Value (In Millions) | Percentage Of Taxable Real Estate | Assessed Value (In Millions) | Percentage Of Taxable Real Estate |
| One Family Dwellings | $ 4,100.5 | 5.2% | $ 4,092.4 | 5.2% | $ 3,918.7 | 5.0% | $ 4,013.2 | 5.3% | $ 4,096.1 | 5.4% | $ 4,152.5 | 5.5% |
| Two Family Dwellings | 3,156.4 | 4.0 | 3,100.2 | 3.9 | 3,046.8 | 3.9 | 3,104.0 | 4.1 | 3,158.9 | 4.2 | 3,188.7 | 4.2 |
| Walk-Up Apartments | 6,209.4 | 7.9 | 6,576.8 | 8.3 | 6,720.1 | 8.6 | 6,737.8 | 8.9 | 6,778.7 | 8.9 | 6,813.6 | 9.0 |
| Elevator Apartments | 15,152.8 | 19.3 | 15,517.8 | 19.6 | 14,914.0 | 19.1 | 14,429.4 | 19.0 | 14,467.6 | 19.1 | 14,427.9 | 19.1 |
| Warehouses | 926.8 | 1.2 | 989.8 | 1.3 | 1,031.5 | 1.3 | 1,044.4 | 1.4 | 1,071.4 | 1.4 | 1,084.1 | 1.4 |
| Factory and Industrial Buildings | 1,688.7 | 2.2 | 1,702.9 | 2.2 | 1,633.7 | 2.1 | 1,550.4 | 2.0 | 1,480.8 | 2.0 | 1,452.9 | 1.9 |
| Garages and Gasoline Stations | 1,107.3 | 1.4 | 1,191.3 | 1.5 | 1,248.2 | 1.6 | 1,278.8 | 1.7 | 1,323.6 | 1.7 | 1,365.5 | 1.8 |
| Hotels | 1,775.4 | 2.3 | 1,821.7 | 2.3 | 1,742.8 | 2.2 | 1,792.6 | 2.4 | 1,822.4 | 2.4 | 1,865.9 | 2.5 |
| Hospitals and Health | 402.6 | 0.5 | 425.2 | 0.5 | 481.0 | 0.6 | 438.6 | 0.6 | 530.3 | 0.7 | 415.6 | 0.6 |
| Theatres | 177.4 | 0.2 | 186.9 | 0.2 | 189.1 | 0.2 | 159.3 | 0.2 | 182.2 | 0.2 | 180.8 | 0.2 |
| Store Buildings | 4,221.1 | 5.4 | 4,416.4 | 5.6 | 4,360.2 | 5.6 | 4,349.7 | 5.7 | 4,365.4 | 5.8 | 4,383.2 | 5.8 |
| Loft Buildings | 2,398.1 | 3.1 | 2,317.8 | 2.9 | 2,100.3 | 2.7 | 1,916.8 | 2.5 | 1,867.4 | 2.5 | 1,828.5 | 2.4 |
| Churches, Synagogues, etc. | 41.1 | 0.1 | 53.8 | 0.1 | 68.1 | 0.1 | 52.0 | 0.1 | 50.9 | 0.1 | 58.7 | 0.1 |
| Asylums and Homes | 78.8 | 0.1 | 94.5 | 0.1 | 101.2 | 0.1 | 57.7 | 0.1 | 63.3 | 0.1 | 60.7 | 0.1 |
| Office Buildings | 24,134.5 | 30.8 | 23,907.6 | 30.2 | 21,817.1 | 27.9 | 20,342.7 | 26.8 | 19,685.6 | 26.0 | 18,785.9 | 24.9 |
| Places of Public Assembly | 135.3 | 0.2 | 138.3 | 0.2 | 145.2 | 0.2 | 146.0 | 0.2 | 150.3 | 0.2 | 152.9 | 0.2 |
| Outdoor Recreation Facilities | 82.7 | 0.1 | 84.5 | 0.1 | 108.3 | 0.1 | 88.2 | 0.1 | 87.4 | 0.1 | 92.1 | 0.1 |
| Condominiums | 3,963.1 | 5.1 | 4,322.8 | 5.5 | 4,195.9 | 5.4 | 4,363.2 | 5.7 | 4,549.2 | 6.0 | 4,831.9 | 6.4 |
| Residence Multi-Use | 1,004.5 | 1.3 | 1,034.6 | 1.3 | 1,111.1 | 1.4 | 1,137.6 | 1.5 | 1,144.0 | 1.5 | 1,157.6 | 1.5 |
| Transportation Facilities | 32.2 | 0 | 35.4 | 0 | 44.2 | 0.1 | 43.3 | 0.1 | 43.1 | 0.1 | 42.6 | 0.1 |
| Utility Bureau Properties | 0.0 | 0 | 0 | 0 | 0 | 0.0 | 0.7 | 0 | 0.0 | 0.0 | 0 | 0.0 |
| Vacant Land | 839.1 | 1.1 | 906.8 | 1.1 | 916.2 | 1.2 | 863.1 | 1.1 | 789.8 | 1.0 | 771.5 | 1.0 |
| Educational Structures | 142.9 | 0.2 | 170.1 | 0.2 | 175.1 | 0.2 | 214.3 | 0.3 | 261.6 | 0.3 | 303.5 | 0.4 |
| Selected Government Installations | 4.4 | 0 | 8.1 | 0 | 17.4 | 0 | 85.9 | 0.1 | 71.4 | 0.1 | 57.0 | 0.1 |
| Miscellaneous | 303.0 | 0.4 | 275.7 | 0.3 | 264.1 | 0.3 | 287.7 | 0.4 | 296.0 | 0.4 | 283.3 | 0.4 |
| Real Estate of Utility Corporations and Special Franchises | 6,389.4 | 8.1 | 5,807.8 | 7.3 | 7,827.2 | 10.0 | 7,522.0 | 9.9 | 7,514.3 | 9.9 | 7,737.8 | 10.2 |
| Total | $78,467.6 | 100.0% | $79,179.1 | 100.0% | $78,177.5 | 100.0% | $76,019.3 | 100.0% | $75,851.6 | 100.0% | $75,495.0 | 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 1997 fiscal year, the assessed valuation of real estate of utility corporations is $6.4 billion. The following table presents the 40 non-utility, non-residential properties having the greatest assessed valuation in the 1997 fiscal year as indicated in the tax rolls.

LARGEST REAL ESTATE TAXPAYERS(1)

| Property | 1997 Fiscal Year Assessed Valuation | Property | 1997 Fiscal Year Assessed Valuation |
|---|---|---|---|
| Met Life Buildings | $245,250,000 | Alliance Capital | $114,835,000 |
| Empire State Building | 191,250,000 | Kalikow Building | 107,730,000 |
| Bear Stearns Building | 180,630,000 | Paramount Plaza Building | 107,200,000 |
| Exxon Building | 180,090,000 | Chemical Plaza | 105,750,000 |
| General Motors Building | 179,302,000 | 595 Lexington Avenue | 105,540,000 |
| Sperry Rand Building | 168,750,000 | Celanese Building | 103,950,000 |
| Stuyvesant Town | 165,600,000 | Waldorf Astoria | 103,550,000 |
| McGraw-Hill Building | 160,560,000 | 666 Fifth Avenue | 100,000,000 |
| Bristol Myers | 152,640,000 | Carpet Center | 100,000,000 |
| PaineWebber | 146,000,000 | Park Avenue Plaza | 96,750,000 |
| Whitney Museum | 144,000,000 | Park Avenue Atrium | 95,391,000 |
| Time Life Building | 135,000,000 | Shearson Lehman | 92,250,000 |
| Credit Lyonnais | 132,120,000 | 617-35 Lexington Avenue | 90,000,000 |
| Morgan Guaranty | 131,010,000 | New York Hilton | 88,400,000 |
| International Building | 128,250,000 | Continental Illinois | 87,750,000 |
| Solow Building | 128,250,000 | W.R. Grace Building | 86,850,000 |
| One Liberty Plaza | 126,000,000 | Simon & Schuster Building | 85,500,000 |
| The Chase Manhattan Building | 124,000,000 | North Shore Towers | 85,370,000 |
| Worldwide Plaza | 123,150,000 | 55 Water Street Building | 83,800,000 |
| One Penn Plaza | 119,250,000 | Two Penn Plaza | 82,370,000 |

(1) Excludes real estate of public utilities.

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

# GENERAL PURPOSE FINANCIAL STATEMENTS OF THE CITY OF NEW YORK

**June 30, 1995 and 1994**

## INDEX

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KPMG Peat Marwick LLP

WATSON, RICE & CO, PC

Frye Williams & Co, PC

**Report of Independent Auditors**

The People of The City of New York

We have audited the general purpose financial statements of The City of New York ("The City") as of and for the years ended June 30, 1995 and 1994, as listed in the index. These financial statements are the responsibility of The City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the entities disclosed in Note B. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 at June 30, 1995 and 1994, and the results of its operations and cash flows of its discretely presented component units for the years then ended in conformity with generally accepted accounting principles.

As described in Note A to the general purpose financial statements, in fiscal year 1995, The City adopted GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans* and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* The general purpose financial statements for fiscal year 1994 have been restated to reflect these changes.

KPMG Peat Marwick LLP  Watson Rice & Co. P.C.  Frye Williams & Co, PC

October 27, 1995
New York, New York

# THE CITY OF NEW YORK

## COMBINED BALANCE SHEET—ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

JUNE 30, 1995
(in thousands)

| | Governmental Fund Types | | | Fiduciary Fund Type | Account Groups | | Total (Memorandum Only) Primary Government | Discretely Presented Component Units | Total (Memorandum only) Reporting Entity |
|---|---|---|---|---|---|---|---|---|---|
| | General | Capital Projects | Debt Service | Trust and Agency | General Fixed Assets | General Long-term Obligations | | | |
| ASSETS: | | | | | | | | | |
| Cash and cash equivalents | $ 748,228 | $ 84 | $ 54,002 | $ 329,275 | $ — | $ — | $ 1,131,589 | $ 251,331 | $ 1,382,920 |
| Investments, including accrued interest | 1,354,661 | 341,056 | 1,312,867 | 66,120,127 | — | — | 69,128,711 | 1,035,775 | 70,164,486 |
| Accounts receivable: | | | | | | | | | |
| Real estate taxes | 77,800 | — | — | — | — | — | 77,800 | — | 77,800 |
| Federal, State and other aid | 3,787,400 | 301,782 | — | — | — | — | 4,089,182 | — | 4,089,182 |
| Patient service, net | — | — | — | — | — | — | — | 641,117 | 641,117 |
| Other, net | 885,397 | — | — | 1,179,225 | — | — | 2,064,622 | 686,615 | 2,751,237 |
| Mortgage loans and interest receivable, net | — | — | 166,861 | — | — | — | 166,861 | 2,073,528 | 2,240,389 |
| Due from other funds and Discretely Presented Component Units | 1,548,360 | 1,116,547 | 71,892 | 966,658 | — | — | 3,703,457 | 2,757 | 3,706,214 |
| Property, plant and equipment | — | — | — | — | 16,506,755 | — | 16,506,755 | 22,102,250 | 38,609,005 |
| Accumulated depreciation and amortization | — | — | — | — | (4,825,866) | — | (4,825,866) | (7,535,099) | (12,360,965) |
| Restricted cash and investments | — | — | — | — | — | — | — | 1,133,766 | 1,133,766 |
| Other assets | 33,244 | 217,081 | 695 | 55,902 | — | — | 306,922 | 244,919 | 551,841 |
| Amounts available in Debt Service Funds | — | — | — | — | — | 1,368,715 | 1,368,715 | — | 1,368,715 |
| Amounts to be provided for general long-term obligations | — | — | — | — | — | 35,829,610 | 35,829,610 | — | 35,829,610 |
| Total assets | $8,435,090 | $1,976,550 | $1,606,317 | $68,651,187 | $11,680,889 | $37,198,325 | $129,548,358 | $20,636,959 | $150,185,317 |

See accompanying notes to financial statements.

# THE CITY OF NEW YORK

## COMBINED BALANCE SHEET—ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

JUNE 30, 1995

(in thousands)

| | Governmental Fund Types | | | Fiduciary Fund Type | Account Groups | | Total (Memorandum only) Primary Government | Discretely Presented Component Units | Total (Memorandum only) Reporting Entity |
|---|---|---|---|---|---|---|---|---|---|
| | General | Capital Projects | Debt Service | Trust and Agency | General Fixed Assets | General Long-term Obligations | | | |
| LIABILITIES: | | | | | | | | | |
| Accounts payable and accrued liabilities | $5,246,927 | $1,201,795 | $ 52,893 | $ 5,915,576 | $ — | $ — | $12,417,191 | $ 1,513,124 | $ 13,930,315 |
| Bonds and notes payable | — | — | — | — | — | 28,863,649 | 28,863,649 | 10,243,907 | 39,107,556 |
| Capital lease obligations | — | — | — | — | — | 966,945 | 966,945 | — | 966,945 |
| Accrued real estate tax refunds | 5,524 | — | — | — | — | 314,350 | 319,874 | — | 319,874 |
| Accrued tax refunds—other | 40,935 | — | — | — | — | — | 40,935 | — | 40,935 |
| Accrued judgments and claims | 116,698 | 122,528 | — | — | — | 2,524,028 | 2,763,254 | — | 2,763,254 |
| Accrued vacation and sick leave | — | — | — | — | — | 1,451,538 | 1,451,538 | 339,092 | 1,790,630 |
| Deferred wages | — | — | — | — | — | 46,696 | 46,696 | — | 46,696 |
| Accrued pension liability | — | — | — | — | — | 2,571,451 | 2,571,451 | 109,962 | 2,681,413 |
| Landfill closure and post-closure care costs | — | — | — | — | — | 459,668 | 459,668 | — | 459,668 |
| Accrued interest payable | — | — | — | — | — | — | — | 554,079 | 554,079 |
| Deferred revenues | 1,485,583 | 205,638 | — | — | — | — | 1,691,221 | 121,139 | 1,812,360 |
| Due to other funds and Discretely Presented Component Units | 962,569 | 1,331,157 | 28,056 | 966,658 | — | — | 3,288,440 | 417,774 | 3,706,214 |
| Estimated disallowances of Federal, State and other aid | 208,425 | — | — | — | — | — | 208,425 | — | 208,425 |
| Other | — | — | — | 643,686 | — | — | 643,686 | 72,645 | 716,331 |
| Total liabilities | 8,066,661 | 2,861,118 | 80,949 | 7,525,920 | — | 37,198,325 | 55,732,973 | 13,371,722 | 69,104,695 |
| EQUITY AND OTHER CREDITS: | | | | | | | | | |
| Investment in general fixed assets | — | — | — | — | 11,680,889 | — | 11,680,889 | — | 11,680,889 |
| Contributed capital | — | — | — | — | — | — | — | 8,398,213 | 8,398,213 |
| Retained earnings: | | | | | | | | | |
| Reserved for capital improvement | — | — | — | — | — | — | — | 118,478 | 118,478 |
| Reserved for loans | — | — | — | — | — | — | — | 65,827 | 65,827 |
| Reserved for donor restrictions | — | — | — | — | — | — | — | 10,338 | 10,338 |
| Reserved for debt retirement | — | — | — | — | — | — | — | 304,227 | 304,227 |
| Unreserved | — | — | — | — | — | — | — | (1,631,846) | (1,631,846) |
| Fund balance/Plan net assets: | | | | | | | | | |
| Reserved for debt service | — | — | 1,368,715 | — | — | — | 1,368,715 | — | 1,368,715 |
| Reserved for non-current mortgage loans | — | — | 156,653 | — | — | — | 156,653 | — | 156,653 |
| Reserved for supplemental benefit payments | — | — | — | 1,879,674 | — | — | 1,879,674 | — | 1,879,674 |
| Reserved for pension benefits | — | — | — | 59,245,593 | — | — | 59,245,593 | — | 59,245,593 |
| Unreserved, undesignated | 368,429 | (884,568) | — | — | — | — | (516,139) | — | (516,139) |
| Total equity (deficit) and other credits | 368,429 | (884,568) | 1,525,368 | 61,125,267 | 11,680,889 | — | 73,815,385 | 7,265,237 | 81,080,622 |
| Commitments and contingencies | | | | | | | | | |
| Total liabilities, equity and other credits | $8,435,090 | $1,976,550 | $1,606,317 | $68,651,187 | $11,680,889 | $37,198,325 | $129,548,358 | $20,636,959 | $150,185,317 |

See accompanying notes to financial statements.

# THE CITY OF NEW YORK

## COMBINED BALANCE SHEET—ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

JUNE 30, 1994
Restated
(in thousands)

| | Governmental Fund Types | | | Fiduciary Fund Type | Account Groups | | Total (Memorandum only) | Discretely Presented | Total (Memorandum only) |
|---|---|---|---|---|---|---|---|---|---|
| | General | Capital Projects | Debt Service | Trust and Agency | General Fixed Assets | General Long-term Obligations | Primary Government | Component Units | Reporting Entity |
| ASSETS: | | | | | | | | | |
| Cash and cash equivalents | $ 297,789 | $ 1,454 | $ 83,987 | $ 351,356 | $ — | $ — | $ 734,586 | $ 200,259 | $ 934,845 |
| Investments, including accrued interest | 1,481,318 | 560,654 | 1,473,455 | 57,862,147 | — | — | 61,377,574 | 1,005,430 | 62,383,004 |
| Accounts receivable: | | | | | | | | | |
| Real estate taxes | 80,377 | — | — | — | — | — | 80,377 | — | 80,377 |
| Federal, State and other aid | 3,280,895 | 269,363 | — | — | — | — | 3,550,258 | — | 3,550,258 |
| Patient service, net | — | — | — | — | — | — | — | 547,686 | 547,686 |
| Other, net | 699,261 | — | — | 1,081,748 | — | — | 1,781,009 | 523,996 | 2,305,005 |
| Mortgage loans and interest receivable, net | — | — | 157,729 | — | — | — | 157,729 | 1,997,845 | 2,155,574 |
| Due from other funds and Discretely Presented Component Units | 1,379,213 | 925,591 | 77,524 | — | — | — | 2,382,328 | 5,487 | 2,387,815 |
| Property, plant and equipment | — | — | — | — | 15,231,622 | — | 15,231,622 | 21,050,693 | 36,282,315 |
| Accumulated depreciation and amortization | — | — | — | — | (4,481,215) | — | (4,481,215) | (6,996,506) | (11,477,721) |
| Restricted cash and investments | — | — | — | — | — | — | — | 1,389,355 | 1,389,355 |
| Other assets | 79,583 | 145,788 | 374 | 17,049 | — | — | 242,794 | 251,031 | 493,825 |
| Amounts available in Debt Service Funds | — | — | — | — | — | 1,570,670 | 1,570,670 | — | 1,570,670 |
| Amounts to be provided for general long-term obligations | — | — | — | — | — | 33,936,188 | 33,936,188 | — | 33,936,188 |
| Total assets | $7,298,436 | $1,902,850 | $1,793,069 | $59,312,300 | $10,750,407 | $35,506,858 | $116,563,920 | $19,975,276 | $136,539,196 |

See accompanying notes to financial statements.

