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 of New York (the "City"), and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), 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.

$996,336,847.25

The City of New York

General Obligation Bonds, Fiscal 2003 Series F, G and H
$797,035,000 Tax-Exempt Current Interest Bonds
$9,996,847.25 Tax-Exempt Capital Appreciation Bonds
$189,305,000 Taxable Current Interest Bonds

Dated: Date of Delivery | Due: As shown on the inside cover

The Bonds will be issued as registered bonds. The Bonds will be registered in the nominee name of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds.

Interest on the Tax-Exempt Series F Bonds (except for the Capital Appreciation Bonds prior to July 15, 2013) will be payable semi-annually beginning July 15, 2003 and on each January 15 and July 15 thereafter. Interest on the Tax-Exempt Series G and Series H Bonds (except for the Capital Appreciation Bonds) will be paid semi-annually beginning August 1, 2003 and on each February 1 and August 1 thereafter. The Series H Capital Appreciation Bonds due August 1, 2011 do not bear current interest, and the Series F Capital Appreciation Bonds do not bear current interest prior to January 15, 2013. The Series F Capital Appreciation Bonds accrete to par on January 15, 2013 with interest payable beginning on July 15, 2013 and on each January 15 and July 15 thereafter until maturity as set forth on the inside cover. The Series H Capital Appreciation Bonds accrete to par and mature on August 1, 2011. Interest on the Series F Taxable Bonds is payable as described herein beginning April 15, 2003. The Bonds can be purchased in principal amounts of $5,000 or any integral multiple thereof. Other terms of the Bonds including redemption provisions are described herein. *A detailed schedule of the Bonds is set forth on the inside cover page.*

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters with respect to the Tax-Exempt Bonds and the Series H Taxable Bonds and by Morgan Stanley & Co. Incorporated with respect to the Series F Taxable Bonds subject to the approval of the legality of the Bonds by Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel to the City, and subject to certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the City by Morgan, Lewis & Bockius LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by Clifford Chance US LLP, New York, New York. It is expected that the Bonds will be available for delivery in New York, New York, on or about January 22, 2003.

UBS PaineWebber Inc. | **Morgan Stanley**
Bear, Stearns & Co. Inc. | **Salomon Smith Barney**

M.R. Beal & Company | **First Albany Corporation** | **Goldman, Sachs & Co.**
Lehman Brothers | **Merrill Lynch & Co.** | **JPMorgan**
Ramirez & Co., Inc. | **Roosevelt & Cross Incorporated**

Advest/Lebenthal | **Apex Pryor Securities** | **CIBC World Markets**
Commerce Capital Markets, Inc. | **RBC Dain Rauscher Inc.** | **A. G. Edwards & Sons, Inc.**
Jackson Securities Inc. | **Janney Montgomery Scott LLC**
Legg Mason Wood Walker, Incorporated | **Loop Capital Markets, LLC**
Popular Securities | **Prager, McCarthy & Sealy, LLC** | **Prudential Securities**
Raymond James & Associates, Inc.

January 13, 2003

$1,211,386,847.25* General Obligation Bonds Fiscal 2003 Series F, G and H

$649,997,577.20 General Obligation Bonds Fiscal 2003 Series F

	$495,000,000 Tax-Exempt Bonds			$150,000,000 Taxable Bonds(1)
January 15	Principal Amount	Interest Rate	Price or Yield	Principal Amount
2005	$ 6,305,000	2.05%	100%	$ 8,175,000
2006	6,450,000	2.60	100	8,370,000
2007	6,630,000	3	100	8,660,000
2008	6,845,000	3.40	3.44	9,005,000
2009	7,095,000	3.80	3.82	9,395,000
2010	7,380,000	4	100	9,840,000
2011(2)	7,675,000	3.85	100	11,635,000
2012(3)	8,070,000	3⅞	100	12,265,000
2013(3)	8,460,000	4	100	12,950,000
2014	8,295,000	4.60	100	13,690,000
2015	8,710,000	4.70	100	14,475,000
2016	8,535,000	4¾	4.80	15,320,000
2017	8,990,000	4.80	4.90	16,220,000
2018	3,860,000	4.95	100	
2018(4)	23,430,000	6	4.95	
2019	28,795,000	5	100	
2020	11,360,000	5.10	100	
2020(4)	19,015,000	6	5.10	
2021	6,465,000	5.15	100	
2021(4)	25,705,000	6	5.15	
2022	12,695,000	5.20	100	
2023(5)	57,545,000	5¼	100	
2026(5)	120,515,000	5.30	100	
2028(5)	25,735,000	5¼	5.32	
2033(5)	60,440,000	5¼	5.35	

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* Includes $215,050,000 of adjustable rate bonds not offered hereby.
(1) Interest on Taxable Bonds is calculated as set forth in Appendix C.
(2) Insured by CDC IXIS Financial Guaranty North America, Inc.
(3) Insured by Financial Security Assurance Inc.
(4) Priced to the first par call on January 15, 2013.
(5) Term Bonds.

$4,997,577.20 Convertible Capital Appreciation Bonds

January 15	Aggregate Initial Offering Amount	Initial Offering Price Per $5,000 Maturity Amount	Approximate Yield to January 15, 2013
2028†	$4,997,577.20	$2,960.65	5.32%

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† Bond accretes to par on January 15, 2013, with interest at 5.32% per annum payable thereafter semiannually each January 15 and July 15, commencing July 15, 2013. The aggregate accreted value is $8,440,000 on January 15, 2013.

$257,385,000 General Obligation Bonds Fiscal 2003 Series G

August 1	Principal Amount	Interest Rate	Price or Yield
2003	$26,200,000	3½%	1.23%
2004	26,200,000	4½	1.60
2005	26,200,000	2	2.05
2006	15,910,000	2.60	100
2006	23,260,000	5	2.60
2007	8,955,000	3	100
2007	30,215,000	5	3.00
2008	10,000,000	3¼	3.44
2008	18,615,000	3.40	3.44
2008	10,555,000	5	3.44
2009	10,000,000	3¾	3.82
2009	5,530,000	3.80	3.82
2009	3,470,000	5	3.82
2010	23,315,000	4	100
2011	7,010,000	4⅛	4.25
2011(1)	11,950,000	3.85	100

(1) Insured by CDC IXIS Financial Guaranty North America, Inc.