# THE CITY OF NEW YORK

## COMBINED BALANCE SHEET—ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

JUNE 30, 1994
Restated
(in thousands)

| | Governmental Fund Types | | | Fiduciary Fund Type | Account Groups | | Total (Memorandum only) Primary Government | Discretely Presented Component Units | Total (Memorandum only) Reporting Entity |
|---|---|---|---|---|---|---|---|---|---|
| | General | Capital Projects | Debt Service | Trust and Agency | General Fixed Assets | General Long-term Obligations | | | |
| LIABILITIES: | | | | | | | | | |
| Accounts payable and accrued liabilities | $5,104,450 | $ 751,702 | $ 51,539 | $ 5,240,102 | $ — | $ — | $11,147,793 | $ 1,330,140 | $ 12,477,933 |
| Bonds and notes payable | — | — | — | — | — | 27,354,810 | 27,354,810 | 10,213,037 | 37,567,847 |
| Capital lease obligations | — | — | — | — | — | 918,200 | 918,200 | — | 918,200 |
| Accrued real estate tax refunds | 16,227 | — | — | — | — | 296,882 | 313,109 | — | 313,109 |
| Accrued tax refunds—other | 83,792 | — | — | — | — | — | 83,792 | — | 83,792 |
| Accrued judgments and claims | 125,827 | 114,804 | — | — | — | 2,632,133 | 2,872,764 | — | 2,872,764 |
| Accrued vacation and sick leave | — | — | — | — | — | 1,250,194 | 1,250,194 | 320,515 | 1,570,709 |
| Deferred wages | — | — | — | — | — | 46,696 | 46,696 | — | 46,696 |
| Accrued pension liability | — | — | — | — | — | 2,542,959 | 2,542,959 | 111,150 | 2,654,109 |
| Landfill closure and post-closure care costs | — | — | — | — | — | 464,984 | 464,984 | — | 464,984 |
| Accrued interest payable | — | — | — | — | — | — | — | 670,784 | 670,784 |
| Deferred revenues | 603,063 | 418,337 | — | — | — | — | 1,021,400 | 116,961 | 1,138,361 |
| Due to other funds and Discretely Presented Component Units | 803,325 | 1,173,294 | 20,167 | — | — | — | 1,996,786 | 391,029 | 2,387,815 |
| Estimated disallowances of Federal, State and other aid | 198,687 | — | — | — | — | — | 198,687 | — | 198,687 |
| Other | — | — | — | 563,353 | — | — | 563,353 | 72,679 | 636,032 |
| Total liabilities | 6,935,371 | 2,458,137 | 71,706 | 5,803,455 | — | 35,506,858 | 50,775,527 | 13,226,295 | 64,001,822 |
| EQUITY AND OTHER CREDITS: | | | | | | | | | |
| Investment in general fixed assets | — | — | — | — | 10,750,407 | — | 10,750,407 | — | 10,750,407 |
| Contributed capital | — | — | — | — | — | — | — | 7,749,521 | 7,749,521 |
| Retained earnings: | | | | | | | | | |
| Reserved for capital improvement | — | — | — | — | — | — | — | 72,748 | 72,748 |
| Reserved for loans | — | — | — | — | — | — | — | 62,713 | 62,713 |
| Reserved for donor restrictions | — | — | — | — | — | — | — | 10,141 | 10,141 |
| Reserved for debt retirement | — | — | — | — | — | — | — | 295,651 | 295,651 |
| Unreserved | — | — | — | — | — | — | — | (1,441,793) | (1,441,793) |
| Fund balances/Plan net assets: | | | | | | | | | |
| Reserved for debt service | — | — | 1,570,670 | — | — | — | 1,570,670 | — | 1,570,670 |
| Reserved for non-current mortgage loans | — | — | 150,693 | — | — | — | 150,693 | — | 150,693 |
| Reserved for supplemental benefit payments | — | — | — | 1,400,129 | — | — | 1,400,129 | — | 1,400,129 |
| Reserved for pension benefits | — | — | — | 52,108,716 | — | — | 52,108,716 | — | 52,108,716 |
| Unreserved, undesignated | 363,065 | (555,287) | — | — | — | — | (192,222) | — | (192,222) |
| Total equity (deficit) and other credits | 363,065 | (555,287) | 1,721,363 | 53,508,845 | 10,750,407 | — | 65,788,393 | 6,748,981 | 72,537,374 |
| Commitments and contingencies | | | | | | | | | |
| Total liabilities, equity and other credits | $7,298,436 | $1,902,850 | $1,793,069 | $59,312,300 | $10,750,407 | $35,506,858 | $116,563,920 | $19,975,276 | $136,539,196 |

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

FOR THE YEAR ENDED JUNE 30, 1995
(in thousands)

| | Governmental Fund Types | | | Total (Memorandum Only) Primary Government |
|---|---|---|---|---|
| | General | Capital Projects | Debt Service | |
| REVENUES: | | | | |
| Real estate taxes | $ 7,473,580 | $ — | $ — | $ 7,473,580 |
| Sales and use taxes | 3,013,171 | — | — | 3,013,171 |
| Income taxes | 6,014,746 | — | — | 6,014,746 |
| Other taxes | 1,183,743 | — | — | 1,183,743 |
| Federal, State and other categorical aid | 10,733,313 | 358,804 | 186,473 | 11,278,590 |
| Unrestricted Federal and State aid | 603,283 | — | — | 603,283 |
| Charges for services | 1,297,960 | — | — | 1,297,960 |
| Other revenues | 1,243,623 | 744,626 | 227,526 | 2,215,775 |
| Total revenues | 31,563,419 | 1,103,430 | 413,999 | 33,080,848 |
| OTHER FINANCING SOURCES: | | | | |
| Transfer from OTB | 27,560 | — | — | 27,560 |
| Transfers and other payments for debt service | — | — | 2,284,818 | 2,284,818 |
| Net proceeds from sale of notes and bonds | — | 2,242,027 | 849 | 2,242,876 |
| Refunding bond proceeds | — | — | 1,264,662 | 1,264,662 |
| Total revenues and other financing sources | 31,590,979 | 3,345,457 | 3,964,328 | 38,900,764 |
| EXPENDITURES: | | | | |
| Current Operations: | | | | |
| General government | 852,717 | — | — | 852,717 |
| Public safety and judicial | 4,121,448 | — | — | 4,121,448 |
| Board of Education | 7,862,874 | — | — | 7,862,874 |
| City University | 348,074 | — | — | 348,074 |
| Social services | 8,111,924 | — | — | 8,111,924 |
| Environmental protection | 1,120,221 | — | — | 1,120,221 |
| Transportation services | 932,572 | — | — | 932,572 |
| Parks, recreation and cultural activities | 239,571 | — | — | 239,571 |
| Housing | 527,010 | — | — | 527,010 |
| Health (including payments to HHC) | 1,736,768 | — | — | 1,736,768 |
| Libraries | 167,867 | — | — | 167,867 |
| Pensions | 1,273,001 | — | — | 1,273,001 |
| Judgments and claims | 251,247 | — | — | 251,247 |
| Fringe benefit and other benefit payments | 1,443,686 | — | — | 1,443,686 |
| Other | 307,519 | — | 37,252 | 344,771 |
| Capital Projects | — | 3,674,738 | — | 3,674,738 |
| Debt Service: | | | | |
| Interest | — | — | 1,790,519 | 1,790,519 |
| Redemptions | — | — | 913,497 | 913,497 |
| Lease payments | — | — | 154,393 | 154,393 |
| Total expenditures | 29,296,499 | 3,674,738 | 2,895,661 | 35,866,898 |
| OTHER FINANCING USES: | | | | |
| Transfers and other payments for debt service | 2,289,116 | — | — | 2,289,116 |
| Payment to refunded bond escrow holder | — | — | 1,264,662 | 1,264,662 |
| Total expenditures and other financing uses | 31,585,615 | 3,674,738 | 4,160,323 | 39,420,676 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | 5,364 | (329,281) | (195,995) | (519,912) |
| FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR | 363,065 | (555,287) | 1,721,363 | 1,529,141 |
| FUND BALANCES (DEFICIT) AT END OF YEAR | $ 368,429 | $ (884,568) | $1,525,368 | $ 1,009,229 |

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

FOR THE YEAR ENDED JUNE 30, 1994
(in thousands)

| | Governmental Fund Types | | | Total (Memorandum Only) Primary Government |
|---|---|---|---|---|
| | General | Capital Projects | Debt Service | |
| REVENUES: | | | | |
| Real estate taxes | $ 7,773,322 | $ — | $ — | $ 7,773,322 |
| Sales and use taxes | 2,854,994 | — | — | 2,854,994 |
| Income taxes | 6,280,572 | — | — | 6,280,572 |
| Other taxes | 1,205,691 | — | — | 1,205,691 |
| Federal, State and other categorical aid | 10,143,347 | 211,267 | 186,926 | 10,541,540 |
| Unrestricted Federal and State aid | 666,888 | — | — | 666,888 |
| Charges for services | 1,276,672 | — | — | 1,276,672 |
| Other revenues | 1,054,615 | 784,584 | 206,460 | 2,045,659 |
| Total revenues | 31,256,101 | 995,851 | 393,386 | 32,645,338 |
| OTHER FINANCING SOURCES: | | | | |
| Transfer from OTB | 24,073 | — | — | 24,073 |
| Transfers and other payments for debt service | — | — | 2,449,438 | 2,449,438 |
| Transfer from pension and similar trust funds | 72,216 | — | — | 72,216 |
| Net proceeds from sale of notes and bonds | — | 2,753,515 | 30,586 | 2,784,101 |
| Refunding bond proceeds | — | — | 1,775,015 | 1,775,015 |
| Total revenues and other financing sources | 31,352,390 | 3,749,366 | 4,648,425 | 39,750,181 |
| EXPENDITURES: | | | | |
| Current Operations: | | | | |
| General government | 874,772 | — | — | 874,772 |
| Public safety and judicial | 3,846,147 | — | — | 3,846,147 |
| Board of Education | 7,560,989 | — | — | 7,560,989 |
| City University | 353,076 | — | — | 353,076 |
| Social services | 8,030,189 | — | — | 8,030,189 |
| Environmental protection | 1,155,871 | — | — | 1,155,871 |
| Transportation services | 980,909 | — | — | 980,909 |
| Parks, recreation and cultural activities | 238,510 | — | — | 238,510 |
| Housing | 589,979 | — | — | 589,979 |
| Health (including payments to HHC) | 1,620,018 | — | — | 1,620,018 |
| Libraries | 172,572 | — | — | 172,572 |
| Pensions | 1,273,817 | — | — | 1,273,817 |
| Judgments and claims | 270,916 | — | — | 270,916 |
| Fringe benefit and other benefit payments | 1,551,629 | — | — | 1,551,629 |
| Other | 374,579 | — | 24,519 | 399,098 |
| Capital Projects | — | 3,342,782 | — | 3,342,782 |
| Debt Service: | | | | |
| Interest | — | — | 1,792,687 | 1,792,687 |
| Redemptions | — | — | 1,260,628 | 1,260,628 |
| Lease payments | — | — | 158,977 | 158,977 |
| Total expenditures | 28,893,973 | 3,342,782 | 3,236,811 | 35,473,566 |
| OTHER FINANCING USES: | | | | |
| Transfers and other payments for debt service | 2,453,736 | — | — | 2,453,736 |
| Payment to refunded bond escrow holder | — | — | 1,775,015 | 1,775,015 |
| Total expenditures and other financing uses | 31,347,709 | 3,342,782 | 5,011,826 | 39,702,317 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | 4,681 | 406,584 | (363,401) | 47,864 |
| FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR | 358,384 | (961,871) | 2,084,764 | 1,481,277 |
| FUND BALANCES (DEFICIT) AT END OF YEAR | $ 363,065 | $ (555,287) | $1,721,363 | $ 1,529,141 |

See accompanying notes to financial statements.

# 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, 1995 AND 1994
(in thousands)

| | 1995 | | | 1994 | | |
|---|---|---|---|---|---|---|
| | Budget | | | Budget | | |
| | Adopted | Modified | Actual | Adopted | Modified | Actual |
| REVENUES: | | | | | | |
| Real estate taxes | $ 7,420,000 | $ 7,420,000 | $ 7,473,580 | $ 7,885,000 | $ 7,823,000 | $ 7,773,322 |
| Sales and use taxes | 2,988,600 | 3,006,400 | 3,013,171 | 2,750,200 | 2,834,985 | 2,854,994 |
| Income taxes | 6,725,000 | 6,599,900 | 6,014,746 | 6,275,400 | 6,293,800 | 6,280,572 |
| Other taxes | 1,016,300 | 1,123,600 | 1,183,743 | 1,132,200 | 1,214,315 | 1,205,691 |
| Federal, State and other categorical aid | 10,112,947 | 11,234,555 | 10,733,313 | 9,560,824 | 10,703,421 | 10,143,347 |
| Unrestricted Federal and State aid | 554,240 | 581,237 | 603,283 | 450,757 | 662,108 | 666,888 |
| Charges for services | 1,361,462 | 1,363,542 | 1,297,960 | 1,340,829 | 1,360,583 | 1,276,672 |
| Other revenues | 1,184,432 | 1,157,435 | 1,243,623 | 1,596,525 | 1,119,127 | 1,054,615 |
| Total revenues | 31,362,981 | 32,486,669 | 31,563,419 | 30,991,735 | 32,011,339 | 31,256,101 |
| OTHER FINANCING SOURCES: | | | | | | |
| Transfer from OTB | 25,200 | 25,200 | 27,560 | 34,800 | 26,800 | 24,073 |
| Transfer from pension and similar trust funds | — | — | — | — | 72,216 | 72,216 |
| Total revenues and other financing sources | 31,388,181 | 32,511,869 | 31,590,979 | 31,026,535 | 32,110,355 | 31,352,390 |
| EXPENDITURES: | | | | | | |
| General government | 879,607 | 875,835 | 852,717 | 904,383 | 929,267 | 874,772 |
| Public safety and judicial | 3,975,701 | 4,155,508 | 4,121,448 | 3,634,000 | 3,870,664 | 3,846,147 |
| Board of Education | 7,697,479 | 7,898,753 | 7,862,874 | 7,223,761 | 7,591,839 | 7,560,989 |
| City University | 383,141 | 383,599 | 348,074 | 334,966 | 387,284 | 353,076 |
| Social services | 8,043,033 | 8,463,216 | 8,111,924 | 7,898,654 | 8,325,941 | 8,030,189 |
| Environmental protection | 1,089,571 | 1,156,426 | 1,120,221 | 1,128,204 | 1,205,920 | 1,155,871 |
| Transportation services | 821,992 | 966,001 | 932,572 | 967,581 | 1,002,495 | 980,909 |
| Parks, recreation and cultural activities | 232,850 | 240,134 | 239,571 | 230,565 | 239,355 | 238,510 |
| Housing | 448,128 | 546,613 | 527,010 | 565,735 | 612,183 | 589,979 |
| Health (including payments to HHC) | 1,540,967 | 1,801,092 | 1,736,768 | 1,362,288 | 1,612,341 | 1,620,018 |
| Libraries | 175,658 | 169,150 | 167,867 | 172,352 | 172,591 | 172,572 |
| Pensions | 1,341,887 | 1,328,111 | 1,273,001 | 1,436,003 | 1,363,620 | 1,273,817 |
| Judgments and claims | 218,255 | 254,255 | 251,247 | 222,255 | 271,045 | 270,916 |
| Fringe benefits and other benefit payments | 1,717,918 | 1,483,823 | 1,443,686 | 1,649,477 | 1,597,823 | 1,551,629 |
| Other | 520,244 | 557,972 | 307,519 | 587,125 | 470,038 | 374,579 |
| Total expenditures | 29,086,431 | 30,280,488 | 29,296,499 | 28,317,349 | 29,652,406 | 28,893,973 |
| OTHER FINANCING USES: | | | | | | |
| Transfers and other payments for debt service | 2,301,750 | 2,231,381 | 2,289,116 | 2,709,186 | 2,457,949 | 2,453,736 |
| Total expenditures and other financing uses | 31,388,181 | 32,511,869 | 31,585,615 | 31,026,535 | 32,110,355 | 31,347,709 |
| EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | $ — | $ — | 5,364 | $ — | $ — | 4,681 |
| FUND BALANCE AT BEGINNING OF YEAR | | | 363,065 | | | 358,384 |
| FUND BALANCE AT END OF YEAR | | | $ 368,429 | | | $ 363,065 |

See accompanying notes to financial statements.

# THE CITY OF NEW YORK

## COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS AND REVENUES, EXPENSES AND CHANGES IN FUND EQUITY—FIDUCIARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNITS

FOR THE YEAR ENDED JUNE 30, 1995

(in thousands)

| | Fiduciary Fund Type | Discretely Presented Component Units | | | | | Total (Memorandum only) Reporting Entity |
|---|---|---|---|---|---|---|---|
| | Pension and Similar Trust | Health and Hospitals Corporation | Off-Track Betting Corporation | Housing and Economic Development Funds | Water and Sewer System | Total Component Units | |
| ADDITIONS TO PLAN NET ASSETS AND OPERATING REVENUES: | | | | | | | |
| Patient service revenues, net | $ — | $3,772,539 | $ — | $ — | $ — | $3,772,539 | $ 3,772,539 |
| Charges for services | — | — | — | — | 1,300,454 | 1,300,454 | 1,300,454 |
| Rental income | — | — | — | 557,744 | — | 557,744 | 557,744 |
| Other revenues | — | 361,696 | 197,952 | 1,330,077 | — | 1,889,725 | 1,889,725 |
| Employer, employee contributions | 1,822,679 | — | — | — | — | — | 1,822,679 |
| Investment income, net | 9,895,633 | — | — | 19,236 | 49,651 | 68,887 | 9,964,520 |
| Total additions to plan net assets and operating revenues | 11,718,312 | 4,134,235 | 197,952 | 1,907,057 | 1,350,105 | 7,589,349 | 19,307,661 |
| DEDUCTIONS FROM PLAN NET ASSETS AND OPERATING EXPENSES: | | | | | | | |
| Personal services | — | 2,323,128 | 68,928 | 669,007 | — | 3,061,063 | 3,061,063 |
| Affiliated institutions | — | 533,749 | — | — | — | 533,749 | 533,749 |
| Racing industry compensation | — | — | 56,768 | — | — | 56,768 | 56,768 |
| Operations and maintenance | — | 704,947 | — | — | 738,561 | 1,443,508 | 1,443,508 |
| Interest expense | — | — | — | 198,128 | 328,363 | 526,491 | 526,491 |
| Administrative and program | — | — | 5,932 | 993,901 | 15,047 | 1,014,880 | 1,014,880 |
| Depreciation and amortization | — | 157,521 | 2,936 | 154,117 | 293,054 | 607,628 | 607,628 |
| Benefit payments and withdrawals | 4,061,325 | — | — | — | — | — | 4,061,325 |
| Provision for bad debts | — | 452,457 | — | — | 95,989 | 548,446 | 548,446 |
| Other | — | 19,717 | 22,018 | 61,470 | — | 103,205 | 103,205 |
| Distributions to the State and other local governments | — | — | 17,237 | — | — | 17,237 | 17,237 |
| Total deductions from plan net assets and operating expenses | 4,061,325 | 4,191,519 | 173,819 | 2,076,623 | 1,471,014 | 7,912,975 | 11,974,300 |
| Operating income (loss) | 7,656,987 | (57,284) | 24,133 | (169,566) | (120,909) | (323,626) | 7,333,361 |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | | |
| Interest and dividend income | — | 5,120 | 825 | 21,847 | 7,861 | 35,653 | 35,653 |
| Interest expense | — | (94,861) | — | — | — | (94,861) | (94,861) |
| Amounts from other OTB communities | — | — | 4,674 | — | — | 4,674 | 4,674 |
| Other | (40,565) | — | — | (4,597) | — | (4,597) | (45,162) |
| Total non-operating revenues (expenses) | (40,565) | (89,741) | 5,499 | 17,250 | 7,861 | (59,131) | (99,696) |
| Income (loss) before transfers | 7,616,422 | (147,025) | 29,632 | (152,316) | (113,048) | (382,757) | 7,233,665 |
| OPERATING TRANSFERS: | | | | | | | |
| Transfer to the General Fund | — | — | (27,560) | — | — | (27,560) | (27,560) |
| Net additions to plan net assets and net income (loss) | 7,616,422 | (147,025) | 2,072 | (152,316) | (113,048) | (410,317) | 7,206,105 |
| PLAN NET ASSETS/FUND EQUITY AT BEGINNING OF YEAR | 53,508,845 | 1,009,488 | 6,094 | 196,825 | 5,536,574 | 6,748,981 | 60,257,826 |
| Contributed fixed assets and debt service | — | 4,204 | — | 896,752 | 25,420 | 926,376 | 926,376 |
| Net increase in donor restricted funds | — | 197 | — | — | — | 197 | 197 |
| PLAN NET ASSETS/FUND EQUITY AT END OF YEAR | $61,125,267 | $ 866,864 | $ 8,166 | $ 941,261 | $5,448,946 | $7,265,237 | $68,390,504 |
| PLAN NET ASSETS/COMPONENTS OF FUND EQUITY (DEFICIT) AT END OF YEAR | | | | | | | |
| Reserved | $ — | $ 806,728 | $ 16,646 | $ 3,043,353 | $5,030,356 | $8,897,083 | $ 8,897,083 |
| Reserved for Supplemental Benefits | 1,879,674 | — | — | — | — | — | 1,879,674 |
| Reserved for Pension Benefits | 59,245,593 | — | — | — | — | — | 59,245,593 |
| Unreserved (deficit) | — | 60,136 | (8,480) | (2,102,092) | 418,590 | (1,631,846) | (1,631,846) |
| PLAN NET ASSETS/FUND EQUITY AT END OF YEAR | $61,125,267 | $ 866,864 | $ 8,166 | $ 941,261 | $5,448,946 | $7,265,237 | $68,390,504 |

See accompanying notes to financial statements.

# THE CITY OF NEW YORK

## COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS AND REVENUES, EXPENSES AND CHANGES IN FUND EQUITY—FIDUCIARY FUND TYPE AND DISCRETELY PRESENTED COMPONENT UNITS

FOR THE YEAR ENDED JUNE 30, 1994
Restated
(in thousands)

| | Fiduciary Fund Type | Discretely Presented Component Units | | | | | Total (Memorandum Only) Reporting Entity |
|---|---|---|---|---|---|---|---|
| | Pension and Similar Trust | Health and Hospitals Corporation | Off-Track Betting Corporation | Housing and Economic Development Entities | Water and Sewer System | Total Component Units | |
| ADDITIONS TO PLAN NET ASSETS AND OPERATING REVENUES: | | | | | | | |
| Patient service revenues, net | $ — | $3,539,766 | $ — | $ — | $ — | $3,539,766 | 3,539,766 |
| Charges for services | — | — | — | — | 1,204,423 | 1,204,423 | 1,204,423 |
| Rental Income | — | — | — | 563,008 | — | 563,008 | 563,008 |
| Other revenues | — | 409,347 | 178,023 | 1,161,413 | — | 1,748,783 | 1,748,783 |
| Employer, employee contributions | 1,877,883 | — | — | — | — | — | 1,877,883 |
| Investment income, net | 630,479 | — | — | 23,513 | 28,479 | 51,992 | 682,471 |
| Total additions to plan net assets and operating revenues | 2,508,362 | 3,949,113 | 178,023 | 1,747,934 | 1,232,902 | 7,107,972 | 9,616,334 |
| DEDUCTIONS FROM PLAN NET ASSETS AND OPERATING EXPENSES: | | | | | | | |
| Personal services | — | 2,215,592 | 66,238 | 675,926 | — | 2,957,756 | 2,957,756 |
| Affiliated institutions | — | 511,920 | — | — | — | 511,920 | 511,920 |
| Racing industry compensation | — | — | 46,710 | — | — | 46,710 | 46,710 |
| Operation and maintenance | — | — | — | — | 718,650 | 718,650 | 718,650 |
| Interest expense | — | — | — | 220,137 | 290,790 | 510,927 | 510,927 |
| Administrative and program | — | — | 7,236 | 860,740 | 17,290 | 885,266 | 885,266 |
| Depreciation and amortization | — | 154,685 | 2,951 | 163,665 | 213,371 | 534,672 | 534,672 |
| Benefit payments and withdrawals | 3,813,877 | — | — | — | — | — | 3,813,877 |
| Provision for bad debts | — | 456,397 | — | — | 51,586 | 507,983 | 507,983 |
| Other | — | 653,397 | 20,934 | 80,633 | — | 754,964 | 754,964 |
| Distributions to the State and other local governments | — | — | 20,278 | — | — | 20,278 | 20,278 |
| Total deductions from plan net assets and operating expenses | 3,813,877 | 3,991,991 | 164,347 | 2,001,101 | 1,291,687 | 7,449,126 | 11,263,003 |
| Operating income (loss) | (1,305,515) | (42,878) | 13,676 | (253,167) | (58,785) | (341,154) | (1,646,669) |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | | |
| Interest and dividend income | — | 2,987 | 465 | 16,964 | 4,476 | 24,892 | 24,892 |
| Interest expense | — | (102,683) | — | — | — | (102,683) | (102,683) |
| Amounts from other OTB communities | — | — | 4,657 | — | — | 4,657 | 4,657 |
| Other | (20,847) | — | — | (7,273) | — | (7,273) | (28,120) |
| Total non-operating revenues (expenses) | (20,847) | (99,696) | 5,122 | 9,691 | 4,476 | (80,407) | (101,254) |
| Income (loss) before transfers | (1,326,362) | (142,574) | 18,798 | (243,476) | (54,309) | (421,561) | (1,747,923) |
| OPERATING TRANSFERS: | | | | | | | |
| Transfer to the General Fund | (72,216) | — | (24,073) | — | — | (24,073) | (96,289) |
| Net deductions to plan net assets and net loss | (1,398,578) | (142,574) | (5,275) | (243,476) | (54,309) | (445,634) | (1,844,212) |
| PLAN NET ASSETS/FUND EQUITY AT BEGINNING OF YEAR | 54,907,423 | 1,143,450 | 11,369 | 100,510 | 5,553,149 | 6,808,478 | 61,715,901 |
| Contributed fixed assets and debt service | — | 8,965 | — | 339,791 | 37,734 | 386,490 | 386,490 |
| Net decrease in donor restricted funds | — | (353) | — | — | — | (353) | (353) |
| PLAN NET ASSETS/FUND EQUITY AT END OF YEAR | $53,508,845 | $1,009,488 | $ 6,094 | $ 196,825 | $5,536,574 | $6,748,981 | $60,257,826 |
| PLAN NET ASSETS/COMPONENTS OF FUND EQUITY (DEFICIT) AT END OF YEAR | | | | | | | |
| Reserved | $ — | $ 781,988 | $ 14,574 | $2,244,052 | $5,150,160 | $8,190,774 | $ 8,190,774 |
| Reserved for Supplemental Benefits | 1,400,129 | — | — | — | — | — | 1,400,129 |
| Reserved for Pension Benefits | 52,108,716 | — | — | — | — | — | 52,108,716 |
| Unreserved (deficit) | — | 227,500 | (8,480) | (2,047,227) | 386,414 | (1,441,793) | (1,441,793) |
| PLAN NET ASSETS/FUND EQUITY AT END OF YEAR | $53,508,845 | $1,009,488 | $ 6,094 | $ 196,825 | $5,536,574 | $6,748,981 | $60,257,826 |

See accompanying notes to financial statements.

# THE CITY OF NEW YORK

## COMBINED STATEMENT OF CASH FLOWS

## DISCRETELY PRESENTED COMPONENT UNITS

FOR THE YEAR ENDED JUNE 30, 1995

(in thousands)

| | Health and Hospitals Corporation | Off-Track Betting Corporation | Housing and Economic Development Entities | Water and Sewer System | Total |
|---|---|---|---|---|---|
| OPERATING ACTIVITIES: | | | | | |
| Operating income (loss) | $ (57,284) | $ 24,133 | $ (169,566) | $ (120,909) | $ (323,626) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 157,521 | 2,936 | 154,117 | 293,054 | 607,628 |
| Provision for bad debts | 452,457 | — | — | 95,989 | 548,446 |
| Increase in patient service receivables | (427,379) | — | — | — | (427,379) |
| Decrease (increase) in accounts and other receivables | 1,967 | 195 | (52,009) | (196,949) | (246,796) |
| Decrease in prepaid expense | — | — | — | 22,720 | 22,720 |
| Increase in accounts payable and accrued liabilities | 72,087 | 906 | 63,291 | 1,093 | 137,377 |
| Increase (decrease) in accrued vacation and sick leave | 6,978 | (163) | 8,438 | — | 15,253 |
| Decrease in accrued pension liability | (1,111) | (77) | — | — | (1,188) |
| Increase (decrease) in deferred revenues | — | — | 6,647 | (9,077) | (2,430) |
| Distribution to The City of New York | — | (27,379) | — | — | (27,379) |
| Increase in program loans issued | — | — | (126,735) | — | (126,735) |
| Receipt from collections of program loans | — | — | 51,003 | — | 51,003 |
| Distribution to State and local governments | — | 153 | — | — | 153 |
| Decrease in payable to The City of New York | — | — | — | (133,216) | (133,216) |
| Other | 107,045 | (1,995) | (61,164) | (16,693) | 27,193 |
| Total adjustments | 369,565 | (25,424) | 43,588 | 56,921 | 444,650 |
| Net cash provided by (used in) operating activities | 312,281 | (1,291) | (125,978) | (63,988) | 121,024 |
| NONCAPITAL FINANCING ACTIVITIES: | | | | | |
| Proceeds from issuing bonds, notes and other borrowings | — | — | 492,588 | — | 492,588 |
| Repayments of bonds, notes and other borrowings | — | — | (338,493) | — | (338,493) |
| Amounts from other OTB communities | — | 4,674 | — | — | 4,674 |
| Net cash provided by noncapital financing activities | — | 4,674 | 154,095 | — | 158,769 |
| CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | |
| Additions to fixed assets | (190,736) | (2,924) | (233,284) | (509,506) | (936,450) |
| Proceeds from issuing bonds, notes and other borrowings | (9,718) | — | (290) | 1,505,595 | 1,495,587 |
| Repayments of bonds, notes and other borrowings | — | — | (61,826) | (1,132,354) | (1,194,180) |
| Contributions for capital and payment of debt | 1,183 | — | — | — | 1,183 |
| Contributed capital other than for operations | 3,021 | — | 317,796 | — | 320,817 |
| Interest paid on bonds, notes and other borrowings | (94,861) | — | — | — | (94,861) |
| Net cash provided by (used in) capital and related financing activities | (291,111) | (2,924) | 22,396 | (136,265) | (407,904) |
| INVESTING ACTIVITIES: | | | | | |
| Excess (deficiency) of proceeds from sales of investments net of purchases | — | — | (35,331) | 142,825 | 107,494 |
| Interest on investments | 5,120 | 825 | 20,528 | 8,006 | 34,479 |
| Net cash provided by (used in) investing activities | 5,120 | 825 | (14,803) | 150,831 | 141,973 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 26,290 | 1,284 | 35,710 | (49,422) | 13,862 |
| CASH AND CASH EQUIVALENTS BEGINNING OF YEAR | 120,145 | 14,121 | 111,422 | 352,072 | 597,760 |
| CASH AND CASH EQUIVALENTS END OF YEAR | $ 146,435 | $ 15,405 | $ 147,132 | $ 302,650 | $ 611,622 |
| Cash and cash equivalents | $ 136,025 | $ 13,180 | $ 98,440 | $ 3,686 | $ 251,331 |
| Restricted cash and investments | 252,948 | 2,225 | 86,097 | 792,496 | 1,133,766 |
| Less restricted investments | 242,538 | — | 37,405 | 493,532 | 773,475 |
| Cash and cash equivalents end of year | $ 146,435 | $ 15,405 | $ 147,132 | $ 302,650 | $ 611,622 |

The above is a reconciliation of cash and cash equivalents per the statement of cash flows to the balance sheet.

The following are the noncash investing, capital and financing activities:
HHC received capital assets of $3.0 million for fiscal year 1995 which represent contributed capital from the City.
The Water Board received capital assets of $25.4 million for fiscal year 1995 which represents contributed capital from the City.

See accompanying notes to financial statements.

# THE CITY OF NEW YORK

## COMBINED STATEMENT OF CASH FLOWS

## DISCRETELY PRESENTED COMPONENT UNITS

FOR THE YEAR ENDED JUNE 30, 1994
(in thousands)

| | Health and Hospitals Corporation | Off-Track Betting Corporation | Housing and Economic Development Entities | Water and Sewer System | Total |
|---|---|---|---|---|---|
| OPERATING ACTIVITIES: | | | | | |
| Operating income (loss) | $ (42,878) | $ 13,676 | $ (253,167) | $ (58,785) | $ (341,154) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 154,685 | 2,951 | 163,665 | 213,371 | 534,672 |
| Provision for bad debts | 456,397 | — | — | 51,586 | 507,983 |
| Increase in patient service receivables | (511,475) | — | — | — | (511,475) |
| Decrease (increase) in accounts and other receivables | (1,352) | 1,563 | (29,966) | (76,148) | (105,903) |
| Increase in prepaid expense | — | — | — | (16,708) | (16,708) |
| Increase (decrease) in accounts payable and accrued liabilities | 40,691 | 691 | 102,368 | (10,889) | 132,861 |
| Increase (decrease) in accrued vacation and sick leave | 12,881 | (239) | 9,568 | — | 22,210 |
| Decrease in accrued pension liability | (741) | (359) | — | — | (1,100) |
| Increase in deferred revenues | — | — | 1,613 | 10,608 | 12,221 |
| Distribution to The City of New York | — | (22,806) | — | — | (22,806) |
| Increase in program loans issued | — | — | (54,193) | — | (54,193) |
| Receipt from collections of program loans | — | — | 51,616 | — | 51,616 |
| Distribution to State and local governments | — | (96) | — | — | (96) |
| Increase in payable to The City of New York | — | — | — | 56,977 | 56,977 |
| Other | 160,281 | 1,203 | (53,917) | (3,002) | 104,565 |
| Total adjustments | 311,367 | (17,092) | 190,754 | 225,795 | 710,824 |
| Net cash provided by (used in) operating activities | 268,489 | (3,416) | (62,413) | 167,010 | 369,670 |
| NONCAPITAL FINANCING ACTIVITIES: | | | | | |
| Proceeds from issuing bonds, notes and other borrowings | 259,000 | — | 367,245 | — | 626,245 |
| Repayments of bonds, notes and other borrowings | (259,000) | — | (438,936) | — | (697,936) |
| Amounts from other OTB communities | — | 4,657 | — | — | 4,657 |
| Other | — | — | — | — | — |
| Net cash provided by (used in) noncapital financing activities | — | 4,657 | (71,691) | — | (67,034) |
| CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | | |
| Additions to fixed assets | (199,106) | (3,634) | (244,399) | (622,915) | (1,070,054) |
| Proceeds from issuing bonds, notes and other borrowings | — | — | 15,057 | 2,349,764 | 2,364,821 |
| Repayments of bonds, notes and other borrowings | (8,408) | — | (61,428) | (1,669,253) | (1,739,089) |
| Cash paid in excess of face value of defeased bonds | — | — | — | (43,633) | (43,633) |
| Contributions for capital and payment of debt | — | — | 375,782 | — | 375,782 |
| Contributed capital other than for operations | 8,965 | — | — | — | 8,965 |
| Interest paid on bonds, notes and other borrowings | (102,683) | — | — | — | (102,683) |
| Net cash provided by (used in) capital and related financing activities | (301,232) | (3,634) | 85,012 | 13,963 | (205,891) |
| INVESTING ACTIVITIES: | | | | | |
| Excess (deficiency) of proceeds from sales of investments net of purchases | — | — | 35,024 | (17,878) | 17,146 |
| Interest on investments | 2,987 | 465 | 16,964 | 4,185 | 24,601 |
| Net cash provided by (used in) investing activities | 2,987 | 465 | 51,988 | (13,693) | 41,747 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (29,756) | (1,928) | 2,896 | 167,280 | 138,492 |
| CASH AND CASH EQUIVALENTS BEGINNING OF YEAR | 149,901 | 16,049 | 108,526 | 184,792 | 459,268 |
| CASH AND CASH EQUIVALENTS END OF YEAR | $120,145 | $ 14,121 | $ 111,422 | $ 352,072 | $ 597,760 |
| Cash and cash equivalents | $109,368 | $ 13,469 | $ 68,633 | $ 8,137 | $ 199,607 |
| Restricted cash and investments | 337,720 | 652 | 77,401 | 975,115 | 1,390,888 |
| Less restricted investments | 326,943 | — | 34,612 | 631,180 | 992,735 |
| Cash and cash equivalents end of year | $120,145 | $ 14,121 | $ 111,422 | $ 352,072 | $ 597,760 |

The above is a reconciliation of cash and cash equivalents per the statement of cash flows to the balance sheet.

The following are the noncash investing, capital and financing activities:
HHC received capital assets of $8.2 million for fiscal year 1994 which represent contributed capital from the City.
The Water Board received capital assets of $37.7 million for fiscal year 1994 which represents contributed capital from the City.

See accompanying 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 "Totals —(Memorandum only) Primary Government" and "Totals—(Memorandum only) Reporting Entity" columns of the accompanying combined financial statements are only presented to facilitate financial analysis and are not the equivalent of consolidated financial statements.

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

### *Reporting Entity*

The City of New York is a municipal corporation governed by the Mayor and the City Council.

The financial reporting entity consists of the primary government including the Board of Education and the community colleges of the City University of New York, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

Most component units are included in the financial reporting entity by discrete presentation. Some component units, despite being legally separate from the primary government, are so intertwined with the primary government, that they are in substance the same as the primary government. These component units are blended with the primary government.

### *Blended Component Units*

These component units, although legally separate, provide services exclusively to the City and are reported as if they were part of the primary government. They include the following:

Municipal Assistance Corporation For The City of New York (MAC)
New York City Samurai Funding Corporation (SFC)
New York City Educational Construction Fund (ECF)
City University Construction Fund (CUCF)
New York City School Construction Authority (SCA)

### *Discretely Presented Component Units*

All discretely presented component units are legally separate from the primary government. The City appoints a majority of these organizations' boards and is either able to impose its will on them or a financial benefit/burden situation exists.

The component unit column in the combined financial statements includes the financial data of these entities, which are reported in a separate column to emphasize that they are legally separate from the City. They include the following:

New York City Health and Hospitals Corporation (HHC)
New York City Off-Track Betting Corporation (OTB)
Housing and Economic Development Entities:

- New York City Housing Development Corporation (HDC)
- New York City Housing Authority (HA)

- New York City Industrial Development Agency (IDA)
- New York City Economic Development Corporation (EDC)
- Business Relocation Assistance Corporation (BRAC)
- Brooklyn Navy Yard Development Corporation (BNYDC)

Water And Sewer System:

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

Note: These organizations publish separate annual financial statements which may be obtained from: Office of the Comptroller, Bureau of Accountancy, Financial Services Division—Room 800, 1 Centre Street, New York, New York 10007.

*Fiduciary Funds*

These funds are used to account for assets when a governmental unit is functioning either as a trustee or an agent for another party. They include the following:

Pension and Similar Trust Funds:

- New York City Employees' Retirement System (NYCERS)
- New York City Teachers' Retirement System— Qualified Pension Plan (TRS)
- New York City Board of Education Retirement System—Qualified Pension Plan (BERS)
- New York Police Department Pension Fund— Subchapter 2 (POLICE)
- New York Fire Department Pension Fund— Subchapter 2 (FIRE)
- New York Police Department Police Officers' Variable Supplements Fund (POVSF)
- New York Police Department Police Superior Officers' Variable Supplements Fund (PSOVSF)
- New York Fire Department Firefighters' Variable Supplements Fund (FFVSF)
- New York Fire Department Fire Officers' Variable Supplements Fund (FOVSF)
- Transit Police Officers' Variable Supplements Fund (TPOVSF)
- Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)
- Housing Police Officers' Variable Supplements Fund (HPOVSF)
- Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)

Note: These organizations publish separate annual financial statements which may be obtained from: Office of the Comptroller, Bureau of Accountancy, Pension Accounting Division—Room 803, 1 Centre Street, New York, New York 10007.

Agency Funds:

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

Significant accounting policies and other matters concerning the financial information of these organizations are described elsewhere in the Notes to Financial Statements.

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

The New York City Transit Authority is an affiliated agency of the Metropolitan Transportation Authority of the State of New York which is a component unit of New York State and is excluded from the City's financial 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, fiduciary, and proprietary. Except for proprietary (organizations which are reported as discretely presented component units), each category, in turn, is divided into separate "fund types."

*Governmental*

*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 make capital improvements. Such assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection system, 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). The Capital Projects Fund includes the activities of SCA. 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 $ 885 million and $555 million at June 30, 1995 and 1994, respectively, 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 principal and interest on long-term obligations. Separate funds are maintained to account for transactions relating to: (i) the City's Debt Service Funds and the General Debt Service Fund 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 SFC; and (iv) ECF and CUCF as component units of the City.