$88,954,270.05 General Obligation Bonds Fiscal 2003 Series H

	$44,650,000 Tax-Exempt Bonds			$39,305,000 Taxable Bonds		
August 1	Principal Amount	Interest Rate	Price or Yield	Principal Amount	Interest Rate	Price or Yield
2003	$6,505,000	3½%	1.23%	$18,970,000	3%	1.60%
2004	6,705,000	4½	1.60	20,335,000	3½	2.25
2005	6,915,000	2	2.05			
2006	7,435,000	2½	2.60			
2007	7,640,000	2¾	3.00			
2008	7,890,000	4	3.44			
2011	1,560,000	4⅛	4.25			

$4,999,270.05 Capital Appreciation Bonds

August 1	Aggregate Initial Offering Amount	Initial Offering Price Per $5,000 Maturity Amount	Approximate Yield to August 1, 2011
2011(1)	$4,999,270.05	$3,493.55	4.25%

(1) Bond accretes to par at maturity on August 1, 2011. The aggregate accreted value is $7,155,000 on August 1, 2011.

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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. Any electronic reproduction of this Official Statement may contain computer-generated errors or other deviations from the printed Official Statement. In any such case, the printed version controls.

This Official Statement contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the City, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the City or the Underwriters that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date they were prepared. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based between modifications to the City's financial plan required by law.

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.

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. IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THIS OFFICIAL STATEMENT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

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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 $996,336,847.25 aggregate principal amount of the City's General Obligation Bonds, Fiscal 2003 Series F, G and H (the "Bonds"). The Bonds consist of $797,035,000 fixed rate tax-exempt current interest bonds (the "Tax-Exempt Current Interest Bonds"), $9,996,847.25 tax-exempt capital appreciation bonds (the "Tax-Exempt Capital Appreciation Bonds") and $189,305,000 current interest taxable bonds (the "Taxable Bonds"). The Tax-Exempt Current Interest Bonds and the Tax-Exempt Capital Appreciation Bonds are referred to as the "Tax-Exempt Bonds." In addition to the Bonds, $215,050,000 of the City's General Obligation Bonds, Fiscal 2003 Series G and H, will be issued as variable rate bonds which will be described in a separate official statement and are not offered hereby.

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 8,000,000, 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 a leading tourist destination. Manufacturing activity in the City is conducted primarily in apparel and printing.

For each of the 1981 through 2002 fiscal years, the City's General Fund had an operating surplus, before discretionary and other transfers, and achieved balanced operating results as reported in accordance with then applicable generally accepted accounting principles ("GAAP"), after discretionary and other transfers. See "SECTION VI: FINANCIAL OPERATIONS—1998-2002 Summary of Operations." The City has been required to close substantial gaps between forecast revenues and forecast expenditures in order to maintain balanced operating results. There can be no assurance that the City will continue to maintain balanced operating results as required by State law without proposed tax or other revenue increases or reductions in City services or entitlement programs, which could adversely affect the City's economic base.

As required by law, 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 financial plan projects budget balance in the 2003 and 2004 fiscal years and budget gaps for each of the 2005 and 2006 fiscal years. A pattern of current year balance or surplus operating results and projected subsequent year budget gaps has been consistent through the entire period since 1982, during which the City has achieved surplus operating results, before discretionary transfers, for each fiscal year. For information regarding the current financial plan, as well as subsequent developments including lower tax revenue projections and additional gap-closing initiatives, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS" and "SECTION VII: FINANCIAL PLAN." The City is required to submit its financial plans to the New York State Financial Control Board (the "Control Board"). For further information regarding the Control Board, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Review and Oversight.*"

For its normal operations, the City depends on aid from the State of New York (the "State") 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; that State budgets will be adopted by the April 1 statutory deadline, or interim appropriations will be enacted; 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 or a delay in the receipt of federal grants which could have adverse effects on the City's cash flow or revenues. The City assumes that the costs relating to the September 11 attack on the World Trade Center (the "September 11 attack") will be paid in substantial part from federal aid and borrowings by the New York City Transitional Finance Authority (the "TFA").

The Mayor is responsible for preparing the City's financial plan, including the City's current financial plan for the 2003 through 2006 fiscal years (the "2003-2006 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 including the successful implementation of substantial proposed tax increases which would require the approval of the City Council or the State, and substantial other actions which require the approval of the State and the federal government. Such assumptions and contingencies are described throughout this Official Statement and include the condition of the regional and local economies, the provision of State and federal aid and the impact on City revenues and expenditures of any future federal or State policies affecting the City. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

Implementation of the Financial Plan is dependent upon the City's ability to market its securities successfully. Implementation of the Financial Plan is also dependent upon the ability to market the securities of the TFA, which issues debt secured by personal income tax and sales tax revenues, TSASC, Inc. ("TSASC"), which issues debt secured by revenues derived from the settlement of litigation with tobacco companies, and the New York City Municipal Water Finance Authority (the "Water Authority") which issues debt secured by water and sewer revenues. See "SECTION VII: FINANCIAL PLAN—Financing Program." The TFA and TSASC were created to assist the City in financing its capital program while keeping City indebtedness within the forecast level of the constitutional restrictions on the amount of debt the City is authorized to incur. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*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, Water Authority, TFA, TSASC and other bonds and notes will be subject to prevailing market conditions. 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, from time to time, issue reports and make public statements which, among other things, state that projected revenues and expenditures may be different from those forecast in the City's financial plans. See "SECTION VII: FINANCIAL PLAN—Certain Reports."

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

2003-2006 Financial Plan

For the 2001 and 2002 fiscal years, the City's General Fund had operating surpluses of $2.949 billion and $682 million, respectively, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, after discretionary and other transfers. The 2002 fiscal year is the twenty-second consecutive year that the City has achieved an operating surplus, before discretionary and other transfers, and balanced operating results, after discretionary and other transfers.

On November 18, 2002, the City submitted to the Control Board the Financial Plan for the 2003 through 2006 fiscal years, which relates to the City and certain entities which receive funds from the City. The Financial Plan is a modification to the financial plan submitted to the Control Board on June 26, 2002 (the "June Financial Plan"). The Financial Plan projects revenues and expenditures for the 2003 and 2004 fiscal years, balanced in accordance with GAAP, after $804 million of discretionary and other transfers in fiscal year 2003 to pay debt service due in fiscal year 2004, and projects gaps of $939 million and $1.3 billion for fiscal years 2005 and 2006, respectively.

The Financial Plan assumes the successful implementation of a program to close previously projected gaps of $1.1 billion for fiscal year 2003, $6.4 billion for fiscal year 2004, $6.7 billion for fiscal year 2005 and $7.0 billion for fiscal year 2006. The gap-closing program proposed in the Financial Plan would (i) reduce agency expenditures (including debt service savings reflecting a 30% reduction in capital commitments) and increase agency revenues by $844 million in fiscal year 2003 and by more than $1.1 billion in subsequent fiscal years; (ii) increase property taxes by 25% effective January 1, 2003, which would generate $1.1 billion, $2.3 billion, $2.4 billion and $2.5 billion in fiscal years 2003 through 2006, respectively (which has subsequently been reduced by $296 million, $608 million, $633 million and $660 million in fiscal years 2003 through 2006, respectively, as a result of the City Council approving an 18.49% property tax increase, rather than the proposed 25% increase); (iii) restructure the personal income tax to include income of non-residents employed in the City in the tax base and reduce over four years the highest tax rate, which would generate $1.0 billion, $684 million and $239 million in fiscal years 2004, 2005 and 2006, respectively, and which is subject to approval by the State; and (iv) additional State and federal assistance and labor productivity actions, which require the approval of the State and federal governments and negotiation with the unions. The additional State actions proposed in the Financial Plan include: (i) regional transportation initiatives which would generate additional revenues or produce savings for the City totaling $200 million, $600 million and $800 million in fiscal years 2004, 2005 and 2006, respectively, including imposing tolls on all Manhattan crossings or transferring responsibility for the local private bus system to the MTA; and (ii) other initiatives totaling $200 million annually in each of fiscal years 2004 through 2006, which could include Medicaid cost containment, tort reform and other State assistance. Additional federal actions proposed in the Financial Plan include initiatives totaling $200 million in fiscal year 2004 and $250 million in each of fiscal years 2005 and 2006, which could include providing the City with flexibility concerning the use of existing federal funding, mandate relief, increasing the federal share of Medicaid or Medicare funding or other federal assistance. Labor productivity actions assumed in the Plan total $600 million annually in each of fiscal years 2004 through 2006 through more efficient deployment of City employees or reductions in pension or fringe benefit costs.

The Financial Plan also reflects changes since the June Financial Plan which decreased projected revenues and increased projected net expenditures. Changes in projected revenues include a decline in projected revenues of $697 million, $1.1 billion, $1.1 billion and $924 million in fiscal years 2003, 2004, 2005 and 2006, respectively, reflecting primarily decreases in projected personal income, business and sales tax revenues as well as the elimination of previously assumed non-tax revenues. The assumed decline in tax revenue growth reflects the September 11 attack and the national recession, which resulted in lower wage earnings, lower corporate earnings, local job losses exceeding 100,000, a disruption in tourism and related spending and the continuing decline in financial services sector profits and employee income as a result of falling equity values and financial market disruptions resulting from financial disclosure scandals. Changes in projected expenditures since the June Financial Plan include increased pension costs totaling $64 million, $294 million, $500 million and $747 million for fiscal years 2003, 2004, 2005 and 2006, respectively, resulting primarily from investment losses in fiscal year 2002 totaling 8%, which exceeded the 3% loss assumed in the June Financial Plan and additional pension benefits. Changes in projected expenditures also include increased agency spending, increased costs for settling claims against the City, increased health and welfare spending primarily for Medicaid and increased debt service costs in fiscal year 2004 and debt service savings in fiscal year 2003.

The Financial Plan assumes that the City's costs relating to the September 11 attack will be paid in substantial part from federal aid and funds previously provided by the TFA. The Financial Plan also assumes: (i) the continuation of State funding to extend the school day at a cost of $275 million in each of fiscal years 2002 through 2006, which is subject to State approval and (ii) $700 million of federal funds in fiscal year 2004 to fund emergency preparedness, which is subject to federal approval. The Financial Plan also assumes additional initiatives requiring federal actions of $230 million in fiscal year 2003 and $223 million of additional labor productivity initiatives, which may require approval by the unions representing City employees and the State in fiscal year 2003. The Financial Plan does not make any provision for wage increases, other than the pay increases for the 2000-2002 round of bargaining. Each 1% wage increase for all City employees for subsequent contract periods costs approximately $200 million annually. For information regarding recent labor settlements see "SECTION V: CITY SERVICES AND EXPENDITURES—Employees and Labor Relations." The City Comptroller and others have issued reports on the Financial Plan which identified risks to the Financial Plan, including the fact that many of the proposed gap-closing actions require the approval of others. See "SECTION VII: FINANCIAL PLAN—Certain Reports."

Certain members of the State Legislature have expressed opposition to the proposed restructuring of the personal income tax to include in the taxable base income earned in the City by non-residents and have suggested that the City implement additonal expenditure reductions or other alternative revenue initiatives. The City Council has approved a property tax increase of 18.49%, rather than the 25% increase proposed in the Financial Plan, which will reduce projected property tax revenues by $296 million, $608 million, $633 million and $660 million in fiscal years 2003 through 2006, respectively. It can be expected that the Financial Plan will engender public debate, which will continue through the time the budget is scheduled to be adopted in June 2003, and it is possible that projected savings and revenues will not be realized. Accordingly, the Financial Plan may be changed substantially by the time the budget for fiscal year 2004 is adopted. In addition, the economic and financial condition of the City may be affected by various financial, social, economic and other factors which could have a material effect on the City.

The City expects to release a modification to the Financial Plan in January 2003, which will contain updated revenue and expenditure projections and provide for balance in fiscal years 2003 and 2004. The updated projections in the January modification will reflect a decrease in previously projected property tax revenues resulting from the property tax increase of 18.49% approved by the City Council, rather than the previously proposed 25% increase. In addition, recent forecasts for the national economy have delayed and lowered expectations for the projected economic recovery. The City expects that the updated projections in the January modification for fiscal years 2003 and 2004 will include reduced income tax revenue projections, reflecting, in part, continued weakness in the financial services sector, and reduced sales tax revenue projections, reflecting continued weakness in consumer spending. Customarily, the modification to the Financial Plan that occurs in January recognizes additional costs to the City which may have arisen through the passage of time and which must be funded in the current year and, to the extent that they are recurring, in future years. On January 6, 2003, the City's Office of Management and Budget ("OMB") directed the Department of Education ("DOE") and all uniformed services to identify initiatives to reduce spending in fiscal year 2004 by 3% beyond previous reductions and other City agencies to reduce spending by 6% beyond previous reductions. The City expects that the modified Financial Plan will include reductions in agency spending as well as increases in revenues.

World Trade Center Attack

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center and damage to other buildings in the vicinity. Trading on the major New York stock exchanges was suspended until September 17, 2001, and business in the financial district was interrupted.

Recovery, clean up and repair efforts will result in substantial expenditures. The federal government has committed over $21 billion for disaster assistance in New York, including disaster recovery and related activities, increased security and reconstruction of infrastructure and public facilities. This amount includes approximately $15.5 billion of appropriations for costs such as cleanup, economic development, job training, transit improvements, road reconstruction and grants to residents and businesses in lower Manhattan. It also includes approximately $5.5 billion for economic stimulus programs directed primarily at businesses located in the Liberty Zone, the area surrounding the World Trade Center site. These programs include expanding tax credits, increasing depreciation deductions, authorizing the issuance of tax-exempt private activity bonds and expanding authority to advance refund some bonds issued to finance facilities in the City.