*Fiduciary*

*Trust and Agency Funds*

The Trust and Agency Funds account for the assets and activities of the Pension and Similar Trust Funds and Agency Funds.

The Pension and Similar Trust Funds account for the operations of NYCERS, TRS, BERS, POLICE, and FIRE employee retirement systems, and POVSF, PSOVSF, FFVSF, FOVSF, TPOVSF, TPSOVSF, HPOVSF, and HPSOVSF. These activities use the accrual basis of accounting and a measurement focus on the periodic determination of revenues, expenses, and net assets available for pension benefits.

The Agency Funds account for the operations of DCP, which was created in accordance with Internal Revenue Code Section 457 and Other Agency Funds which account for miscellaneous assets held by the City for other funds, governmental units, and individuals. The Agency Funds are custodial in nature and do 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 SCA are included in the City's General Fixed Assets Account Group. The fixed assets of the water distribution and sewage collection system are recorded in the Water and Sewer System component unit financial statements 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) real estate tax refunds; (iii) judgments and claims; (iv) certain unpaid deferred wages; (v) unpaid vacation and sick leave; (vi) certain unfunded pension liabilities; and (vii) landfill closure and postclosure care costs.

*Discretely Presented Component Units*

The discretely presented component units consist of HHC, OTB, HDC, HA and other component units comprising the Housing and Economic Development Entities, and the Water and Sewer System. 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.

*Basis of Accounting*

The accounting and financial reporting applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus. This focus is on the determination of, and changes in financial position, and generally only current assets and current liabilities 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 Pension and Similar Trust Funds and the discretely presented component units is on the flow of economic resources. This focus emphasizes the determination of net income and financial position. With this measurement focus, all assets and liabilities associated with the operation of these funds and discretely presented component units are included on the balance sheet. These funds and discretely presented component units 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 Pension Trust Funds' contributions from members are recorded when the employer makes payroll deductions from Plan members. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

The Agency Funds use the modified accrual basis of accounting and do not measure the results 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 unused appropriations lapse at fiscal year-end. The City uses appropriations in the 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 have General Fund expenditures in excess of revenues.

Expenditures made against the Expense Budget are controlled through the use of quarterly spending allotments and units of appropriation. A unit of appropriation represents a subdivision of an agency's budget and is the level of control 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 size of the agency and 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 $1,124 million and $1,084 million subsequent to its original adoption in fiscal years 1995 and 1994, 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 GAAP. 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*

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

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 1995 and 1994 were approximately $260 million and $360 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.

Investments of the Pension and Similar Trust Funds and DCP are reported at market value. Investments are stated at the last reported sales price on a national securities exchange on the last business day of the fiscal year.

*Inventories*

Materials and supplies are recorded as expenditures in governmental funds at the time of purchase. Accordingly, inventories on hand at June 30, 1995 and 1994 (estimated at $200 million and $203 million, respectively, based on average cost) have not been reported on the governmental funds balance sheets.

*Restricted Cash and Investments*

Certain proceeds of component unit bonds, as well as certain resources set aside for bond repayment, are classified as restricted cash and investments 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 G).

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 and leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is less.

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

*Allowance for Uncollectible Mortgage Loans*

Mortgage loans and interest receivable in the Debt Service Funds are net of an allowance for uncollectible amounts of $1,023.2 million and $1,028.7 million for fiscal years 1995 and 1994, respectively. The allowance is composed of 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 vacation leave earned by employees which may be used in subsequent years or earned vacation and sick leave 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 discretely presented component units which is accounted for in those component unit financial statements.

*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. Settlements relating to condemnation proceedings are reported in the Capital Projects Fund when the liability is estimable. 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 Ger eral Long-term Obligations Account Group. Long-term liabilities expected to be financed from discretely presented component unit operations are accounted for in those component unit financial statements.

*Real Estate Tax*

Real estate tax payments for the fiscal year ended June 30, 1995 were due July 1, 1994 and January 1, 1995 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 1995 taxes was June 22, 1994. The lien date is the date taxes are due.

Real estate tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first two months of the following fiscal year reduced by tax refunds. On April 25, 1995, the City sold without recourse its interest in its outstanding real estate tax receivables as of April 5, 1995. The tax receivable balance as of April 5, 1995 was $1.942 billion, including interest of $615 million. The City received at the time of the sale, $220.6 million.

Under the terms of the sale, the purchaser would receive all payments against the outstanding balance except that:

(1) The first $30 million of delinquent collections will be placed in a reserve account, established to provide the purchaser security that the actual levy year 1995 net delinquency amount is equal to or greater than the estimate made at the time of the sale. Should the levy exceed the estimate, the $30 million would return to the City. The actual levy met the estimate and the $30 million was returned to the City in August, 1995.

(2) The next $308.2 million of delinquent collections, made from the closing day up to and including August 31, 1995 would be retained by the City. These collections were retained by the City.

After August 31, 1995, all payments would go to the purchaser until $229 million plus interest on the remaining monthly balance is satisfied or until April 25, 1998. The interest rate is to be determined periodically. Once the $229 million of principal is received or April 25, 1998, whichever is earlier, the balance of the receivables would return to the City.

The City is permitted to levy real estate taxes 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 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 in excess of that required for that purpose in the year of the levy must be applied towards future years' debt service. For the fiscal years ended June 30, 1995 and 1994, excess amounts of $66 million and $67 million, respectively, were transferred to the Debt Service Funds.

*Other Taxes and Other Revenues*

Taxpayer-assessed taxes, such as sales and income taxes, net of estimated refunds, are recognized in the accounting period in which they become susceptible to accrual.

Licenses, permits, privileges and franchises, fines, forfeitures, and other revenues are recorded when received in cash. The City receives revenue from the Water Board for operating and maintenance costs and rental payments for use of the Water and Sewer System. These revenues are recognized when the services are provided by the City for 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 discretely presented component units 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 or discretely presented component unit receiving revenue to a fund or discretely presented component unit through which the revenue is to be expended are reported as operating transfers. Such payments include transfers for debt service and OTB net revenues.

*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*

In November, 1994, the GASB issued Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.* The Statement establishes standards of financial reporting for defined benefit pension plans. The Statement requires the financial statements of all periods presented to be restated, if practical. The effect of the Statement, which resulted in the restatement of investments to fair value, is reported as a restatement of beginning fund balance for the earliest period presented. To reflect application of GASB Statement No. 25, the beginning fund balance of the Pension Trust and Similar Trust Funds for fiscal year 1994, which was $52.0 billion and $1.5 billion, respectively, has been restated to $53.3 billion and $1.6 billion, respectively.

In November, 1994, the GASB also issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* The Statement establishes standards for the measurement, recognition, and display of pension expenses and related assets, liabilities, note disclosures, and supplementary information. Pension cost is required to be measured and disclosed using the accrual basis of accounting (see Note R), regardless of the amount recognized as pension expense on the modified accrual basis of accounting. Annual pension cost should be equal to the annual required contributions to the pension plan, calculated in accordance with certain parameters.

*Comparative Data*

Comparative total data for the prior year have been presented in the accompanying combining and individual fund, account group, and discretely presented component unit financial statements in order to provide an understanding of changes in the City's financial position and operations. Reclassification of certain prior year amounts has been made to conform with the current year presentation.

*Pronouncements Issued But Not Yet Effective*

In May, 1990, the GASB issued Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements.* The Statement establishes an accrual basis of accounting with a financial resources measurement focus for governmental funds. The operating results expressed using the financial resources measurement focus show the extent to which financial resources obtained during a period are sufficient to cover claims against financial resources incurred during that period. The City currently follows the modified accrual basis. Using the modified accrual basis, revenues are recognized in the accounting period in which they become measurable and available and expenditures are recognized when the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. The effective date of the

Statement has been deferred by GASB Statement No. 17, *Measurement Focus and Basis of Accounting — Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements*, to periods beginning approximately two years after an implementation standard is issued. Early implementation of Statement No. 11 is not permitted. The City has not yet completed the complex analysis required to estimate the financial statement impact of Statement No. 11.

In May, 1995, GASB issued Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions.* The Statement requires that securities lent as assets be reported in the balance sheet. Cash received as collateral on securities lending transactions and investments made with that cash will be reported as assets. Securities received as collateral should also be reported as assets if the governmental entity has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions will be reported in the balance sheet. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 1995. The City has not adopted the Statement in fiscal year 1995. A description of the City's securities lending activities for the Pension and Similar Trust Funds (Systems & Funds) in fiscal year 1995 is provided in the following paragraphs:

State statutes and boards of trustees policies permit the Systems & Funds to lend their securities (the underlying securities) to brokers-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Systems' & Funds' custodians lend the following types of securities: short-term securities, common stock, long-term corporate bonds, U.S. Governments and U.S. Government agencies' bonds, asset-backed securities, and international equities and bonds held in collective investment funds. In return, they receive collateral in the form of cash, treasury, and agency securities at 100%—105% of the principal plus accrued interest for reinvestment. At year-end, the Systems & Funds had no credit risk exposure to borrowers because the amounts the Systems & Funds owe the borrowers exceed the amounts the borrowers owe the Systems & Funds. The contracts with the Systems' & Funds' custodian requires borrowers to indemnify the Systems & Funds if the borrowers fail to return the securities and if the collateral is inadequate to replace the securities lent or fail to pay the Systems & Funds for income distributions by the securities' issuers while the securities are on loan. All securities loans can be terminated on demand within a period specified in each agreement by either the Systems & Funds or the borrowers. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. The underlying securities (fixed income) have an average maturity of 10 years except for the TRS securities lending program discussed below, which has an average maturity of 5 years.

In addition, TRS administers a securities lending program for TRS and BERS Variable A investment program which is comparable to the securities lending program discussed above.

As of June 30, 1995, the underlying securities lent out for the Systems & Funds was approximately $5.793 billion. The cash collateral was approximately $6.029 billion.

B. AUDIT RESPONSIBILITY

In fiscal years 1995 and 1994, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than KPMG Peat Marwick LLP, are the Municipal Assistance Corporation For The City of New York, New York City Housing Authority, New York City Economic Development Corporation, New York City Educational Construction Fund, New York City Industrial Development Agency, New York City Off-Track Betting Corporation, New York City School Construction Authority, Brooklyn Navy Yard Development Corporation, Business Relocation Assistance Corporation, City University Construction Fund, and the Deferred Compensation Plan.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 1995 and 1994:

| | Fund Types | | | | | | | | Account Groups | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | General | | Capital Projects | | Debt Service | | Trust and Agency | | General Fixed Assets | | General Long-term Obligations | | Component Units | |
| | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 |
| | (percent) | | | | | | | | | | | | | |
| Total assets/liabilities | 0 | 0 | 11 | 18 | 80 | 83 | 3 | 2 | 28 | 29 | 16 | 17 | 20 | 20 |
| Operating revenues and other financing sources | 0 | 0 | 26 | 24 | 13 | 21 | 0 | 0 | NA | NA | NA | NA | 26 | 25 |

NA: Not Applicable

### 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 which MAC issued approximately $9.445 billion, exclusive of obligations issued to refund outstanding obligations of MAC and of notes issued to enable the City to fulfill its seasonal borrowing requirements. In July, 1990, State legislation was enacted which, among other things, authorized MAC to issue up to an additional $1.5 billion of bonds and notes to fund a portion of the capital programs of the New York City Transit Authority and SCA. This legislation also provides for a reduction in the July, 1990 issuance authority to the extent that the transit and schools capital programs are funded by the City. As of June 30, 1995 and 1994, the City has funded $995 million and $800 million of these programs, respectively.

MAC continues to be authorized to issue obligations to renew or refund outstanding obligations, without limitation as to amount. No obligations of MAC may mature later than July 1, 2008. MAC may issue 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 H). 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 Funds in the fiscal year of such payments.

### D. New York City Samurai Funding Corporation (SFC)

The City created SFC on August 25, 1992. This is a special-purpose nonprofit entity, created to issue Yen-denominated bonds. The members, directors, and officers of SFC are all elected officials or employees of the City.

SFC issued Yen-denominated bonds to investors on May 27, 1993 and simultaneously bought general obligation bonds from the City. Such bonds require the City to make floating rate interest and principal payments in U.S. dollars to SFC. SFC entered into currency and interest rate exchange agreements to swap the City's payments into fixed rate Yen which are used to pay SFC's bondholders. These agreements limit the City's currency and exchange rate change exposure. SFC's bonds are included in the City's General Long-term Obligations Account Group. Proceeds from this issue were used for housing and economic development projects that do not qualify for tax-exempt bond status.

### E. Deposits and Investments

*Deposits*

The City's bank depositories are designated by the Banking Commission, which consists 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 periodic 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. The discretely presented component units included in the

City's reporting entity maintain their own banking relationships which generally conform with the City's. Bank balances are currently 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 held by well-capitalized banks and therefore are insured by the FDIC up to $100,000 per retirement system member. At June 30, 1995 and 1994, the carrying amount of the City's cash and cash equivalents was $1,132 million and $735 million, respectively, and the bank balances were $598 million and $425 million, respectively. Of the bank balances, $78 million and $98 million, respectively, were covered by Federal depository insurance or collateralized with securities held by the City's agent in the City's name, and $520 million and $327 million, respectively, were uninsured and collateralized with securities held by the City's agent in the City's name. At June 30, 1995 and 1994, the carrying amount of the discretely presented component units' cash and cash equivalents was $251 million and $200 million, respectively, and the bank balances were $121 million and $89 million, respectively. Of the bank balances, $6 million and $16 million, respectively, were covered by Federal depository insurance or collateralized with securities held by the City's agent in the City's name, and $115 million and $73 million, respectively, were uninsured and collateralized with securities held by the City's agent in the City's name.

The uninsured, collateralized cash balances carried during the year represent primarily the compensating balances 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 agreements must be collateralized by U.S. Government securities in a range of 100% to 103% of the matured value of the repurchase agreements.

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

1. Fixed income investments may be made in U.S. Government securities or securities of U.S. Government agencies, securities of companies rated BBB or better by both Standard & Poor's Corporation and Moody's Investors Service, Inc., and any bond that meets the qualifications of the New York State Retirement and Social Security Law, the New York State Banking Law, and the New York City Administrative Code.
2. Equity investments may be made only in those stocks that meet the qualifications of the New York State Retirement and Social Security Law, the New York State Banking Law, and the New York City Administrative Code.
3. Short-term investments may be made in the following:
   a. U.S. Government securities or U.S. Government agencies' securities.
   b. Commercial paper rated A1 or P1 by Standard & Poor's Corporation or Moody's Investors Service, Inc., respectively.
   c. Repurchase agreements collateralized in a range of 100% to 103% of matured value, purchased from primary dealers of U.S. Government securities.
   d. Investments in bankers' acceptances and certificates of deposit — time deposits are limited to banks with world-wide assets in excess of $50 billion that are rated within the highest categories of the leading bank rating services and selected regional banks also rated within the highest categories.
4. Investments up to 7 1/2% of total pension fund assets in instruments not specifically covered by the New York State Retirement and Social Security Law.
5. No investment in any one organization represents 5% or more of the plan net assets held in trust for pension and supplemental benefits.

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

Investments of the City and its discretely presented component units are categorized by level of credit risk (the risk that a counterparty to an investment transaction will not fulfill its obligations). Category 1, the lowest risk, includes investments that are insured or registered or for which securities are held by the entity or its agent in the entity's name. Category 2, includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name. Category 3, the highest risk, includes investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

The City's investments, including those of the discretely presented component units (DPCU), as of June 30, 1995 and 1994 are classified as follows:

| | 1995 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Category | | | | | | Total Carrying Amount | | Market Value | |
| | 1 | | 2 | | 3 | | | | | |
| | City | DPCU | City | DPCU | City | DPCU | City | DPCU | City | DPCU |
| | (in millions) | | | | | | | | | |
| Repurchase agreements ... | $ 2,109 | $ 199 | $ — | $ — | $ — | $ — | $ 2,109 | $ 199 | $ 2,111 | $ 199 |
| U.S. Government securities ..... | 14,697 | 643 | — | — | — | — | 14,697 | 643 | 14,695 | 643 |
| Commercial paper ..... | 988 | — | — | — | — | — | 988 | — | 988 | — |
| Corporate bonds ..... | 7,104 | — | — | — | — | — | 7,104 | — | 7,104 | — |
| Corporate stocks ..... | 33,766 | — | — | — | — | — | 33,766 | — | 33,766 | — |
| Other ..... | 3,115 | 189 | — | 5 | — | — | 3,115 | 194 | 3,115 | 194 |
| | $61,779 | $1,031 | $ — | $ 5 | $ — | $ — | 61,779 | 1,036 | 61,779 | 1,036 |
| Mutual funds (1) ..... | | | | | | | 955 | — | 1,146 | — |
| International investment fund—fixed income (1) ..... | | | | | | | 748 | — | 748 | — |
| International investment fund—equity (1) ..... | | | | | | | 5,053 | — | 5,053 | — |
| Guaranteed investment contracts(1) ..... | | | | | | | 338 | — | 338 | — |
| Management investment contracts(1) ..... | | | | | | | 256 | — | 256 | — |
| Total investments .. | | | | | | | $69,129 | $1,036 | $69,320 | $1,036 |

(1) These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

In fiscal year 1995, the restricted cash and investments which are wholly applicable to discretely presented component units include $360.3 million of cash, of which the repayment of $358.1 million was insured or collateralized and $2.2 million was uninsured and uncollateralized. Restricted investments, principally in U.S. Government securities with a cost and approximate market value of $773.5 million are fully registered with securities held by the City's agent in the entity's name of which none have maturities of three months or less.

| | 1994 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Category | | | | | | Total Carrying Amount | | Market Value | |
| | 1 | | 2 | | 3 | | | | | |
| | City | DPCU | City | DPCU | City | DPCU | City | DPCU | City | DPCU |
| | (in millions) | | | | | | | | | |
| Repurchase agreements | $ 2,271 | $ 155 | $ — | $ — | $ — | $ — | $ 2,271 | $ 155 | $ 2,315 | $ 155 |
| U.S. Government securities | 13,536 | 808 | — | — | — | — | 13,536 | 808 | 13,512 | 833 |
| Commercial paper | 1,118 | — | — | — | — | — | 1,118 | — | 1,118 | — |
| Corporate bonds | 5,771 | — | — | — | — | — | 5,771 | — | 5,771 | — |
| Corporate stocks | 28,994 | — | — | — | — | — | 28,994 | — | 28,994 | — |
| Other | 3,387 | 43 | — | — | — | — | 3,387 | 43 | 3,387 | 43 |
| | $55,077 | $1,006 | $ — | $ — | $ — | $ — | 55,077 | 1,006 | 55,097 | 1,031 |
| Mutual funds (1) | | | | | | | 328 | — | 328 | — |
| International investment fund—fixed income (1) | | | | | | | 591 | — | 591 | — |
| International investment fund—equity (1) | | | | | | | 4,260 | — | 4,260 | — |
| Guaranteed investment contracts(1) | | | | | | | 865 | — | 865 | — |
| Management investment contracts(1) | | | | | | | 256 | — | 256 | — |
| Total investments | | | | | | | $61,377 | $1,006 | $61,397 | $1,031 |

(1) These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

In fiscal year 1994, the restricted cash and investments which are wholly applicable to discretely presented component units include $398.1 million of cash, of which the repayment of $17.5 million was insured or collateralized and $380.6 million was uninsured and collateralized. Restricted investments, principally in U.S. Government securities with a cost and approximate market value of $991.2 million are fully registered with securities held by the City's agent in the entity's name of which none have maturities of three months or less.