The City is seeking to be reimbursed by the federal government for all of its direct costs for response and remediation of the World Trade Center site. The City also expects to receive federal funds for costs of economic revitalization and other needs, not directly payable through the City budget, relating to the September 11 attack.

In addition, the State authorized the TFA to have outstanding $2.5 billion of bonds ("Recovery Bonds") and notes ("Recovery Notes") to pay costs related to or arising from the September 11 attack ("Recovery Costs").

It is not possible to quantify at present with any certainty the long-term impact of the September 11 attack on the City and its economy, any economic benefits which may result from recovery and rebuilding activities and the amount of additional resources from federal, State, City and other sources which will be required.

The State

The State ended its 2001-2002 fiscal year in balance on a cash basis, with a reported closing balance in the General Fund of $1.03 billion. The closing balance in the General Fund excludes $1.68 billion on deposit in the refund reserve account, including $1.07 billion in reserves for economic uncertainties planned for use in fiscal year 2002-2003.

The State released its enacted financial plan for the 2002-2003 fiscal year on May 22, 2002. The State financial plan projects balance on a cash basis for the 2002-2003 fiscal year. General Fund disbursements, including transfers to other funds, are projected to total $40.21 billion for 2002-2003. The projected General Fund closing balance is $716 million, which excludes $427 million on deposit in the refund reserve account.

The State released its first quarterly financial plan update on July 12, 2002, its second quarterly financial plan update on October 30, 2002, an update to its Annual Information Statement (the "November Update") on November 14, 2002, which reflected the State's second quarterly update, and a Supplement to the November Update on January 10, 2003 (the "Supplement"). The Supplement stated that, based on operating results through December 31, 2002, the anemic performance of the national economy, faltering retail sales, and continuing weakness in the State's financial services sector, the Division of the Budget ("DOB") believes that the State will experience a budgetary shortfall in the range of $2 billion to $2.5 billion in fiscal year 2002-2003. The State noted that a specific estimate of the current-year shortfall and a specific plan to maintain budget balance in fiscal year 2002-2003 will be incorporated into the Governor's 2003-2004 Executive Budget submission that is required by law to be submitted by February 1, 2003. The Supplement further stated that DOB is finalizing administrative and legislative measures to ensure the State Financial Plan for fiscal year 2002-2003 is balanced and that, to control costs, the State continues to impose a strict hiring freeze, curtail non-personal service spending, and take advantage of lower interest rates to generate debt service savings for the remainder of the fiscal year. In addition, the Supplement noted that the Governor has proposed legislation to permit the State to securitize all or a portion of its share of future payments from the tobacco industry under the national master settlement agreement. To guard against the risk that the enabling legislation necessary for tobacco securitization is not enacted in fiscal year 2002-2003, DOB is identifying a range of additional administrative remedies beyond those already underway that would reduce costs in the current year, such as deferring certain discretionary payments until fiscal year 2003-2004, thereby adding to General Fund costs in that year.

As part of the 2003-2004 Executive Budget submission, DOB plans to formally update its projections of receipts and disbursements for fiscal years 2003-2004, 2004-2005, and 2005-2006, and expects to propose actions to close a 2003-2004 budget gap that DOB currently anticipates to be several times larger than the budgetary shortfall projected for fiscal year 2002-2003, and substantially larger than the $2.8 billion imbalance projected in February 2002. The Supplement stated that factors affecting the potential budget imbalance include the possible impact of economic and financial market instability on receipts (which could cause losses in excess of five percent of earlier projections), the use of reserves and other non-recurring resources to balance the 2002-2003 budget, and higher pension costs and entitlement spending. In the November Update, the State noted that equity market instability (fueled by poor earnings, accounting concerns, and fears of further terrorist attacks), a further escalation of tensions in the Middle East and the resultant upward pressure on energy prices, a weakening of growth in consumer spending, and a failure of investment spending to rebound are all factors that are combining to produce a potential return to recessionary conditions.

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 bond resolutions of the Mayor and a certificate of the Deputy Comptroller for Public Finance (the "Certificate"). The Tax-Exempt Current Interest Bonds and the Series H Taxable Bonds will mature and bear interest as described on the cover and inside cover page of this Official Statement and the Series F Taxable Bonds will mature as described on the inside cover page of this Official Statement and will bear interest as described in Appendix C attached hereto. The Capital Appreciation Bonds are payable at maturity in multiples of $5,000. The Series F Capital Appreciation Bonds accrete to par on January 15, 2013 and bear interest thereafter as set forth on the inside cover page. The Series H Capital Appreciation Bonds do not bear current interest and accrete to par and mature on August 1, 2011. The Bonds 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. Interest on the Bonds will be payable to the registered owners thereof as shown on the registration books of the City on the Record Date (the last business day of the calendar month immediately preceding the applicable interest payment date with respect to the Series F Bonds, and the fifteenth day of the calendar month immediately preceding the applicable interest payment date with respect to the Series G and Series H 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.

Market Risk of Capital Appreciation Bonds

A table of accreted values (which are not representations as to market values) for the Capital Appreciation Bonds is contained in Appendix I. The Capital Appreciation Bonds may not be suitable for all investors. The purchase of obligations not bearing current interest, such as the Capital Appreciation Bonds, may result in greater price volatility than the purchase of an obligation bearing current interest. In addition, there is no assurance that a secondary market will develop and be maintained for the Capital Appreciation Bonds. The Capital Appreciation Bonds are included in the Discount Bonds as defined in "SECTION IX: OTHER INFORMATION—Tax Exemption."

Payment Mechanism

Pursuant to the New York State Financial Emergency Act For The City of New York (the "Financial Emergency Act" or the "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 "Certain Covenants and Agreements" below). 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.

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.

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 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 Covenant and the State Pledge and Agreement (in each case, as defined in "—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—Indebtedness of the City and Certain Other Entities."

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 also covenant to include as terms of the variable rate Bonds the respective provisions applicable thereto and to comply with such provisions and the statutory restrictions. The City will further covenant in the Series F Bonds to comply with the financial reporting requirements of the Act, as in effect from time to time, and to limit its issuance of bond anticipation notes as required by 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 Tax-Exempt Series F Bonds the covenant of the State (the "State Covenant") to the effect, among other things, that the State will not substantially impair the authority of the Control Board in specified respects. The City will covenant to make continuing disclosure with respect to the Bonds (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 Covenant and the State Pledge and Agreement 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 of the Bonds will be used for capital purposes, including expenses of the City in connection with the issuance and sale of the Bonds and to redeem, at or prior to maturity, the bonds identified in Appendix D 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 Bonds.