## F. General Fixed Assets Account Group

The following is a summary of changes in general fixed assets for the fiscal years ended June 30, 1994 and 1995:

| | Balance June 30, 1993 | Additions | Deletions | Balance June 30, 1994 | Additions | Deletions | Balance June 30, 1995 |
|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | |
| Land | $ 549,437 | $ 3,813 | $ 165 | $ 553,085 | $ — | $ — | $ 553,085 |
| Buildings | 6,148,261 | 511,695 | 5,188 | 6,654,768 | 1,140,044 | 465 | 7,794,347 |
| Equipment | 2,793,158 | 143,289 | 113,812 | 2,822,635 | 156,952 | 87,346 | 2,892,241 |
| Construction work-in-progress | 4,675,778 | 1,037,051 | 511,695 | 5,201,134 | 1,205,992 | 1,140,044 | 5,267,082 |
| | 14,166,634 | 1,695,848 | 630,860 | 15,231,622 | 2,502,988 | 1,227,855 | 16,506,755 |
| Less accumulated depreciation and amortization | 4,242,788 | 331,944 | 93,517 | 4,481,215 | 421,261 | 76,610 | 4,825,866 |
| Total changes in net fixed assets | $9,923,846 | $1,363,904 | $537,343 | $10,750,407 | $2,081,727 | $1,151,245 | $11,680,889 |

The following are the sources of funding for the general fixed assets for the years ended June 30, 1995 and 1994. Sources of funding for fixed assets are not available prior to fiscal year 1987.

| | 1995 | 1994 |
|---|---|---|
| | (in thousands) | |
| Capital Projects Fund: | | |
| Prior to fiscal year 1987 | $ 6,817,992 | $ 6,817,992 |
| City bonds | 9,337,530 | 8,109,171 |
| Federal grants | 224,640 | 199,632 |
| State grants | 82,439 | 66,105 |
| Private grants | 44,154 | 38,722 |
| Total funding sources | $16,506,755 | $15,231,622 |

At June 30, 1995 and 1994, the General Fixed Assets Account Group includes approximately $1.3 billion of City-owned assets leased for $1 per year to the New York City Transit Authority which operates and maintains the assets. In addition, assets leased to HHC and to the Water and Sewer System are excluded from the General Fixed Assets Account Group and are recorded in the respective component unit financial statements.

Included in land and buildings at June 30, 1995 and 1994, are leased properties capitalized at $122 million and $103 million, respectively, with related accumulated amortization of $40 million and $47 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 fiscal years ended June 30, 1995 and 1994, exceed the $2.503 billion and $1.696 billion increases recorded as general fixed assets by $1.172 billion and $1.647 billion, respectively.

## G. 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 are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when payable. Total expenditures on such leases for the fiscal years ended June 30, 1995 and 1994, were approximately $350 million and $326 million, respectively.

As of June 30, 1995, the City (excluding discretely presented component units) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

| | Capital Leases | Operating Leases | Total |
|---|---|---|---|
| | | (in thousands) | |
| Fiscal year ending June 30: | | | |
| 1996 | $ 89,067 | $ 167,266 | $ 256,333 |
| 1997 | 91,071 | 140,273 | 231,344 |
| 1998 | 89,902 | 126,612 | 216,514 |
| 1999 | 96,638 | 115,216 | 211,854 |
| 2000 | 96,271 | 106,849 | 203,120 |
| Thereafter until 2023 | 1,333,702 | 693,646 | 2,027,348 |
| Future minimum payments | 1,796,651 | $1,349,862 | $3,146,513 |
| Less interest | 829,706 | | |
| Present value of future minimum payments | $ 966,945 | | |

The City also leases City-owned property to others, primarily for markets, ports, and terminals. Total rental revenue on these operating leases for the fiscal years ended June 30, 1995 and 1994, was approximately $127 million and $133 million, respectively. As of June 30, 1995, the following future minimum rentals are provided for by the leases:

| | Amount (in thousands) |
|---|---|
| Fiscal year ending June 30: | |
| 1996 | $ 52,406 |
| 1997 | 49,820 |
| 1998 | 47,090 |
| 1999 | 42,110 |
| 2000 | 40,970 |
| Thereafter until 2086 | 1,101,069 |
| Future minimum rentals | $1,333,465 |

## H. Long-Term Obligations

*Long-term Debt*

Following is a summary of the bond transactions of the City, MAC, SFC, 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 discretely presented component units, see Notes K, L, M, and N.

| | Balance June 30, 1993 | Issued | Repaid or Defeased | Balance June 30, 1994 | Issued | Repaid or Defeased | Balance June 30, 1995 |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| City debt: | | | | | | | |
| General obligation bonds | $20,908,974 | $4,450,308 | $2,456,342 | $22,902,940 | $3,581,666 | $1,980,139 | $24,504,467 |
| MAC debt:(4) | | | | | | | |
| Second general resolution bonds | 4,957,225 | — | 158,335 | 4,798,890 | — | 173,435 | 4,625,455 |
| 1991 general resolution bonds | 506,040 | — | 229,440 | 276,600 | — | 20,080 | 256,520 |
| | 5,463,265 | — | 387,775 | 5,075,490 | — | 193,515 | 4,881,975 |
| SFC debt: | | | | | | | |
| Japanese Yen bonds | 200,000 | — | — | 200,000 | — | — | 200,000 |
| Component unit debt: (1) | | | | | | | |
| City University Construction Fund(2) | 411,040 | — | 6,371(3) | 404,669 | — | 16,576 | 388,093 |
| New York City Educational Construction Fund | 126,630 | 137,750 | 126,630 | 137,750 | — | 5,580 | 132,170 |
| | 537,670 | 137,750 | 133,001 | 542,419 | — | 22,156 | 520,263 |
| Total before treasury obligations | 27,109,909 | 4,588,058 | 2,977,118 | 28,720,849 | 3,581,666 | 2,195,810 | 30,106,705 |
| Less treasury obligations | 1,478,915 | — | 112,876 | 1,366,039 | — | 122,983 | 1,243,056 |
| Total summary of bond transactions | $25,630,994 | $4,588,058 | $2,864,242 | $27,354,810 | $3,581,666 | $2,072,827 | $28,863,649 |

(1) The debt of CUCF and ECF are reported as bonds outstanding pursuant to their treatment as component units (see Note A).

(2) Excludes $286,070 in 1994 and $292,272 in 1995 to be provided by the State.

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

(4) Includes $188,195 of principal debt due July 1, 1995 which MAC reports as redeemed as of June 30, 1995.

The bonds payable, net of treasury obligations, at June 30, 1995 and 1994 summarized by type of issue are as follows:

| | 1995 | | | 1994 | | |
|---|---|---|---|---|---|---|
| | General Obligations | Revenue | Total | General Obligations | Revenue | Total |
| | (in thousands) | | | | | |
| Bonds payable: | | | | | | |
| City debt | $23,261,411 | $ — | $23,261,411 | $21,536,901 | $ — | $21,536,901 |
| MAC debt | 4,881,975 | — | 4,881,975 | 5,075,490 | — | 5,075,490 |
| SFC debt | 200,000 | — | 200,000 | 200,000 | — | 200,000 |
| Component unit debt | — | 520,263 | 520,263 | — | 542,419 | 542,419 |
| Total bonds payable | $28,343,386 | $520,263 | $28,863,649 | $26,812,391 | $542,419 | $27,354,810 |

The following table summarizes future debt service requirements as of June 30, 1995:

| | City Debt | | | | | |
|---|---|---|---|---|---|---|
| | General Obligation Bonds | Interest on Bonds (1) | MAC | SFC (2) | Component Unit Debt | Total |
| | | | (in thousands) | | | |
| Fiscal year ending June 30: | | | | | | |
| 1996 | $ 1,134,475 | $ 1,462,703 | $ 518,204 | $ 14,000 | $ 51,528 | $ 3,180,910 |
| 1997 | 1,193,704 | 1,383,261 | 508,385 | 14,000 | 51,464 | 3,150,814 |
| 1998 | 1,138,629 | 1,315,799 | 571,263 | 14,000 | 51,443 | 3,091,134 |
| 1999 | 1,061,775 | 1,246,183 | 583,651 | 14,000 | 51,781 | 2,957,390 |
| 2000 | 1,001,549 | 1,188,960 | 601,399 | 11,200 | 51,776 | 2,854,884 |
| Thereafter until 2147 | 17,731,279 | 11,610,154 | 4,825,232 | 216,800 | 647,528 | 35,030,993 |
| | 23,261,411 | 18,207,060 | 7,608,134 | 284,000 | 905,520 | 50,266,125 |
| Less interest component | — | 18,207,060 | 2,726,159 | 84,000 | 385,257 | 21,402,476 |
| Total future debt service requirements | $23,261,411 | $ — | $4,881,975 | $200,000 | $520,263 | $28,863,649 |

(1) Includes interest estimated at 4% rate on tax-exempt adjustable rate bonds and at 6% rate on taxable adjustable rate bonds.

(2) Interest estimated at 7% rate.

The average (weighted) interest rates for outstanding City general obligation bonds as of June 30, 1995 and 1994, were 6.7% (range 3.0% to 13.6%) and 6.9% (range 2.5% to 13.6%), respectively, and the interest rates on outstanding MAC bonds as of June 30, 1995 and 1994, ranged from 3.5% to 7.75% and 3.1% to 7.75%, respectively. The last maturity of the outstanding City debt is in the year 2147.

In fiscal year 1995, the City issued $1.270 billion of general obligation bonds principal to advance refund general obligation bonds of $1.186 billion aggregate principal amount issued during the City's fiscal years 1984 through 1993. The net proceeds from the sales of the refunding bonds were irrevocably placed in escrow accounts and invested in United States Government securities. As a result of providing for the payment of the principal and interest to maturity, and any redemption premium, the advance refunded bonds are considered to be defeased and, accordingly, the liability is not reported in the General Long-term Obligations Account Group. The refunding transactions will decrease the City's aggregate debt service payments by $24 million and provide an economic gain of $41 million. At June 30, 1995, $5.463 billion of the City's outstanding general obligation bonds were considered defeased.

MAC issued no bonds for refunding purposes in fiscal year 1995. At June 30, 1995, $115.0 million of MAC bonds outstanding which had been advance refunded were considered defeased.

The City utilizes derivative financial instruments in connection with certain bond issues in order to reduce debt service costs. The City minimizes the interest rate risk of these instruments through hedging transactions and minimizes counterparty credit risk by dealing with high-quality counterparties.

The City has entered into a number of interest rate swap agreements to facilitate the issuance and sale of certain variable rate bonds by providing protection to the City against variable rate risk. The agreements effectively change the City's interest rate exposure on its obligation to pay fluctuating amounts of interest on floating rate debt instruments to fixed rate interest payments.

Debt instruments subject to interest rate swap agreements were: $32.5 million Short RITES bonds, $43.8 million indexed inverse floaters, $14.6 million inverse floating rate notes, and $22.5 million LIBOR notes.

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.

As of June 30, 1995, the 10% general and 2% additional limitations were approximately $35.027 billion and $1.555 billion, respectively, of which the remaining debt-incurring amounts within such limits were $8.379 billion and $1.433 billion, 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, 1995, the City completed the following long-term financing:

*City Debt:* On August 2, 1995, the City sold in the public credit market $1,230 million of general obligation bonds for which $755 million was for refunding purposes and $475 million was for various municipal capital purposes. On October 19, 1995, the City offered to the public credit market $1,205 million of general obligation bonds for which $405 million will be for refunding purposes and $800 million will be for various municipal capital purposes. The sale of these bonds is expected to close on November 3, 1995. In addition, to satisfy its seasonal financing needs for fiscal year 1996, on August 2, 1995, the City sold general obligation Tax Anticipation Notes of $800 million and Revenue Anticipation Notes of $700 million, and on October 5, 1995, sold general obligation Revenue Anticipation Notes of $900 million.

*MAC Debt:* On October 19, 1995, MAC sold its Series D bonds of $280 million, issued pursuant to the 1991 General Bond Resolution, for refunding purposes.

*Judgments and Claims*

The City is a defendant in lawsuits pertaining to material matters, including 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, 1995 and 1994, claims in excess of $311 billion and $286 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be $2.5 billion and $2.6 billion, respectively.

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 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.

The City is also a party to a proceeding initiated by a union representing sleep-in home attendants asserting that its attendants were covered by minimum wage law. Hearings based on the number of hours actually worked by its attendants during the first several months of 1981 were completed in September, 1991 and post-hearing briefs were filed in February, 1992. In May, 1984, the union commenced a separate but related action in the Supreme Court, New York County on behalf of a number of sleep-in attendants claiming, *inter alia*, that since 1981, the attendants were entitled to compensation for a 24-hour day at a rate in excess of the minimum wage. That action has been stayed pending a proceeding before the New York State Industrial Board of Appeals. While the potential cost to the City of adverse determinations in the two proceedings cannot be determined at this time, such findings could result in substantial costs to the City depending on the number of hours deemed worked by particular attendants, the extent of State and Federal reimbursements, the number of attendants actually covered by a final determination, and the rate of pay to be applied.

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 $314 million as reported in the General Long-term Obligations Account Group.

*Wage Deferral*

In fiscal year 1991, the Board of Education entered into an agreement whereby teachers would defer a portion of their fiscal year 1991 salary. The City will repay the deferred wages of $46.7 million in two installments: (i) one-half to be repaid on September 1, 1995; and (ii) the second half plus interest at 9% per annum on the unpaid balance from September 1, 1995 to be repaid on September 1, 1996.

*Landfill Closure and Postclosure Care Costs*

The City's only active landfill available for waste disposal is the Fresh Kills landfill. A portion of the total estimated current cost of the closure and postclosure care is to be recognized as an expense and as a liability in each period the landfill accepts solid waste. For governmental funds, the measurement and recognition of the accrued liability for closure and postclosure care is based on total estimated current cost and landfill usage to date. Expenditures and fund liabilities are recognized using the modified accrual basis of accounting. The remainder of the liability is reported in the General Long-term Obligations Account Group.

Upon the landfill becoming inactive, the City is required by Federal and State law to close the landfill, including final cover, stormwater management and landfill gas control, and to provide postclosure care for a period of 30 years following closure. The City is also required under Consent Order with the New York State Department of Environmental Conservation to conduct certain corrective measures associated with the landfill. The corrective measures include construction and operation of a leachate mitigation system for the active portions of the landfill; and closure, postclosure, and groundwater monitoring activities for the sections no longer accepting solid waste.

The liability for these activities as of June 30, 1995 is $233.0 million based on the cumulative landfill capacity used to date. The total estimated current cost is $435.8 million; therefore, the costs remaining to be recognized are $202.8 million. The cumulative landfill capacity used to date is approximately 58%. The remaining life of the landfill is projected to be 22 years. Cost estimates are based on current data including contracts awarded by the City, contract bids, and engineering studies. These estimates are subject to adjustment for inflation and to account for any changes in landfill conditions, regulatory requirements, technologies, or cost estimates.

Financial assurance requirements of the Resource Conservation and Recovery Act Subtitle D Part 258 become effective April, 1997. These requirements provide several alternative mechanisms by which the City can provide financial assurance for closure, postclosure, and corrective measure costs. The City is in the process of evaluating alternative financial assurance mechanisms for use prior to that time.

The City has five inactive hazardous waste sites not covered by the EPA rule. The City has included the long-term portion of these postclosure care costs in the General Long-term Obligations Account Group.

The following represents the City's total landfill and hazardous waste sites liability which is recorded in the General Long-term Obligations Account Group:

| | Amount (in thousands) |
|---|---|
| Landfill | $232,989 |
| Hazardous waste sites | 226,679 |
| Total landfill and hazardous waste sites liability | $459,668 |

*Changes In Certain Long-term Obligations*

In fiscal years 1994 and 1995, the changes in long-term obligations other than for bonds were as follows:

| | Balance June 30, 1993 | Additions | Deletions | Balance June 30, 1994 | Additions | Deletions | Balance June 30, 1995 |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| Capital lease obligations | $ 514,497 | $ 427,387 | $ 23,684 | $ 918,200 | $ 66,508 | $ 17,763 | $ 966,945 |
| Real estate tax refunds | 267,764 | 86,819 | 57,701 | 296,882 | 87,694 | 70,226 | 314,350 |
| Judgments and claims | 2,198,349 | 704,700 | 270,916 | 2,632,133 | 143,142 | 251,247 | 2,524,028 |
| Deferred wages | 46,696 | — | — | 46,696 | — | — | 46,696 |
| Vacation and sick leave (1) | 1,389,022 | — | 138,828 | 1,250,194 | 201,344 | — | 1,451,538 |
| Pension liability | 2,562,532 | — | 19,573 | 2,542,959 | 28,492 | — | 2,571,451 |
| Landfill closure and post-closure care costs | — | 464,984 | — | 464,984 | — | 5,316 | 459,668 |
| Total changes in certain long-term obligations | $6,978,860 | $1,683,890 | $510,702 | $8,152,048 | $527,180 | $344,552 | $8,334,676 |

(1) The amount of additions and deletions is not available, thus the net amounts are presented.

## I. Interfund/Discretely Presented Component Unit Receivable and Payable Balances

At June 30, 1995 and 1994, individual fund and discretely presented component unit interfund/discretely presented component unit receivable and payable balances were as follows:

| | 1995 | | 1994 | |
|---|---|---|---|---|
| | Receivable | Payable | Receivable | Payable |
| | (in thousands) | | | |
| General Fund: | | | | |
| Capital Projects Fund | $1,331,157 | $ 894,217 | $1,173,294 | $ 729,148 |
| HDC | 188,524 | — | 185,310 | — |
| Debt Service Funds | 28,056 | 65,595 | 20,167 | 68,690 |
| OTB | 623 | — | 442 | — |
| Water Board | — | 2,757 | — | 5,487 |
| Total General Fund | 1,548,360 | 962,569 | 1,379,213 | 803,325 |
| Capital Projects Fund: | | | | |
| Water Authority | 222,330 | — | 196,443 | — |
| General Fund | 894,217 | 1,331,157 | 729,148 | 1,173,294 |
| Total Capital Projects Fund | 1,116,547 | 1,331,157 | 925,591 | 1,173,294 |
| Debt Service Funds: | | | | |
| General Fund | 65,595 | 28,056 | 68,690 | 20,167 |
| HDC | 6,297 | — | 8,834 | — |
| Total Debt Service Funds | 71,892 | 28,056 | 77,524 | 20,167 |
| Pension and Similar Trust Funds: | | | | |
| NYCERS | — | 586,658 | — | — |
| Police | 586,108 | 290,000 | — | — |
| Fire | — | 90,000 | — | — |
| POVSF | 140,000 | — | — | — |
| PSOVSF | 150,000 | — | — | — |
| FFVSF | 50,000 | — | — | — |
| FOVSF | 40,000 | — | — | — |
| TPOVSF | 130 | — | — | — |
| TPSOVSF | 290 | — | — | — |
| HPOVSF | 90 | — | — | — |
| HPSOVSF | 40 | — | — | — |
| Total Pension and Similar Trust Funds | 966,658 | 966,658 | — | — |
| Discretely Presented Component Units: | | | | |
| OTB | — | 623 | — | 442 |
| Water Board | 2,757 | — | 5,487 | — |
| Water Authority | — | 222,330 | — | 196,443 |
| HDC | — | 194,821 | — | 194,144 |
| Total Discretely Presented Component Units | 2,757 | 417,774 | 5,487 | 391,029 |
| Total interfund/discretely presented component unit receivable and payable balances | $3,706,214 | $3,706,214 | $2,387,815 | $2,387,815 |

## J. Segment Information for Discretely Presented Component Units

Due to their nonhomogeneous nature, the City has presented separate columns for HHC, OTB, the Housing and Economic Development Entities, and the Water and Sewer System in the Combining Statement of Revenues, Expenses and Changes in Equity and the Combining Statement of Cash Flows. The following segment information is provided for the assets, liabilities, and fund equity for HHC, OTB, the Housing and Economic Development Entities, and the Water and Sewer System at June 30, 1995 and 1994:

| | 1995 | | | | |
|---|---|---|---|---|---|
| | Health and Hospitals Corporation | Off-Track Betting Corporation | Housing and Economic Development Entities | Water and Sewer System | Total |
| | | | (in thousands) | | |
| Assets: | | | | | |
| Current | $ 819,936 | $ 13,180 | $1,291,785 | $ 492,694 | $ 2,617,595 |
| Mortgage and interest receivable | — | — | 2,073,528 | — | 2,073,528 |
| Land | 37,462 | — | 744,137 | — | 781,599 |
| Buildings and leasehold improvements | 1,139,875 | 21,031 | 4,684,572 | — | 5,845,478 |
| Equipment | 2,022,034 | 10,380 | 297,695 | 13,145,064 | 15,475,173 |
| Less accumulated depreciation | (1,858,688) | (10,884) | (2,581,190) | (3,084,337) | (7,535,099) |
| Other | 308,982 | 5,259 | 179,273 | 885,171 | 1,378,685 |
| Total assets | $2,469,601 | $ 38,966 | $6,689,800 | $11,438,592 | $20,636,959 |
| Liabilities: | | | | | |
| Current | $ 756,113 | $ 23,577 | $1,699,339 | $ 827,932 | $ 3,306,961 |
| Long-term | 846,624 | 7,223 | 4,049,200 | 5,161,714 | 10,064,761 |
| Total liabilities | 1,602,737 | 30,800 | 5,748,539 | 5,989,646 | 13,371,722 |
| Equity | 866,864 | 8,166 | 941,261 | 5,448,946 | 7,265,237 |
| Total liabilities and equity | $2,469,601 | $ 38,966 | $6,689,800 | $11,438,592 | $20,636,959 |

| | 1994 | | | | |
|---|---|---|---|---|---|
| | Health and Hospitals Corporation | Off-Track Betting Corporation | Housing and Economic Development Entities | Water and Sewer System | Total |
| | | | (in thousands) | | |
| Assets: | | | | | |
| Current | $ 701,815 | $ 13,469 | $1,166,124 | $ 423,518 | $ 2,304,926 |
| Mortgage and interest receivable | — | — | 1,997,845 | — | 1,997,845 |
| Land | 37,314 | — | 738,548 | — | 775,862 |
| Buildings and leasehold improvements | 1,037,427 | 19,736 | 4,477,970 | — | 5,535,133 |
| Equipment | 1,973,079 | 10,326 | 293,013 | 12,463,280 | 14,739,698 |
| Less accumulated depreciation | (1,724,765) | (9,523) | (2,444,336) | (2,817,882) | (6,996,506) |
| Other | 388,282 | 2,251 | 160,410 | 1,067,375 | 1,618,318 |
| Total assets | $2,413,152 | $ 36,259 | $6,389,574 | $11,136,291 | $19,975,276 |
| Liabilities: | | | | | |
| Current | $ 758,246 | $ 22,865 | $1,780,820 | $ 686,794 | $ 3,248,725 |
| Long-term | 645,418 | 7,300 | 4,411,929 | 4,912,923 | 9,977,570 |
| Total liabilities | 1,403,664 | 30,165 | 6,192,749 | 5,599,717 | 13,226,295 |
| Equity | 1,009,488 | 6,094 | 196,825 | 5,536,574 | 6,748,981 |
| Total liabilities and equity | $2,413,152 | $ 36,259 | $6,389,574 | $11,136,291 | $19,975,276 |

## K. 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 subsidiaries, HHC Nurse Referrals, Inc., Outpatient Pharmacies, Inc. (dissolved during fiscal year 1995), and HHC Capital Corporation. All significant intercompany accounts and transactions have been eliminated.