Optional Redemption

The Bonds (except for the Series F Taxable Bonds) will be subject to redemption at the option of the City on or after January 15, 2013, in whole or in part, by lot within each maturity, on any date, upon 30 days' notice to Bondholders, at par, plus accrued interest to the date of redemption. The City may select amounts, coupons and maturities for redemption in its sole discretion.

On and after any redemption date, interest will cease to accrue on the Bonds called for redemption.

Mandatory Redemption

The Bonds identified below are Term Bonds subject to mandatory redemption, by lot within each stated maturity, on each date at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, in the amount set forth below:

	Series F Principal Amount to be Redeemed			
January 15	**2023 Maturity**	**2026 Maturity**	**2028 Maturity**	**2033 Maturity**
2022	$21,440,000			
2023	36,105,000(1)			
2024		$38,060,000		
2025		40,135,000		
2026		42,320,000(1)		
2027			$16,590,000	
2028			9,145,000(1)	
2029				$10,660,000
2030				11,155,000
2031				12,240,000
2032				12,865,000
2033				13,520,000(1)

(1) 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

Principal of and interest on the Series F Bonds maturing in 2011 and $11,950,000 of the Series G Bonds maturing in 2011 (3.85% coupon) are insured by CDC IXIS Financial Guaranty North America, Inc. (the "CIFGNA Insured Bonds"). Information about CDC IXIS Financial Guaranty North America, Inc. ("CIFGNA") is set forth in Appendix E. A specimen CIFGNA insurance policy is set forth in Appendix F. Principal of and interest on the Series F Bonds maturing in 2012 and 2013 are insured by Financial Security Assurance Inc. (the "FSA Insured Bonds"). Information about Financial Security Assurance Inc. ("FSA") is set forth in Appendix E. A specimen FSA insurance policy is set forth in Appendix F.

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 bonds 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 Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct 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 a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as 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 Direct and Indirect 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 Direct and Indirect Participants (referred to together as "Participants") with DTC are registered in the name of 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 Direct 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.

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).

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 interest of each Direct Participant in such maturity to be redeemed.

Payment of redemption proceeds and principal and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or Fiscal Agent on the payment date in accordance with their respective holdings shown on DTC's records. 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, Fiscal Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or 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.

Unless otherwise noted, certain of the information contained in this subsection *"Book-Entry Only System"* has been extracted from information furnished by DTC. Neither the City nor the underwriters of the Bonds make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Ownership interests in the Series F Taxable Bonds may also be transferred through the Clearstream and Euroclear systems as described in Appendix G attached hereto.

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.* Michael R. Bloomberg, the Mayor of the City, took office on January 1, 2002. 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 City 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.* William C. Thompson, Jr., the Comptroller of the City, took office on January 1, 2002. 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 $65.9 billion as of September 30, 2002, 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 City 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.* Elizabeth F. Gotbaum, the Public Advocate, took office on January 1, 2002. The Public Advocate is elected in a general election for a four-year term. 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, pending an election to fill the vacancy. 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 the Panel for Educational Policy 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.

The City Charter provides 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 has 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.

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.

Office of Management and Budget

OMB, with a staff of approximately 300, 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, OMB is responsible for the preparation of 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.

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: FINANCIAL PLAN—Certain Reports."

The Office of the City Comptroller 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 2001 fiscal year, which includes, among other things, the City's financial statements for the 2001 fiscal year, has received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the twenty-second 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 twenty-two 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 a financial management system which provides 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, high grade commercial paper 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 trustees. As of September 30, 2002 aggregate pension assets were allocated approximately as follows: 48% U.S. equities; 35% U.S. fixed income; 15% international equities; 0% international fixed income; and 2% 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. The New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, "New York City Transit" or "NYCT" or "Transit Authority"), New York City Health and Hospitals Corporation ("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 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 Act on July 1, 2008, the City is still 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 Review and Oversight

The Control Board, with the Office of the State Deputy Comptroller ("OSDC"), reviews and monitors revenues and expenditures of the City and the Covered Organizations. In addition, the Municipal Assistance Corporation for The City of New York ("MAC") was organized to provide financing assistance for the City and to exercise certain review functions with respect to the City's finances, and the Independent Budget Office (the "IBO") has been established pursuant to the City Charter to provide analysis to elected officials and the public on relevant fiscal and budgetary issues affecting the City.

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.

The *ex officio* members of the Control Board are the Governor of the State of New York (Chairman); the Comptroller of the State of New York; the Mayor of The City of New York; and the Comptroller of The City of New York. In addition, there are three private members appointed by the Governor. The Executive Director of the Control Board is appointed jointly by the Governor and the Mayor. The Control Board is assisted in the exercise of its responsibilities and powers under the Financial Emergency Act by the State Deputy Comptroller.

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 2002, while unrestricted federal aid has been sharply reduced. The City projects that local revenues will provide approximately 67.1% of total revenues in the 2003 fiscal year while federal aid, including categorical grants, will provide 12.5%, and State aid, including unrestricted aid and categorical grants, will provide 20.4%. 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. The projections contained herein assume the successful implementation of the gap-closing actions proposed in the Financial Plan, including the proposed restructuring of the personal income tax and the proposed increase in the property tax. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS." For additional information regarding assumptions on which the City's revenue projections are based, see "SECTION VII: FINANCIAL PLAN—Assumptions." For information regarding the City's tax base, see "APPENDIX A—ECONOMIC AND DEMOGRAPHIC INFORMATION."

Real Estate Tax

The real estate tax, the single largest source of the City's revenues, is the primary source of funds for the City's General Debt Service Fund. The City expects to derive approximately 43.6% of its total tax revenues and 23.5% of its total revenues for the 2003 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—1998-2002 Summary 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 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)	Debt Service Levy as a Percentage of Total Levy	Operating Limit	Levy Within Operating Limit as a Percentage of Operating Limit(3)	Rate Per $100 of Full Valuation(4)	Average Tax Rate Per $100 of Assessed Valuation
	(Dollars in Millions, except for Average Tax Rate)							
1998	$ 7,890.4	$5,928.5	$1,872.9	23.7%	$7,599.7	78.0%	2.27%	$10.37
1999	8,099.3	6,307.8	1,776.5	21.9	7,170.3	88.0	2.56	10.37
2000	8,374.3	7,223.2	1,138.9	13.6	7,268.7	99.4	2.62	10.37
2001	8,730.3	7,432.7	1,274.6	14.6	7,573.1	98.1	2.59	10.37
2002	9,271.2	8,085.9	1,148.9	12.4	8,128.0	99.5	2.46	10.37
2003(5)	11,008.8	8,769.3	2,227.7	20.2	8,952.2	98.3	2.31	12.96

(1) As approved by the City Council.