The City provides funds to HHC 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 has paid HHC's costs for settlements of claims for medical malpractice, negligence, and other miscellaneous torts and contracts, as well as other HHC costs including utilities expense in fiscal year 1995, City debt which funded HHC capital acquisitions, and New York State Housing Finance Agency (HFA) debt on HHC assets acquired through lease purchase agreements. HHC reimburses the City for these debt payments. HHC records both a revenue and an expense in an amount equal to expenditures made on its behalf by the City.

*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 other revenues are transfers from donor restricted funds of $117 million and $60 million in fiscal years 1995 and 1994, 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 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, 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. As a result of modernizing 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 the cost of construction that it controls as costs are incurred. Costs associated with facilities constructed by 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 R). The provisions for pension costs were actuarially determined and amounted to $43 million and $41 million for fiscal years 1995 and 1994, respectively. These amounts were fully funded.

*Affiliated Institution Expenses*

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

*Debt Service*

In fiscal year 1993, HHC issued Series A revenue bonds in the amount of $550 million. The bonds were issued to fund HHC's capital program and to refund $19 million of fiscal year 1985 Series A revenue bonds. The loss based upon the defeasance of these bonds was $1 million.

The following table summarizes future debt service requirements as of June 30, 1995:

| | Principal | Interest | Total |
|---|---|---|---|
| | | (in thousands) | |
| Fiscal year ending June 30: | | | |
| 1996 | $ — | $ 30,745 | $ 30,745 |
| 1997 | 9,145 | 30,745 | 39,890 |
| 1998 | 9,530 | 30,356 | 39,886 |
| 1999 | 9,960 | 29,927 | 39,887 |
| 2000 | 10,420 | 29,467 | 39,887 |
| Thereafter until 2023 | 492,830 | 424,189 | 917,019 |
| Total future debt service requirements | $531,885 | $575,429 | $1,107,314 |

The interest rates on the bonds as of June 30, 1995 range from 4.25% to 6.30%.

The following is a summary of revenue bond transactions for HHC for the fiscal years ended June 30, 1994 and 1995:

| | Balance June 30, 1993 | Issued | Retired | Balance June 30, 1994 | Issued | Retired | Balance June 30, 1995 |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| Revenue bonds | $550,000 | $ — | $8,590 | $541,410 | $ — | $9,525 | $531,885 |

*Installment Note Payable*

HHC issued a secured 8-year installment note payable with an 8% rate of interest. The following table summarizes future debt service requirements as of June 30, 1995:

| | Principal | Interest | Total |
|---|---|---|---|
| | | (in thousands) | |
| Fiscal year ending June 30: | | | |
| 1996 | $ 283 | $193 | $ 476 |
| 1997 | 307 | 169 | 476 |
| 1998 | 332 | 144 | 476 |
| 1999 | 358 | 118 | 476 |
| 2000 | 389 | 87 | 476 |
| Thereafter until 2002 | 874 | 75 | 949 |
| Total future debt service requirements | $2,543 | $786 | $3,329 |

*Capital Lease Obligations*

HHC entered into a long-term agreement which involves the construction of a parking garage at Elmhurst Hospital Center. The future minimum lease payments under the capitalized lease are as follows:

| | Amount |
|---|---|
| | (in thousands) |
| Fiscal year ending June 30: | |
| 1996 | $ 991 |
| 1997 | 991 |
| 1998 | 991 |
| 1999 | 989 |
| 2000 | 987 |
| Thereafter until 2013 | 14,509 |
| Future minimum lease payments | 19,458 |
| Less interest | 6,803 |
| Present value of future minimum lease payments | $12,655 |

*Changes in Fund Equity*

Presented below are the changes in fund equity for the fiscal years ended June 30, 1994 and 1995:

| | Unreserved Retained Earnings | Contributed Capital Plant and Equipment | Reserve for Donor Restrictions | Total Fund Equity |
|---|---|---|---|---|
| | | (in thousands) | | |
| Balance, June 30, 1993 | $413,938 | $719,018 | $ 10,494 | $1,143,450 |
| Excess of expenses over revenues | (142,574) | — | — | (142,574) |
| Decrease in bonds payable | (8,408) | 8,408 | — | — |
| Additions to plant and equipment funded by: | | | | |
| Donations | — | 758 | — | 758 |
| The City of New York | — | 8,207 | — | 8,207 |
| HHC | (190,141) | 190,141 | — | — |
| Donor restricted fund activity: | | | | |
| Grants and other increases | — | — | 59,987 | 59,987 |
| Transfers to statement of revenues and expenses to support related activities | — | — | (60,340) | (60,340) |
| Depreciation charged to plant and equipment leased | 154,685 | (154,685) | — | — |
| Balance, June 30, 1994 | 227,500 | 771,847 | 10,141 | 1,009,488 |
| Excess of expenses over revenues | (147,025) | — | — | (147,025) |
| Decrease in bonds payable | (9,343) | 9,343 | — | — |
| Increase in other debt, net | 2,428 | (2,428) | — | — |
| Additions to plant and equipment funded by: | | | | |
| Donations | — | 1,183 | — | 1,183 |
| The City of New York | — | 3,021 | — | 3,021 |
| HHC | (189,335) | 189,335 | — | — |
| Donor restricted fund activity: | | | | |
| Grants and other increases | — | — | 117,365 | 117,365 |
| Transfers to statement of revenues and expenses to support related activities | — | — | (117,168) | (117,168) |
| Depreciation charged to plant and equipment leased | 156,194 | (156,194) | — | — |
| Abandoned project | 19,717 | (19,717) | — | — |
| Balance, June 30, 1995 | $ 60,136 | $796,390 | $ 10,338 | $ 866,864 |

## L. 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: (i) revenues on its betting operations ranging between 17% and 25% of wagers handled, depending on the type of wager; (ii) a 5% surcharge and surcharge breakage on pari-mutuel winnings; (iii) a 1% surcharge on multiple, exotic, and super exotic wagering pools; and (iv) 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; (iii) allocates various percentages of wagers handled and breakage together with all uncashed pari-mutuel tickets to the State; and (iv) allocates the 1% surcharge on exotic wagering pools for the financing of capital acquisitions. 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.

OTB has cumulative deficits of $8.5 million and $8.5 million after providing for mandatory transfers in fiscal years 1995 and 1994, respectively.

*Net Revenue Retained for Capital Acquisitions*

For the fiscal years ended June 30, 1995 and 1994, the changes in net revenue retained for capital acquisition were as follows:

| | 1995 | 1994 |
|---|---|---|
| | (in thousands) | |
| Balance, June 30 | $14,574 | $12,471 |
| Capital acquisition surcharge | 3,978 | 3,775 |
| Depreciation of assets purchased with funds restricted for capital acquisition | (1,906) | (1,672) |
| Balance, June 30 | $16,646 | $14,574 |

Since inception of the capital acquisition surcharge at July 21, 1990, surcharges of approximately $21.2 million have been collected and approximately $17.0 million has been used to finance leasehold improvements and the acquisition of property and equipment through June 30, 1995.

*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 fifteen years. Leasehold improvements are amortized principally over the term of the lease.

Rental expense for leased property for the fiscal years ended June 30, 1995 and 1994 was approximately $11.9 million and $12.3 million, respectively. As of June 30, 1995, OTB had future minimum rental obligations on noncancelable operating leases as follows:

| Fiscal year ending June 30: | Amount (in thousands) |
|---|---|
| 1996 | $10,516 |
| 1997 | 9,828 |
| 1998 | 9,557 |
| 1999 | 6,646 |
| 2000 | 6,055 |
| Thereafter until 2009 | 13,538 |
| Total future minimum rental obligations | $56,140 |

*Pensions*

Substantially all full-time employees of OTB are members of NYCERS (see Note R). The provisions for pension costs were actuarially determined and amounted to $2.3 million and $2.4 million for fiscal years 1995 and 1994, respectively. These amounts were fully funded.

## M. Housing and Economic Development Entities

*General*

The Housing and Economic Development Entities are comprised of the New York City Housing Development Corporation (HDC), the New York City Housing Authority (HA), the New York City Industrial Development Agency (IDA), the New York City Economic Development Corporation (EDC), the Business Relocation Assistance Corporation (BRAC), and the Brooklyn Navy Yard Development Corporation (BNYDC), the largest of which are HDC and HA.

*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 acts as an intermediary for 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 $2.8 billion 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 (see Note R). 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, 1994, its most recent fiscal year-end, were as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| | | (in thousands) | |
| Fiscal year ending October 31: | | | |
| 1995 | $ 20,086 | $ 111,195 | $ 131,281 |
| 1996 | 23,305 | 110,256 | 133,561 |
| 1997 | 26,797 | 108,771 | 135,568 |
| 1998 | 29,010 | 107,098 | 136,108 |
| 1999 | 26,531 | 108,248 | 134,779 |
| Thereafter until 2036 | 1,848,610 | 1,577,007 | 3,425,617 |
| Total future debt service requirements | $1,974,339 | $2,122,575 | $4,096,914 |

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, 1994 range from 0.9% to 9.875%.

HDC had $230.1 million and $262.8 million, respectively, of general obligation bonds and notes outstanding at October 31, 1994 and 1993 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.

The following is a summary of bond transactions of HDC for the fiscal years ended October 31, 1993 and 1994:

| | Balance October 31, 1992 | Issued | Retired | Balance October 31, 1993 | Issued | Retired | Balance October 31, 1994 |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| General obligation | $ 264,870 | $ — | $ 2,095 | $ 262,775 | $ — | $ 32,090 | $ 230,685 |
| Revenue | 1,617,875 | 367,245 | 436,834 | 1,548,286 | 504,255 | 308,887 | 1,743,654 |
| Total summary of bond transactions | $1,882,745 | $367,245 | $438,929 | $1,811,061 | $504,255 | $340,977 | $1,974,339 |

*HA*

HA, created in 1934, is a public benefit corporation chartered under the New York State Public Housing Law. HA develops, constructs, manages, and maintains low cost housing for eligible low income families in the boroughs of New York City. At December 31, 1994, HA maintained 336 developments encompassing approximately 181,000 units. HA also maintains a leased housing program which provides housing assistance payments to approximately 70,000 families.

Substantial operating deficits (the difference between operating revenues and expenses) result from the essential services that HA provides, and such operating deficits will continue in the foreseeable future. To meet the funding requirements of these operating deficits, HA receives subsidies from: (a) the Federal government (primarily the U.S. Department of Housing and Urban Development "HUD") in the form of annual grants for operating assistance, debt service payments, contributions for capital and reimbursement of expenditures incurred for certain Federal housing programs; (b) New York State in the form of operating assistance, reimbursement of certain expenses, and debt service payments; and (c) New York City in the form of operating assistance, reimbursement of certain housing police costs, and debt service payments. Subsidies are established through

budgetary procedures which establish amounts to be funded by the grantor agencies. Projected operating surplus or deficit amounts are budgeted on an annual basis and approved by the grantor agency. Expected variances from budgeted amounts are communicated to the agency during periodic budget revisions, as any revisions to previously approved budgets must be agreed to by the grantor. Capital project budgets are submitted at various times during the year. HA has a calendar year-end.

*Revenue*

Rents are received from tenants on the first day of each month. As a result, receivable balances primarily consist of rents past due and vacated tenants. An allowance for doubtful accounts is established to provide for all accounts which may not be collected in the future for any reason. At December 31, 1994 and 1993, tenant accounts receivable approximated $30.4 million and $30.2 million, respectively, with related allowances of $26.5 million and $26.2 million, respectively.

HA receives Federal financial assistance from HUD in the form of annual contributions for debt service and operating subsidies for public housing projects, as well as rent subsidies for the Section 8 Housing Assistance Payments Program (HAP). In addition, assistance is also received under HUD's Public Housing Development Programs, Comprehensive Improvement Assistance Program and other programs.

HA also receives financial assistance from the Department of Housing Preservation and Development (HPD), a City of New York agency. HPD receives these funds from HUD based on certain criteria (e.g., population, poverty, and extent of overcrowded housing in the area applying for funds).

HA receives assistance from New York State and The City of New York in the form of operating subsidies for public housing projects and annual contributions for debt service and capital.

HA receives Federal assistance from the U.S. Department of Agriculture for child care feeding and summer food service programs and the U.S. Department of Health and Human Services for special programs for the aging.

*Land, Structures, and Equipment*

Land, structures, and equipment are recorded at cost which is comprised of initial project development costs, property betterments and additions, and modernization program costs. HA depreciates these assets over their estimated useful lives (buildings—40 years, capital improvements—10 to 30 years, and equipment—5 to 15 years) using the straight-line method of depreciation. Land, structures, and equipment, including modernization costs, are generally funded through grant awards (for Federal, State, and City programs). A summary of costs at December 31, 1994 and 1993 is as follows:

| | 1994 | 1993 |
|---|---|---|
| | (in thousands) | |
| Land | $ 744,137 | $ 738,494 |
| Buildings | 3,095,448 | 3,078,949 |
| Capital improvements | 1,573,475 | 1,383,479 |
| Equipment | 295,053 | 290,696 |
| | 5,708,113 | 5,491,618 |
| Accumulated depreciation | (2,574,955) | (2,438,316) |
| Land, structures, and equipment—net | $ 3,133,158 | $ 3,053,302 |

Interest costs related to debt reflected on the books of HA of $161 thousand and $631 thousand were capitalized as part of development costs in calendar years 1994 and 1993, respectively.

*Debt Service*

The future debt service requirements on HA bonds and notes at December 31, 1994, its most recent calendar year-end, were as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| | | (in thousands) | |
| Calendar year ending December 31: | | | |
| 1995 | $ 61,282 | $ 33,341 | $ 94,623 |
| 1996 | 60,812 | 31,126 | 91,938 |
| 1997 | 60,016 | 28,898 | 88,914 |
| 1998 | 57,989 | 26,689 | 84,678 |
| 1999 | 55,305 | 24,493 | 79,798 |
| Thereafter until 2028 | 517,298 | 157,777 | 675,075 |
| Total future debt service requirements | $812,702 | $302,324 | $1,115,026 |

Interest rates on outstanding bonds and notes as of December 31, 1994 and 1993 range from 1% to 8.875%. During calendar years 1994 and 1993, principal repayments totaled $61.8 million and $61.4 million, respectively.

*Advance Notes—HUD*

Advance Notes—HUD at December 31, 1994 and 1993 consist of the following:

| | 1994 | 1993 |
|---|---|---|
| | (in thousands) | |
| Unsubsidized improvement notes | $ 50,885 | $ 60,285 |
| Modernization and development notes | 1,263,140 | 1,673,785 |
| Total advance notes—HUD | $1,314,025 | $1,734,070 |

Through 1985, HA funded development projects by issuing Advance Notes which generally matured in less than one year and were refinanced at market rates upon maturity. Principal and interest payments were financed by funds provided by HUD through accruing annual contributions.

In 1985, the U.S. Treasury purchased all then-outstanding Advance Notes. Subsequently, additional Advance Notes were issued by HUD to fund development and modernization projects.

In April, 1986, HUD ceased funding the debt service on all Advance Notes, therefore, principal and interest have not been paid since that date. Subsequently, HUD issued notice PIH 87-12 which covered the forgiveness of Advance Notes held by the Treasury. Three months after issuance of PIH 87-12, HUD temporarily suspended this notice. HA did not file the appropriate paperwork before the suspension of the notice. This notice, if complied with by HA before suspension of the notice, would have allowed HA to remove this debt and accrued interest payable from its balance sheet and reflect these amounts as contributed equity.

HA has continued to accrue interest for a portion of the Advance Notes at the contractual rates in accordance with HUD guidelines. Through December 31, 1994, HUD has given HA permission to discontinue accruing interest on a total of $718.2 million of notes. Interest expense of $43.4 million and $50.2 million are included in the statements of operations for the calendar years ended December 31, 1994 and 1993, respectively, but no subsidies are reflected since HUD does not fund and HA has not been required to pay the interest on the Advance Notes. Accrued interest relating to these notes at December 31, 1994 and 1993, was $510.4 million and $616.7 million, respectively. Interest rates on Advance Notes issued range from 3.4 % to 10.9 % for both calendar years 1994 and 1993.

Accrued interest includes interest of $1.1 million and $.8 million relating to Unsubsidized Improvement Notes at December 31, 1994 and 1993, respectively. The notes which are currently held by HUD, were used to finance capital improvements and rehabilitations at various projects and are being repaid from commercial rents and State maximum subsidy funds. Related interest expense of $3.8 million and $3.7 million was included in the statements of operations for the calendar years ended December 31, 1994 and 1993, respectively.

*Pensions*

HA employees are members of NYCERS (see Note R). The calendar years 1994 and 1993 pension costs reported in the financial statements amounted to $16.7 million and $20.6 million, respectively, each net of $8.7 million reimbursable by the City for its share of the Housing Police pension costs.

*Changes in Fund Equity*

Presented below are the changes in fund equity for the calendar years ended December 31, 1993 and 1994:

| | Unreserved (Deficit) | Cumulative Contributions | Total |
|---|---|---|---|
| | | (in thousands) | |
| Balance, December 31, 1992 | $(1,962,413) | $1,649,649 | $(312,764) |
| Net deficit | (283,286) | — | (283,286) |
| Allocation of depreciation to cumulative contributions | 161,926 | (161,926) | — |
| Contributions for payment of debt | — | 72,132 | 72,132 |
| Contributions for payment of capital | — | 267,659 | 267,659 |
| Balance, December 31, 1993 | (2,083,773) | 1,827,514 | (256,259) |
| Net deficit | (235,096) | — | (235,096) |
| Allocation of depreciation to cumulative contributions | 152,799 | (152,799) | — |
| Contributions for payment of debt | — | 644,492 | 644,492 |
| Contributions for payment of capital | — | 252,260 | 252,260 |
| Balance, December 31, 1994 | $(2,166,070) | $2,571,467 | $ 405,397 |

*Unreserved (Deficit)*

The balance in this account represents the cumulative operating deficit for the Federal program, up to the amount of the operating subsidy and the interest on the debt service.

*Cumulative Contributions*

This account represents the cumulative amount of subsidies received to fund annual operating deficits and interest expense, and contributions made available to HA for capital expenditures associated with modernization and improvements of public housing and the payment of the debt.

*Commitments*

HA rents office space under operating leases which expire at various dates. Future minimum lease commitments under these leases as of December 31, 1994 are as follows:

| | Amount (in thousands) |
|---|---|
| Calendar year ending December 31: | |
| 1995 | $13,085 |
| 1996 | 12,990 |
| 1997 | 13,251 |
| 1998 | 13,713 |
| 1999 | 13,995 |
| Thereafter until 2003 | 13,749 |
| Total future minimum lease commitments | $80,783 |

Rental expense approximated $12.2 million and $10.0 million for the calendar years ended December 31, 1994 and 1993, respectively.

*Subsequent Event*

Effective May 1, 1995, HA Police Department merged with the New York City Police Department. According to the terms of the agreement between HA and the City, all HA Police Officers were transferred to the New York City Police Department and a Housing Police Bureau was established within the New York City Police Department to oversee, direct, and command Housing Police services in HA's public housing facilities. The agreement also states that the City will provide special police services for HA and will be compensated by HA for these services with Federal operating subsidies. Additionally, the City has assumed the liability for substantially all future costs associated with operating the Housing Police.

## N. Water and Sewer System

*General*

The Water and Sewer System, consisting of two legally separate and independent entities, the New York City Water Board (Water Board) and the New York City Municipal Water Finance Authority (Water Authority), 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 distribution and sewage collection system. The Water Board was established to lease the water distribution and sewage collection 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, 1995 and 1994, the Water Authority has a cumulative deficit of $1,573 million and $1,302 million, respectively, 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 distribution and sewage collection system serving the City. It also sets forth the funding of the debt service costs of the Water Authority, operating costs of the water distribution and sewage collection 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 valued at historical cost, net of depreciation and all work-in-progress, at cost, to the Water Board for the term of the lease. The City administers, operates, and maintains the water distribution and sewage collection 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.

The City's Capital Budget for fiscal year 1996, includes a plan for the Water Board to acquire title to the fixed assets of the water distribution and sewage collection system for approximately $2.3 billion.

*Contributed Capital*

City financed additions for the fiscal years ended June 30, 1995 and 1994 amounted to $25.4 million and $37.7 million, respectively, and are recorded by the Water Board as contributed capital.

*Utility Plant-in-Service*

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:

| | Years |
|---|---|
| Buildings | 40-50 |
| Water supply and wastewater treatment system | 15-50 |
| Water distribution and sewage collection system | 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*

The following table summarizes future debt service requirements as of June 30, 1995:

| | Principal | Interest | Total |
|---|---|---|---|
| | | (in thousands) | |
| Fiscal year ending June 30: | | | |
| 1996 | $ 503,898 | $ 295,300 | $ 799,198 |
| 1997 | 106,595 | 287,302 | 393,897 |
| 1998 | 113,287 | 281,315 | 394,602 |
| 1999 | 112,800 | 275,006 | 387,806 |
| 2000 | 127,565 | 269,012 | 396,577 |
| Thereafter until 2025 | 5,086,309 | 3,526,175 | 8,612,484 |
| Total future debt service requirements | $6,050,454 | $4,934,110 | $10,984,564 |

The interest rates on the outstanding bonds, notes, and commercial paper as of June 30, 1995 and 1994 range from 2.78% to 8.9%.

The following is a summary of bond, note, and commercial paper transactions of the Water Authority for the fiscal years ended June 30, 1994 and 1995:

| | Balance June 30, 1993 | Issued | Retired | Balance June 30, 1994 | Issued | Retired | Balance June 30, 1995 |
|---|---|---|---|---|---|---|---|
| | | | | (in thousands) | | | |
| Revenue bonds | $4,662,951 | $2,157,230 | $1,409,228 | $5,410,953 | $335,080 | $ 95,579 | $5,650,454 |
| Bond anticipation notes | 375,000 | 255,676 | 375,000 | 255,676 | — | 255,676 | — |
| Commercial paper | — | — | — | — | 600,000 | 200,000 | 400,000 |
| Total summary of bond, notes, and commercial paper transactions | $5,037,951 | $2,412,906 | $1,784,228 | $5,666,629 | $935,080 | $551,255 | $6,050,454 |

On May 22, 1995, the Water Authority issued fiscal year 1995 Series A revenue bonds to pay the costs of issuance and to refund commercial paper of $200 million aggregate principal amount.

During fiscal year 1994, the Water Authority used part of the proceeds from the sale of its fiscal year 1994 Series A, B, D, E, F, & G Water and Sewer System Revenue Bonds in the amount of $1.3 billion to advance refund a portion of certain outstanding principal amounts of the Water Authority's Water and Sewer System Revenue Bonds.

Although the advance refunding resulted in the recognition of an accounting loss of $143.9 million for the fiscal year ended June 30, 1994, the Water Authority reduced its aggregate debt service payments by approximately $76.9 million and obtained an economic gain of $47.5 million over the next 27 years. This loss will be amortized using the straight-line method through 2019. For fiscal years 1995 and 1994, amortization expense of $11.3 million and $5.3 million, respectively, was incurred.

During prior fiscal years, the Water Authority defeased in substance $1.3 billion of revenue bonds.

As of June 30, 1995, $199.4 million of the defeased bonds have been retired from the assets of the escrow accounts.

On August 10, 1995, the Water Authority sold fiscal year 1996 Series A Water and Sewer System Revenue Bonds in the aggregate principal amount of $485.4 million to: advance refund revenue bonds and commercial paper, finance a portion of the capital renovation and improvement program, pay certain costs of issuance, and fund certain reserves.

In prior years, the Water Authority has issued obligations involving the concurrent issuance of long-term variable rate securities that are matched with long-term floating rate securities. These obligations when taken together as a whole, yield a fixed rate of interest at all times. These securities have been issued to achieve a lower prevailing fixed rate of interest in relation to traditional fixed rate bonds.

*Restricted Assets*

Proceeds from the issuance of debt and funds set aside for the operation and maintenance of the water distribution and sewage collection 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, 1995 and 1994 are as follows:

| | 1995 | 1994 |
|---|---|---|
| | (in thousands) | |
| Balance, June 30 | $5,150,160 | $5,204,599 |
| Plant and equipment contributed | 25,420 | 37,734 |
| Allocation of depreciation to contributed capital | (145,224) | (92,173) |
| Balance, June 30 | $5,030,356 | $5,150,160 |

*Operating Revenues*

Revenues from metered customers, who represent 72% of water customers, are based on billings at rates imposed by the Water Board that are applied to customers' consumption of water and include accruals based upon estimated usage not billed during the fiscal year.

*Commitments and Contingencies*

*Construction*

The Water and Sewer System has commitments of approximately $1.9 billion at June 30, 1995, for water and sewer projects.

*Legal*

The City is a defendant in a number of lawsuits pertaining to the Water and Sewer System. As of June 30, 1995, the City estimates its potential future liability for these claims to be $44 million. This amount is included in the City's General Long-term Obligations Account Group.

## O. Agency Funds

*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 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 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 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 calendar years ended December 31, 1994 and 1993:

| | 1994 | 1993 |
|---|---|---|
| | (in thousands) | |
| Fund assets, December 31 | $ 965,972 | $751,743 |
| Deferrals of compensation | 205,253 | 182,430 |
| Earnings and adjustment to market value | 42,888 | 60,542 |
| Payments to eligible participants and beneficiaries | (40,514) | (26,429) |
| Administrative expenses | (2,763) | (2,314) |
| Fund assets, December 31 | $1,170,836 | $965,972 |

*Other Agency Funds*

Other Agency Funds account for miscellaneous assets held by the City for other funds, governmental units, and individuals.

## P. Voluntary Severance Incentive Program

The severance incentive program originally implemented during the second half of FY'94 as Severance 1, was again, after the City concluded agreements with the affected municipal unions, thrice offered during FY'95 as Severance 2, 2B, and 2C, to full-time, nonuniformed employees in active pay status in most titles in mayoral agencies, except for the Mayoralty, and in the Board of Education in specified nonpedagogical titles for both part-time and full-time employees, as part of its Workforce—Reduction Program. The severance incentive program was financed during FY'95, with an additional $30 million to increase to $230 million in surplus funds of the Municipal Assistance Corporation For The City of New York (MAC) and $27 million in Federal and State funding, and $7 million in a City appropriation, to facilitate the permanent reduction in the City's workforce. The FY'95 severance benefits included a cash payment of between $3,150 and $13,500, depending on length of service. Approximately 7,800 employees participated in the severance incentive programs during FY'95 bringing total employee participation in the severance incentive programs to about 14,000 employees with cumulative severance elemental costs expected to total $264 million for all of the severance incentive programs. A liability is recorded as of June 30, 1995 for $40 million.

MAC funding is to be used solely for direct expenditures incurred for separation of service of employees on the City-funded payroll during the period April 1, 1994 through July 31, 1995 limited to the following expenditure categories: severance payments, health insurance premiums, terminal leave, and mandatory unemployment insurance. The City is required to account for its severance incentive program expenditures by October 31, 1995 and submit to MAC a statement of the number of City-funded employees on the payroll at June 30, 1995. If actual expenditures are less than $230 million or if the targeted number (15,000 employees) for workforce reduction is not attained, MAC will increase its certifications to the State Comptroller and the Mayor per the Public Authorities Law for the unexpended monies plus 'adjusted' expenditure amounts relating to the excess employee headcount on June 30, 1995.

## Q. Other Postemployment Benefits

In accordance with collective bargaining agreements, the City provides Other Postemployment Benefits (OPEB) which include basic medical and hospitalization (health care) benefits to eligible retirees and dependents at no cost to 88.7% of the participants. Basic health care premium costs which are partially paid by the remaining participants vary according to the terms of their elected plans. To qualify, retirees must: (i) have worked for the City with at least five years of credited service as a member of an approved pension system (requirement does not apply if retirement is as a result of accidental disability); (ii) have been employed by the City or a City related agency prior to retirement; (iii) have worked regularly for at least twenty hours a week prior to retirement; and (iv) be receiving a pension check from a retirement system maintained by the City or another system approved by the City. The City's OPEB expense is recorded on a pay-as-you-go basis.

The amounts expended for health care benefits for fiscal years 1995 and 1994 are as follows:

| | 1995 | | 1994 | |
|---|---|---|---|---|
| | Active | Retired | Active | Retired |
| Number of employees | 334,941 | 167,338 | 339,288 | 164,319 |
| Cost of health care (in thousands) | $1,115,154 | $386,919 | $1,059,697 | $346,599 |

In addition, the City sponsors a supplemental (Superimposed Major Medical) benefit plan for City managerial employees to refund medical and hospital bills that are not reimbursed by the regular health insurance carriers.

The amounts expended for supplemental benefits for fiscal years 1995 and 1994 are as follows:

| | 1995 | | 1994 | |
|---|---|---|---|---|
| | Active | Retired | Active | Retired |
| Number of claims | 15,507 | 4,976 | 16,098 | 4,645 |
| Cost of Superimposed Major Medical (in thousands) | $ 2,668 | $ 687 | $ 2,938 | $ 519 |

## R. Pension and Similar Trust Funds

*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. New York City Teachers' Retirement System-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 employees.
3. New York City Board of Education Retirement System-Qualified Pension Plan (BERS), a cost-sharing multiple-employer public employee retirement system, for nonpedagogical employees of the Board of Education and certain employees of the School Construction Authority.
4. New York Police Department, Subchapter Two Pension Fund (POLICE), a single-employer public employee retirement system, for full-time uniformed employees of the Police Department.
5. New York Fire Department, Subchapter Two Pension Fund (FIRE), a single-employer public employee retirement system, for full-time uniformed employees of the Fire Department.

The actuarial pension systems provide pension benefits to retired employees based on salary and length of service. In addition, the actuarial pension systems provide cost-of-living and other supplemental pension benefits to certain retirees 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 actuarial 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 generally required to become members of the actuarial 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 permanent employment status 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.

*Funding Policy*

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

Member contributions are established by law and vary by Plan.

Employer contributions are accrued by the actuarial pension systems and are funded by the employers on a current basis.

*Annual Pension Costs*

For fiscal year 1995, the City's annual pension costs of approximately $1.4 billion was equal to the City's required and actual contributions. Annual pension costs for the actuarial pension systems were equal to the amounts computed by the systems' Actuary. The required contributions were determined as part of the June 30, 1994, actuarial valuations using the frozen entry age actuarial cost method.

The City's pension costs, including those computed by the Actuary for the actuarial pension systems, for the fiscal years ended June 30, 1995, 1994, and 1993 were as follows:

**City Contributions**
**(in millions)**

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| NYCERS* | $ 271.4 | $ 277.0 | $ 316.6 |
| TRS* | 356.1 | 370.4 | 389.7 |
| BERS* | 38.9 | 33.1 | 31.7 |
| POLICE | 419.0 | 418.1 | 462.1 |
| FIRE | 199.2 | 204.1 | 237.2 |
| OTHER** | 94.5 | 91.6 | 97.1 |
| Total pension costs | $1,379.1 | $1,394.3 | $1,534.4 |

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

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| NYCERS | 60.64% | 61.25% | 61.42% |
| TRS | 96.31 | 96.40 | 96.02 |
| BERS | 97.42 | 97.90 | 97.79 |

**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.

The following is the Three-Year Trend Information for the City's actuarially-funded single employer pension plans:

**Three-Year Trend Information**

| | Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|---|
| | | (in millions) | | |
| POLICE | 6/30/95 | $419.0 | 100% | $ — |
| | 6/30/94 | 418.1 | 100 | — |
| | 6/30/93 | 462.1 | 100 | — |
| FIRE | 6/30/95 | 199.2 | 100 | — |
| | 6/30/94 | 204.1 | 100 | — |
| | 6/30/93 | 237.2 | 100 | — |

The more significant actuarial assumptions used in the calculations of employer contributions to the actuarial pension systems for the fiscal years ending June 30, 1995, 1994, and 1993 are as follows:

| | |
|---|---|
| Assumed rate of return on investments | 9.0% for NYCERS, TRS, and BERS (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS) and 8.5% for POLICE and FIRE. |
| Post-retirement mortality | Tables based on experience. |
| Active service withdrawal, death and disability | Tables based on experience. |
| Retirement | Tables based on experience, varies from earliest age a member is eligible to retire until age at end of tables. |
| Salary | Merit and Promotion Increases plus assumed General Wage Increases of 5.5% per year. |

In particular, the investment return assumptions used for determining employer contributions to the actuarial pension systems are enacted by the New York State Legislature upon the recommendations of the Boards of Trustees and the Actuary. The

rates shown are currently in use for determining employer contributions to those actuarial pension systems which have been in effect for fiscal years 1991 through 1995.

All actuarial assumptions used to determine employer contributions to the actuarial pension systems, including the investment return and general wage increase assumptions, are scheduled for periodic review during fiscal year 1995. The Actuary prepared Draft Reports for the Board of Trustees during fiscal year 1995. Final Reports have recently been issued and the Boards of Trustees and New York State Legislature are anticipated to take action during fiscal year 1996.

As of June 30, 1994, Unfunded Actuarial Liabilities (UAL), including the Balance Sheet Liabilities (BSL) component of the UAL, were being amortized over 16 years from that date, where the amount of each annual payment after the first equals 103% of the preceding annual payment. The BSL represents pension related debt for amortization of the two-year payment lag reported in the General Long-Term Obligations Account Group as accrued pension liability.

*Similar Trust Funds*

*Fund Descriptions*

Per enabling State legislation, certain retirees of POLICE, FIRE, and NYCERS are eligible to receive fixed supplemental benefits from certain Variable Supplements Funds (VSFs).

The City includes all VSFs with Pension and Similar Trust Funds for financial reporting purposes only.

Under current law, VSFs are not to be construed as constituting pension or retirement system funds. Instead, they provide defined supplemental payments, other than pension or retirement system allowances, in accordance with applicable statutory provisions. While these payments are guaranteed by the City, the Legislature has reserved to itself and the State of New York the right and power to amend, modify or repeal the VSFs and the payments they provide.

The New York City Police Department maintains the Police Officers' Variable Supplements Fund (POVSF) and the Police Superior Officers' Variable Supplements Fund (PSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 2 of the Administrative Code of The City of New York.

1. POVSF provides supplemental benefits to retirees who retired for service with 20 or more years as police officers of the New York City Police Department Pension Fund—Subchapter 1 or Subchapter 2, and who retired on or after October 1, 1968.
2. PSOVSF provides supplemental benefits to retirees who retired for service with 20 or more years holding the rank of sergeant or higher, or detective, of the New York City Police Department Pension Fund—Subchapter 1 or Subchapter 2, and who retired on or after October 1, 1968.

The New York City Fire Department maintains the Firefighters' Variable Supplements Fund (FFVSF) and the Fire Officers' Variable Supplements Fund (FOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 3 of the Administrative Code of The City of New York.

3. FFVSF provides supplemental benefits to retirees who retire for service with 20 or more years as firefighters of the New York City Fire Department Pension Fund—Subchapter 1 or Subchapter 2, and who retired on or after October 1, 1968.
4. FOVSF provides supplemental benefits to retirees who retire for service with 20 or more years holding the rank of lieutenant or higher and all pilots and marine engineers (uniformed) of the New York City Fire Department Pension Fund—Subchapter 1 or Subchapter 2, and who retired on or after October 1, 1968.

The New York City Employees' Retirement System (NYCERS) maintains the Transit Police Officers' Variable Supplements Fund (TPOVSF), the Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF), the Housing Police Officers' Variable Supplements Fund (HPOVSF), and the Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 1 of the Administrative Code of The City of New York.

5. TPOVSF provides supplemental benefits to retirees who retire for service with 20 or more years as Transit Police Officers on or after July 1, 1987. Prior to calendar year 2007, when this plan provides for guaranteed schedules of defined supplemental benefits, total supplemental benefit payments cannot exceed the assets of the fund unless the City guarantee becomes effective. As of December, 1993, the City guarantee became effective.
6. TPSOVSF provides supplemental benefits to retirees who retire for service with 20 or more years as Transit Police Superior Officers on or after July 1, 1987. Prior to calendar year 2007, when this plan provides for guaranteed schedules of defined supplemental benefits, total supplemental benefit payments cannot exceed the assets of the fund.

7. HPOVSF provides supplemental benefits to retirees who retire for service with 20 or more years as Housing Police Officers on or after July 1, 1987. Prior to calendar year 2007, when this plan provides for guaranteed schedules of defined supplemental benefits, total supplemental benefits cannot exceed the assets of the fund. Chapter 719 of the Laws of 1994 amended the defined schedule of benefits for certain Housing Police Officers and guaranteed the schedules of defined supplemental benefits.
8. HPSOVSF provides supplemental benefits to retirees who retire for service with 20 or more years as Housing Police Superior Officers on or after July 1, 1987. Prior to calendar year 2007, when this plan provides for guaranteed schedules of defined supplemental benefits, total supplemental benefits cannot exceed the assets of the fund.

*Fund Policy and Contributions*

The Administrative Code of The City of New York provides that POLICE, FIRE, and NYCERS pay to the respective VSFs amounts equal to certain excess earnings on equity investments, generally limited to the unfunded ABO for each VSF. The excess earnings are defined as the amount by which earnings on equity investments exceed what the earnings would have been had such funds been invested at a yield comparable to that available from fixed income securities, less any cumulative deficiencies.