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

(3) The increase in the percentage between fiscal year 1998 and fiscal year 2002 was primarily due to the discretionary transfers, for accounting purposes, in the 1998, 1999, 2000 and 2001 fiscal years to pay debt service and other expenses due in the 1999, 2000, 2001 and 2002 fiscal years, respectively, which reduced the amount of the debt service levy in the 1999, 2000, 2001 and 2002 fiscal years and, as a result, increased the amount of the total levy utilized for operating purposes.

(4) 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.

(5) Forecast assumes a 25% property tax increase effective January 1, 2003. The City Council approved an 18.49% property tax increase, which will reduce projected property tax revenues by $296 million in fiscal year 2003.

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—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*" The ratios are calculated by using the most recent market value surveys available and a projection of market value based on recent survey trends, in accordance with methodologies established by the State Board from time to time. Ratios, and therefore full values, may be revised when new surveys are completed. The ratios and full values used to compute the 2003 fiscal year operating limit and general debt limit which are shown in the table below, have been established by the State Board and include the results of the calendar year 2001 market value survey. For information concerning litigation asserting that the special equalization ratios calculated by the State Board in certain years violate State law because they substantially overestimate the full value of City real estate for the purposes of calculating the operating limit, and that the City's real estate tax levy for operating purposes 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)
1999.	$78,239,325,754		0.2566		$304,907,738,714
2000.	80,885,286,485		0.2466		328,001,972,770
2001.	84,319,741,571		0.2340		360,340,775,944
2002.	89,539,563,218		0.2339		382,811,300,633
2003.	94,506,250,871		0.2231		423,604,889,606
				Average:	359,933,335,533

(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 2002 fiscal year, the billable assessed value of real estate categorized by the City as exempt is $63.7 billion, or 40.1% of the $158.7 billion billable assessed value of all real estate (taxable and exempt).

(2) Figures are based on estimates of the special equalization ratio which are revised annually. These figures are derived from official City Council Tax Resolutions adopted with respect to the 2003 fiscal year. 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 and is based on estimates of the special equalization ratio which are not revised annually.

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 2003, class one was assessed at approximately 8% of market value and classes two, three and four were each assessed at 45% of market value. In addition, individual assessments on class one parcels cannot increase by more than 6% per year or 20% 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 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. Class share adjustments are limited to a 5% maximum increase per year and, in addition, increases below 5% must be approved by the State legislature. Fiscal year 2003 tax rates were set on June 21, 2002, and reflect a 5% limitation on the market value adjustment for 2003 and an average tax rate held at $10.37 per $100 of assessed value, though individual class tax rates were changed from the prior year level. The Financial Plan proposed a 25% property tax increase, effective January 1, 2003, which would have increased the average tax rate to $12.96 per $100 of assessed value. The City Council approved an 18.49% property tax increase which will increase the average tax rate to $12.28 per $100 of assessed value.

A change to the Real Property Tax Law, effective January 1, 1998, allows taxpayers to use sales prices to challenge the equality of assessments. This change may result in significant refund exposure and reduce the City's real estate tax revenue accordingly.

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 D.5."

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 1998 fiscal year, actual assessed valuation increased by 1.6% or $1.3 billion while billable assessed valuation increased by 0.7% to $76.0 billion, the first increase since 1993. For the 1999 fiscal year, billable assessed valuation rose by $1.7 billion to $78.0 billion. For fiscal year 2000, billable assessed valuation rose by $2.4 billion to $80.1 billion. For fiscal year 2001, the billable assessed valuation rose by $3.2 billion to $83.3 billion. For fiscal year 2002, billable assessed valuation rose by $5.0 billion to $88.3 billion. The Department of Finance released the final assessment roll for fiscal year 2003 on May 24, 2002. The billable assessed value rose by $5.0 billion to $93.3 billion over the 2002 final assessment roll. Billable assessed valuations are forecast to grow by 4.4% each year for fiscal years 2004 through 2006 reflecting a forecast slowdown in market value growth.

Collection of the Real Estate Tax

Real estate tax payments are due each July 1 and January 1. Changes to the real property tax law expanded the eligibility for quarterly tax payments by owners of class one and class two properties assessed at $80,000 or less, up from the previous $40,000, and cooperatives whose individual units on average are valued at $80,000 or less, up from the previous $40,000, which are paid in quarterly installments on July 1, October 1, January 1 and April 1. These provisions apply to installments of real property tax becoming due and payable on or after July 1, 1998. 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 to 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. An interest rate of 18% compounded daily is imposed upon late payments on all other properties. These interest rates are set annually.

The City primarily uses two methods to enforce the collection of real estate taxes. The City is authorized to sell real property tax liens on class one properties which are delinquent for at least three years and class two, three and four properties which are delinquent for at least one year. The City Council voted to extend such authority until October 31, 2003. In addition, the City is entitled to foreclose delinquent tax liens by *in rem* proceedings after one year of delinquency with respect to properties other than one- and two-family dwellings and condominium apartments for which the annual tax bills do not exceed $2,750, as to which a three-year delinquency rule is in effect.

The real estate tax is accounted for on a modified accrual basis in the General Fund. 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 fiscal years 1998, 1999, 2000, 2001 and 2002, the City sold to separate business trusts real property tax liens for which the City received net proceeds of approximately $23 million, $127 million, $73 million, $211 million and $44.5 million, respectively. For fiscal year 2003, approximately $91 million in net proceeds is expected from tax lien sales.

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	Refunds(3)	Cancellations, Net Credits, Abatements, Exempt Property Restored and Shelter Rent	Delinquent as of End of Fiscal Year(4)	Delinquency as a Percentage of Tax Levy	Lien Sale(5)
1998	$ 7,890.4	$ 7,414.2	94.0%	$148.2	$(345.6)	$(199.1)	$(277.1)	3.51%	$ 22.5
1999	8,099.3	7,519.7	92.8	127.7	(175.5)	(303.4)	(276.2)	3.40	127.3
2000	8,374.3	7,768.1	92.8	149.2	(200.2)	(345.7)	(260.5)	3.11	73.0
2001	8,730.3	8,069.1	92.4	132.3	(256.2)	(410.5)	(250.7)	2.87	210.9
2002	9,271.2	8,590.8	92.6	151.2	(138.1)	(374.2)	(306.2)	3.30	44.5
2003(6) . .	11,008.8	10,188.0	92.5	132.0	(208.0)	(499.4)	(321.4)	3.14	91.0

(1) As approved by the City Council through fiscal year 2002.

(2) Quarterly collections on current year levy.

(3) Includes repurchases of defective tax liens amounting to $10.8 million, $12.9 million, $10.8 million, $15.1 million and $3.9 million in the 1998, 1999, 2000, 2001 and 2002 fiscal years, respectively.

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

(5) Net of reserve for defective liens.

(6) Forecast assumes a 25% property tax increase effective January 1, 2003. The City Council approved an 18.49% property tax increase which will reduce projected property tax revenues by $296 million, $608 million, $633 million and $660 million in fiscal years 2003 through 2006, respectively.

Other Taxes

The City expects to derive 56.4% of its total tax revenues for the 2003 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 4¼% sales and use 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; (iii) a general corporation tax levied on the income of corporations doing business in the City; and (iv) a banking corporation tax imposed on the income of banking corporations doing business in the City.

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 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 "Real Estate Tax" above. 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. Sales tax payments payable to the City would be paid to the TFA if personal income tax revenues do not satisfy specified debt service ratios.

Revenues from taxes other than the real property tax in the 2002 fiscal year decreased by $2 billion, a drop of approximately 13.4% from the 2001 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real property tax, for each of the City's 1998 through 2002 fiscal years.

	1998	1999	2000	2001	2002
			(In Millions)		
Personal Income(1)	$ 5,117	$ 5,379	$ 5,353	$ 5,746	$ 4,538
General Corporation	1,551	1,423	1,779	1,735	1,330
Banking Corporation	515	388	347	424	320
Unincorporated Business Income	671	657	805	820	791
Sales	3,052	3,192	3,509	3,662	3,360
Commercial Rent(2)	358	333	344	377	380
Real Property Transfer	288	424	483	473	425
Mortgage Recording	232	408	403	407	477
Utility	223	222	247	300	258
All Other(3)	704	698	723	620	592
Audits	458	536	416	401	485
Total	$13,171	$13,660	$14,409	$14,965	$12,957

(1) Personal Income includes $185 million of Criminal Justice Fund revenues in fiscal year 1998 and excludes $16 million, $144 million, $247 million, $407 million and $451 million retained by the TFA in fiscal years 1998, 1999, 2000, 2001 and 2002, respectively. In fiscal years 1999, 2000, 2001 and 2002, Personal Income also includes $85 million, $200 million, $415 million and $520 million, respectively, which was provided to the City by the State as a reimbursement for the reduced personal income tax revenues resulting from the State Tax Relief Program ("STAR Program"). Personal Income also reflects, commencing in fiscal year 1999, the expiration of the 12.5% personal income tax surcharge and, commencing in fiscal year 2000, the repeal of the nonresident earnings tax and for calendar year 2001 only, the reduction and restructuring of the 14% personal income tax surcharge, which together reduced taxes by $1.291 billion in fiscal year 2000, $1.362 billion in fiscal year 2001 and $1.406 billion in fiscal year 2002. Personal Income taxes flow directly from the State to the TFA, and from the TFA to the City only to the extent not required by the TFA for debt service and operating expenses.

(2) Commercial Rent reflects legislation providing for various credit and exemptions which reduced collections.

(3) All Other includes, among others, the stock transfer tax through fiscal year 2000, OTB net revenues, cigarette, beer and liquor taxes, the hotel tax and the automobile use tax, but excludes the STAR Program aid of $117 million, $260 million, $504 million and $632 million in fiscal years 1999, 2000, 2001 and 2002, respectively, and for fiscal year 2001 only excludes prior year real property penalty and interest of $37 million which is included in Interest Income under "Miscellaneous Revenues" below.

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 of New York and New Jersey (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 1998 through 2002 fiscal years.

	1998	1999	2000	2001	2002
			(In Millions)		
Licenses, Permits and Franchises	$ 273	$ 291	$ 329	$ 338	$ 356
Interest Income	199	182	195	245	81
Charges for Services	435	440	439	439	461
Water and Sewer Payments	823	778	801	843	858
Rental Income	151	114	139	154	115
Fines and Forfeitures	468	479	468	495	485
Other	486	408	718	1,109	1,383
Total	$2,835	$2,692	$3,089	$3,623	$3,739

Note: Totals may not add due to rounding.

Fees and charges collected from the users of the water and sewer system of the City are 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.

Other miscellaneous revenues for fiscal year 1998 include $84 million from the sale of the United Nations Plaza Hotel. Other miscellaneous revenues for fiscal year 1999 include $38 million from a condemnation award and $29 million from the restructuring of a City lease. Other miscellaneous revenues for fiscal year 2000 include $42 million from the recovery of prior year FICA overpayments. Other miscellaneous revenues for fiscal years 2000, 2001 and 2002 include $247 million, $154 million and $211 million, respectively, of tobacco settlement revenues that are not retained by TSASC for debt service and operating expenses. Other miscellaneous revenues for fiscal years 2001 and 2002 do not include tobacco settlement revenues retained by TSASC for debt service and operating expenses totaling $50 million and $45 million, respectively. Other miscellaneous revenues for fiscal year 2001 include the receipt of $340 million from the sale of the Coliseum, $25 million from asset sales and $85 million from the health benefit stabilization fund. Other miscellaneous revenues for fiscal year 2002 include $208 million from the sale of mortgages of the Department of Housing Preservation and Development ("HPD"), $154 million reimbursement by HHC for malpractice claims and $361 million in TFA reimbursement for Recovery Costs.

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: 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 1998 through 2002 fiscal years.

	1998	1999	2000	2001	2002
			(In Millions)		
State Per Capita Aid	$327	$328	$405	$327	$328
Other(1)	295	324	226	307	338
Total	$622	$652	$631	$634	$666

(1) Included in the 1998, 1999, 2000, 2001 and 2002 fiscal years are $153 million, $158 million, $147 million, $158 million and $201 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 Block Grant Program ("Community Development"). 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. The City provides a reserve for disallowances resulting from these audits which could be asserted in subsequent years. Federal grants are also subject to audit under the Single Audit Act Amendments of 1996. For a further discussion of federal and State categorical grants, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—7. 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 1998 through 2002 fiscal years.

	1998	1999	2000	2001	2002
			(In Millions)		
Federal					
Community Development(1)	$ 255	$ 239	$ 264	$ 250	$ 281
Welfare(2)	2,344	2,183	2,335	2,339	2,541
Education(2)	1,014	1,053	1,127	1,227	1,364
Other(2)	679	787	691	734	1,911
Total	$4,292	$4,262	$4,417	$4,550	$6,097
State					
Welfare	$1,580	$1,442	$1,382	$1,581	$1,585
Education	4,155	4,413	4,829	5,388	5,592
Higher Education	125	128	124	129	129
Health and Mental Health	269	323	348	349	434
Other	243	333	379	321	290
Total	$6,372	$6,639	$7,062	$7,768	$8,030

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

(2) A total of approximately $1.1 billion in non-recurring FEMA reimbursement for costs relating to the September 11 attack is included in Welfare, Education and Other in fiscal year 2002.