For fiscal year 1995, there is approximately $380 million in excess earnings on equity investments which is estimated to be transferable to the VSFs. The actual amounts transferred will be based on final calculations. The estimated excess earnings payable from POLICE, FIRE, and NYCERS to their respective VSFs as of June 30, 1995 are as follows:

| Variable Supplements Fund | Estimated excess earnings payable as of June 30, 1995 (in millions) |
|---|---|
| POVSF | $140 |
| PSOVSF | 150 |
| FFVSF | 50 |
| FOVSF | 40 |
| TPOVSF | * |
| TPSOVSF | * |
| HPOVSF | * |
| HPSOVSF | * |
| Total excess earnings payable | $380 |

* Total of these VSFs is estimated at less than $1 million.

*Required Supplementary Information*

The following schedule of funding progress is presented as required supplementary information for the five major actuarial pension systems as of June 30, 1994:

| | Actuarial Value of Assets* (a) | Actuarial Accrued Liability (AAL)— Frozen Entry Age** (b) | Unfunded AAL (UAAL) (b-a) (in millions) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL As A Percentage of Covered Payroll (b-a)/c |
|---|---|---|---|---|---|---|
| NYCERS | $22,087.2 | $24,015.6 | $1,928.4 | 92.0% | $6,547.4 | 29.5% |
| TRS | 17,981.8 | 19,275.9 | 1,294.1 | 93.3 | 3,305.7 | 39.1 |
| BERS | 859.5 | 939.4 | 79.9 | 91.5 | 472.8 | 16.9 |
| POLICE | 8,137.4 | 9,537.5 | 1,400.1 | 85.3 | 1,478.5 | 94.7 |
| FIRE | 3,355.6 | 4,596.1 | 1,240.5 | 73.0 | 606.3 | 204.6 |

* Includes member contributions and is based on a five year moving average of market values, except for variable annuity funds of TRS and BERS which are valued at market value.

** Includes member contributions.

For fiscal year 1994, there were no excess earnings on equity investments transferable to the VSFs.

## S. COMMITMENTS

At June 30, 1995, the outstanding commitments relating to projects of the Capital Projects Fund amounted to approximately $7.3 billion.

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 $40.6 billion over fiscal years 1996 through 2005. To help meet its capital spending program, the City borrowed $2.2 billion in the public credit market in fiscal year 1995. The City plans to borrow $2.3 billion in the public credit market in fiscal year 1996.

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## BONDS TO BE REFUNDED

The City expects to refund City bonds through issuance by the City of its Fiscal 1997 Series C and D Bonds by providing for the payment of principal of and interest and redemption premium, if any, on such bonds to the extent and to the payment date set forth below. The refunding is contingent upon delivery of the Series C and D Bonds.

The bonds to be refunded are being refunded in whole or in part as indicated in the notes.

| Series | Dated Date | Tax-Exempt Maturities Being Refunded | Payment Date | Amount Being Refunded |
|---|---|---|---|---|
| 1989B | December 15, 1988 | December 1, 1996 | December 1, 1996 | $19,960,000(1) |
| 1989E | June 14, 1989 | December 1, 1996 | December 1, 1996 | 22,170,000(1) |
| 1990A | August 1, 1989 | August 1, 2006 | August 1, 1997 | 3,600,000(1) |
| 1990B | October 5, 1989 | October 1, 2007 | October 1, 1999 | 6,785,000(1) |
| 1990B | October 5, 1989 | October 1, 2019 | October 1, 1999 | 9,315,000(1) |
| 1990C | November 14, 1989 | August 1, 1998 | August 1, 1998 | 5,265,000(1) |
| 1990C | November 14, 1989 | August 1, 2002 | August 1, 1999 | 9,680,000(1) |
| 1990C | November 14, 1989 | August 1, 2003 | August 1, 1999 | 6,975,000(1) |
| 1990D | November 14, 1989 | August 1, 2005 | August 1, 1999 | 200,000(1) |
| 1990F | February 23, 1990 | August 1, 2003 | August 1, 1998 | 3,040,000(1) |
| 1990G | February 1, 1990 | August 1, 2004 | August 1, 2000 | 655,000(1) |
| 1990G | February 1, 1990 | August 1, 2009 | August 1, 2000 | 680,000(1) |
| 1990H | February 1, 1990 | August 1, 2003 | August 1, 2000 | 180,000(1) |
| 1990H | February 1, 1990 | August 1, 2004 | August 1, 2000 | 5,075,000(1) |
| 1990I | June 1, 1990 | August 15, 2006 | August 15, 1999 | 395,000(1) |
| 1990I | June 1, 1990 | August 15, 2009 | August 15, 1999 | 1,365,000(1) |
| 1990I | June 1, 1990 | August 15, 2011 | August 15, 1999 | 3,540,000(1) |
| 1990I | June 1, 1990 | August 15, 2012 | August 15, 1999 | 4,045,000(1) |
| 1990I | June 1, 1990 | August 15, 2016 | August 15, 1999 | 5,045,000(1) |
| 1991A | September 26, 1990 | March 15, 1998 | March 15, 1998 | 21,230,000(1) |
| 1991A | September 26, 1990 | March 15, 1999 | March 15, 1999 | 1,885,000(1) |
| 1991A | September 26, 1990 | March 15, 2018 | March 15, 2000 | 5,505,000(1) |
| 1991D | February 1, 1991 | August 1, 2006 | August 1, 2001 | 1,970,000(1) |
| 1991D | February 1, 1991 | August 1, 2011 | August 1, 2001 | 16,435,000(1) |
| 1991F | May 15, 1991 | November 15, 2003 | November 15, 2001 | 2,965,000(1) |
| 1991F | May 15, 1991 | November 15, 2004 | November 15, 2001 | 3,045,000(1) |
| 1992A | August 15, 1991 | August 15, 2006 | August 15, 2001 | 4,110,000(1) |
| 1992A | August 15, 1991 | August 15, 2011 | August 15, 2001 | 2,660,000(1) |
| 1992A | August 15, 1991 | August 15, 2012 | August 15, 2001 | 17,490,000(1) |
| 1992A | August 15, 1991 | August 15, 2013 | August 15, 2001 | 7,615,000(1) |
| 1992A | August 15, 1991 | August 15, 2017 | August 15, 2001 | 540,000(1) |
| 1992C | January 7, 1992 | August 1, 2019 | August 1, 2002 | 2,065,000(1) |
| 1992C | January 7, 1992 | August 1, 2020 | August 1, 2002 | 4,380,000(1) |
| 1992C | January 7, 1992 | August 1, 2021 | August 1, 2002 | 13,585,000(1) |

| Series | Dated Date | Tax-Exempt Maturities Being Refunded | Payment Date | Amount Being Refunded |
|---|---|---|---|---|
| 1992D | February 1, 1992 | February 1, 2000 | February 1, 2000 | $ 4,300,000(1) |
| 1992D | February 1, 1992 | February 1, 2004 | February 1, 2002 | 370,000(1) |
| 1992D | February 1, 1992 | February 1, 2005 | February 1, 2002 | 860,000(1) |
| 1992D | February 1, 1992 | February 1, 2006 | February 1, 2002 | 5,295,000(1) |
| 1992D | February 1, 1992 | February 1, 2007 | February 1, 2002 | 8,295,000(1) |
| 1992D | February 1, 1992 | February 1, 2008 | February 1, 2002 | 4,510,000(1) |
| 1992D | February 1, 1992 | February 1, 2009 | February 1, 2002 | 7,690,000(1) |
| 1992D | February 1, 1992 | February 1, 2010 | February 1, 2002 | 1,205,000(1) |
| 1992D | February 1, 1992 | February 1, 2013 | February 1, 2002 | 9,515,000(1) |
| 1992D | February 1, 1992 | February 1, 2015 | February 1, 2002 | 7,910,000(1) |
| 1992D | February 1, 1992 | February 1, 2016 | February 1, 2002 | 7,845,000(1) |
| 1992D | February 1, 1992 | February 1, 2017 | February 1, 2002 | 4,305,000(1) |
| 1992D | February 1, 1992 | February 1, 2018 | February 1, 2002 | 3,775,000(1) |
| 1992D | February 1, 1992 | February 1, 2019 | February 1, 2002 | 10,530,000(1) |
| 1992E | February 1, 1992 | February 1, 1998 | February 1, 1998 | 2,115,000(1) |
| 1992E | February 1, 1992 | February 1, 1999 | February 1, 1999 | 2,120,000(1) |
| 1992E | February 1, 1992 | February 1, 2000 | February 1, 2000 | 3,095,000(1) |
| 1992E | February 1, 1992 | February 1, 2010 | February 1, 2002 | 320,000(1) |
| 1992E | February 1, 1992 | February 1, 2012 | February 1, 2002 | 320,000(1) |
| 1992E | February 1, 1992 | February 1, 2020 | February 1, 2002 | 340,000(1) |
| 1992F | February 1, 1992 | February 1, 1999 | February 1, 1999 | 460,000(1) |
| 1992F | February 1, 1992 | February 1, 2021 | February 1, 2002 | 7,860,000(1) |
| 1992G | February 1, 1992 | February 1, 1998 | February 1, 1998 | 865,000(1) |
| 1992G | February 1, 1992 | February 1, 1999 | February 1, 1999 | 865,000(1) |
| 1992G | February 1, 1992 | February 1, 2005 | February 1, 2002 | 865,000(1) |
| 1992G | February 1, 1992 | February 1, 2012 | February 1, 2002 | 865,000(1) |
| 1992G | February 1, 1992 | February 1, 2021 | February 1, 2002 | 70,000(1) |
| 1992H | June 1, 1992 | February 1, 1997 | February 1, 1997 | 26,400,000(1) |
| 1992H | June 1, 1992 | February 1, 1998 | February 1, 1998 | 2,620,000(1) |
| 1992H | June 1, 1992 | February 1, 2001 | February 1, 2001 | 1,685,000(1) |
| 1992H | June 1, 1992 | February 1, 2004 | February 1, 2002 | 965,000(1) |
| 1992H | June 1, 1992 | February 1, 2005 | February 1, 2002 | 515,000(1) |
| 1992I | June 1, 1992 | August 1, 2002 | August 1, 2002 | 3,870,000(1) |
| 1993F | May 27, 1993 | May 15, 1997 | May 15, 1997 | 745,000(1) |
| 1993F | May 27, 1993 | May 15, 1998 | May 15, 1998 | 1,620,000(1) |
| 1994C | October 14, 1993 | October 1, 2001 | October 1, 2001 | 12,785,000(1) |
| 1994E | December 29, 1993 | August 1, 1999 | August 1, 1999 | 3,865,000(1) |
| 1994E | December 29, 1993 | August 1, 2000 | August 1, 2000 | 10,355,000(1) |

| Series | Dated Date | Taxable Maturities Being Refunded | Payment Date | Amount Being Refunded |
|---|---|---|---|---|
| 1989C | February 28, 1989 | August 15, 2004 | August 15, 1999 | 4,650,000(1) |
| 1989C | February 28, 1989 | August 15, 2009 | August 15, 1999 | 14,000,000(2) |
| 1989C | February 28, 1989 | August 15, 2010 | August 15, 1999 | 14,000,000(2) |
| 1989C | February 28, 1989 | August 15, 2011 | August 15, 1999 | 3,935,000(3) |
| 1990D | November 14, 1989 | August 1, 2009 | August 1, 1999 | 4,020,000(3) |
| 1990D | November 14, 1989 | August 1, 2010 | August 1, 1999 | 9,800,000(3) |
| 1991B | December 20, 1990 | June 1, 2006 | June 1, 2001 | $10,940,000(3) |
| 1991B | December 20, 1990 | June 1, 2008(10.5%) | June 1, 2001 | 8,355,000(1) |
| 1991B | December 20, 1990 | June 1, 2009(9.5%) | June 1, 2001 | 13,435,000(3) |
| 1991B | December 20, 1990 | June 1, 2010(9.5%) | June 1, 2001 | 2,350,000(3) |
| 1991B | December 20, 1990 | June 1, 2011(9.5%) | June 1, 2001 | 2,600,000(1) |
| 1992A | August 15, 1991 | August 15, 2011 | August 15, 2001 | 1,200,000(3) |
| 1992D | February 1, 1992 | February 1, 2016 | February 1, 2002 | 665,000(3) |

(1) A portion of the bonds of this description is being refunded.

(2) All of the bonds of this description are being refunded.

(3) All of the bonds of this description are being refunded, except those bonds that have previously been refunded.

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BROWN & WOOD LLP

ONE WORLD TRADE CENTER
NEW YORK, N.Y. 10048-0557

TELEPHONE: 212-839-5300
FACSIMILE: 212-839-5599

August 15, 1996

HONORABLE ALAN G. HEVESI
Comptroller
The City of New York
Municipal Building
New York, New York 10007

Dear Comptroller Hevesi:

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 the City's $982,475,000 General Obligation Bonds, Fiscal 1997 Series B, C and D (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 and related proceedings (the "Certificate").

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. Interest on the Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

3. Except as provided in the following sentence, interest on the Bonds bearing interest at rates lower than 6% and the Bonds maturing after 2002 (the "Tax-Exempt Bonds") is not includable in the gross income of the owners of the Tax-Exempt Bonds for purposes of Federal income taxation under existing law. Interest on the Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Tax-Exempt Bonds in the event of a failure by the City to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the covenants regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and we render no opinion as to the exclusion from gross income of interest on the Tax-Exempt Bonds for Federal income tax purposes on or after the date on which any action is taken under the Certificate upon the approval of counsel other than ourselves.



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BEIJING • HONG KONG • LONDON • SÃO PAULO
TOKYO REPRESENTATIVE OFFICE

4. Interest on the Tax-Exempt 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 such Tax-Exempt 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.

5. The difference between the amount payable at maturity of any maturity of Tax-Exempt Bonds and the initial offering price of such Bonds to the public at which price a substantial amount of such maturity is sold represents original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Tax-Exempt Bonds. The Code further provides that such original issue discount excluded as interest accrues in accordance with a constant interest method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of Tax-Exempt Bonds with original issue discount will be increased by the amount of such accrued interest.

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.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

Very truly yours,

# AMBAC Municipal Bond Insurance Policy

AMBAC Indemnity Corporation
c/o CT Corporation Systems
44 East Mifflin St., Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, NY 10004
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

**AMBAC Indemnity Corporation** (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders that portion of the principal of 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.

AMBAC will make such payments to the Insurance Trustee within one (1) business day following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholders' rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of AMBAC, nor against any risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the countersignature of its duly authorized representative.

President

AMBAC INDEMNITY CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

**UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.**

Authorized Officer

Form # 566-0003 (8/92)

AMBAC

AMBAC Indemnity Corporation
c/o CT Corporation Systems
44 East Mifflin Street
Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza
New York, NY 10004
Telephone: (212) 668-0340

# Endorsement

Policy issued to:

Attached to and forming part of

Effective Date of Endorsement:



The insurance provided by this Policy is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, the Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

**AMBAC Indemnity Corporation**

President

AMBAC INDEMNITY CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Authorized Representative

Form # S2B-0005 (3/90)

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1

68109

# MSRB

DO NOT STAPLE THIS FORM

## FORM G-36(OS) - FOR OFFICIAL STATEMENTS

1. NAME OF ISSUER(S): (1) The City of New York

   (2)

2. DESCRIPTION OF ISSUES(S): (1) General Obligation Bonds, Fiscal 1997 Series B, C and D

   (2)

3. STATE(S): New York

4. DATED DATES(S): (1) on or about August 15, 1996 (2)

5. DATE OF FINAL MATURITY OF OFFERING: August 15, 2026

6. DATE OF SALE: August 8, 1996

7. PAR VALUE OF OFFERING: $982,475,000

8. PAR AMOUNT UNDERWRITTEN (if there is no underwriting syndicate): $

9. IS THIS AN AMENDED OR STICKERED OFFICIAL STATEMENT? ☐ YES ☑ NO

10. CHECK ALL THAT APPLY:

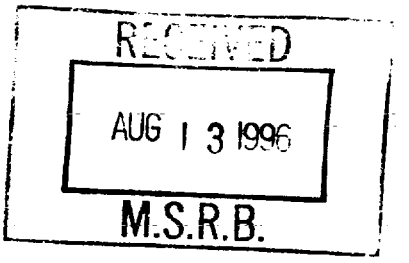
☐ a. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

☐ b. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

☐ c. This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, with a view toward distributing the securities.

11. MANAGING UNDERWRITER: Merrill Lynch & Co.

| | | |
|---|---|---|
| 9. | 8/15/2000 | 649665QQ2 |
| 0. | 8/15/2001 | 649665QR0 |
| 1. | 8/15/2002 | 649665QS8 |



| | MATURITY DATE | CUSIP NUMBER | | MATURITY DATE | CUSIP NUMBER |
|---|---|---|---|---|---|
| 1 | 8/15/1999 | 649665PA8 | 30 | 2/1/2011 | 649665PN0 |
| 2 | 8/15/2000 | 649665NK8 | 31 | 2/1/2012 | 649665PP5 |
| 3 | 8/15/2001 | 649665NL6 | 32 | 2/1/2016 | 649665PR1 |
| 4 | 8/15/2002 | 649665NM4 | 33 | 2/1/2022 | 649665PS9 |
| 5 | 8/15/2003 | 649665NN2 | 34 | 11/1/1998 | 649665PX8 |
| 6 | 8/15/2004 | 649665NP7 | 35 | 11/1/1999 | 649665PY6 |
| 7 | 8/15/2005 | 649665NQ5 | 36 | 11/1/2000 | 649665PZ3 |
| 8 | 8/15/2006 | 649665NR3 | 37 | 11/1/2001 | 649665QA7 |
| 9 | 8/15/2007 | 649665NS1 | 38 | 11/1/2002 | 649665QB5 |
| 10 | 8/15/2008 | 649665NT9 | 39 | 11/1/2003 | 649665QC3 |
| 11 | 8/15/2009 | 649665NU6 | 40 | 11/1/2004 | 649665QD1 |
| 12 | 8/15/2010 | 649665NV4 | 41 | 11/1/2005 | 649665QE9 |
| 13 | 8/15/2011 | 649665NW2 | 42 | 11/1/2006 | 649665QF6 |
| 14 | 8/15/2012 | 649665NX0 | 43 | 11/1/2007 | 649665QG4 |
| 15 | 8/15/2013 | 649665NY8 | 44 | 11/1/2008 | 649665QH2 |
| 16 | 8/15/2016 | 649665NZ5 | 45 | 11/1/2009 | 649665QJ8 |
| 17 | 8/15/2026 | 649665PB6 | 46 | 11/1/2010 | 649665QK5 |
| 18 | 2/1/1997 | 649665PC4 | 47 | 11/1/2011 | 649665QL3 |
| 19 | 2/1/2000 | 649665PV2 | 48 | 11/1/2012 | 649665QM1 |
| 20 | 2/1/2001 | 649665PW0 | 49 | 11/1/1996 | 649665PT7 |
| 21 | 2/1/2002 | 649665PD2 | 50 | 2/1/1997 | 649665PU4 |
| 22 | 2/1/2003 | 649665PE0 | 51 | 2/1/1998 | 649665QT6 |
| 23 | 2/1/2004 | 649665PF7 | 52 | 2/1/1999 | 649665QU3 |
| 24 | 2/1/2005 | 649665PG5 | 53 | 11/1/1997 | 649665QV1 |
| 25 | 2/1/2006 | 649665PH3 | 54 | 11/1/1998 | 649665QW9 |
| 26 | 2/1/2007 | 649665PJ9 | 55 | 11/1/1999 | 649665QX7 |
| 27 | 2/1/2008 | 649665PK6 | 56 | 11/1/2000 | 649665QY5 |
| 28 | 2/1/2009 | 649665PL4 | 57 | 8/15/1998 | 649665QN9 |
| 29 | 2/1/2010 | 649665PM2 | 58 | 8/15/1999 | 649665QP4 |



(See attached page for final CUSIPS)

17. MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility of the CUSIP Service Bureau.

☐ Check here if the issue is ineligible for CUSIP number assignment. State reason:

**Submit two copies of the completed form along with two copies of the official statement to Municipal Securities Rulemaking Board, 1818 N Street, NW, Suite 800, Washington, DC 20036-2491.**