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 Budget by the City 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 and the Transit Authority. 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 is, among others, the City University Construction Fund ("CUCF"). For information regarding expenditures for City services, see "SECTION VI: FINANCIAL OPERATIONS—1998-2002 Summary of Operations."

Federal and State laws require the City to provide certain social services for needy individuals and families who qualify for such assistance. The City receives the federal Temporary Assistance for Needy Families ("TANF") block grant funds through the State which, supplemented by City and State contributions, fund the Family Assistance Program. The Family Assistance Program provides benefits for households with minor children subject, in most cases, to a five-year time limit. The five-year TANF limit will not have a fiscal impact on the City, assuming reauthorization of the Federal block grant for another five years during the 2003 Congressional session. The federal block grant expired September 30, 2002 but was extended for three months pending Congressional consideration. The Safety Net Assistance Program provides benefits for adults without minor children, families who have reached the Family Assistance Program time limit, and others, including certain immigrants, who are ineligible for Family Assistance but are eligible for public assistance. Cash assistance benefits under the Safety Net Assistance Program are also subject to time and eligibility limits. Recipients who reach such time limits or fail to satisfy such eligibility requirements are transferred to non-cash assistance. The cost of the Safety Net Assistance Program is borne equally by the City and the State.

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. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—7. Federal and State Categorical Grants."

As of July 2002, the Mayor assumed responsibility for the City's public schools. The Board of Education ("BOE") has been replaced by the DOE which is overseen by a Chancellor, appointed by the Mayor, and the 13-member Panel for Educational Policy where the Mayor appoints 8 members including the Chancellor, and the Borough Presidents each appoint one member. The number of pupils in the school system for the 2003 through 2006 fiscal years is estimated to be approximately 1.1 million. Actual enrollment in fiscal years 1998 through 2002 has been 1,066,683, 1,074,778, 1,071,442, 1,072,678 and 1,068,839, respectively. Between fiscal years 1999 and 2002, the percentage of the City's total budget allocated to the BOE in the adopted budget for such fiscal years remained relatively stable at approximately 30%; in fiscal year 2003 the percentage of the City's total adopted budget allocated to the DOE was 31.23%. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Services Costs—*Department of Education.*" The City's system of higher education, consisting of its Senior Colleges and Community Colleges, is operated under the supervision of the City University of New York ("CUNY"). The City is projected to provide approximately 36.7% of the costs of the Community Colleges in the 2003 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 acute care hospitals, four long-term care facilities, six free standing diagnostic and treatment centers, a certified home health-care program, many hospital-based and neighborhood clinics and a health maintenance organization. HHC is funded primarily by third party reimbursement collections from Medicare and Medicaid and by payments from Bad Debt/Charity Care Pools.

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 has assumed 81.2% of the non-federal share of long-term care costs, all of the costs of providing medical assistance to the mentally disabled, and 50% of the non-federal share of Medicaid costs for clients enrolled in managed care plans. The federal government pays approximately 50% of Medicaid costs for federally eligible recipients.

The City's Expense Budget has increased during the five-year period ended June 30, 2002, due to, among other factors, the costs of labor settlements, debt service costs and the impact of inflation on various other than personal services costs.

Employees and Labor Relations

Employees

The following table presents the number of full-time employees of the City, including the mayoral agencies, the BOE and CUNY, at the end of each of the City's 1998 through 2002 fiscal years.

	1998	1999	2000	2001	2002
Education	93,365	96,930	100,748	102,583	102,320
Police	46,864	48,092	49,269	48,004	46,003
Social Services, Homeless and Children's Services	22,952	22,224	21,972	21,309	21,388
City University Community Colleges and Hunter Campus Schools	3,720	3,781	3,756	3,763	3,795
Environmental Protection and Sanitation	14,820	15,024	15,542	15,580	15,464
Fire	15,709	15,937	15,987	15,642	15,724
All Other	45,019	44,648	43,538	42,943	42,987
Total	242,449	246,636	250,812	249,824	247,681

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 1998 through 2002 fiscal years.

	1998	1999	2000	2001	2002
Transit Authority	43,303	44,634	46,082	47,689	47,954
Housing Authority	15,029	14,780	14,867	14,704	14,694
HHC	36,155	35,747	35,509	34,968	35,377
Total(1)	94,487	95,161	96,458	97,361	98,025

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

The foregoing tables include persons whose salaries or wages are paid by certain public employment programs, including programs funded under the Workforce Investment Act, 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. 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.

In April 2001, the City and DC 37, which represents approximately 105,000 City employees, reached a labor agreement. The twenty-seven month agreement covers the period from April 1, 2000 through June 30, 2002 and provides for wage increases totaling 9.26% with a total overall cost of 9.86%. In addition, the contract contains a no layoff pledge and a redeployment agreement and allows the City to establish a merit pay program to provide additional raises based on employee performance. The City has reached additional settlements with other civilian unions which together cover over 40,000 employees. All of these contracts mirror the economic terms of the DC 37 pact.

In July 2001 the City reached a tentative settlement with a coalition of unions representing all of the employees in the uniformed forces with the exception of the Patrolmen's Benefit Association ("PBA"). The 30-month agreement provides for two 5% wage increases (the first paid on the first day of the agreement and the second paid one year later). In addition, it provides for an additional 1.5% to be spent on enhancements to compensation and contains a merit pay provision which allows management to reward exceptional performance by an employee. Since July 2001, the agreement has been ratified by nine of the unions, which together represent approximately 23,000 employees in the departments of Sanitation, Correction, Fire and Police. The contract has been rejected by the Sergeants Benevolent Association ("SBA"), the Uniformed Firefighters Association ("UFA") and the Detectives Endowment Association ("DEA"), which together represent approximately 21,000 employees. The DEA and the SBA have each filed with PERB for a declaration of impasse.

The terms of future wage settlements could be determined through the impasse procedure in the New York City Collective Bargaining Law, which can impose a binding settlement. State law enacted in 1998 places 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 impose a settlement on the parties for a period not longer than two years, unlike OCB which can impose longer settlements. For these reasons, among others, PERB jurisdiction could result in labor settlements which could impose higher costs on the City than those reached under previously existing procedures.

In September 2002, the PERB-appointed panel issued an award on the PBA impasse with the City. The award covers the period ending July 31, 2002 and calls for the same wage increases as the City's agreement with the coalition of other uniformed forces. In contrast to the agreement with the coalition of other uniformed forces, the PBA contract has a term of 24 months rather than 30 months. On November 12, 2002, the City reached a tentative agreement with the UFA for a contract with the same wage increases as the PBA contract and for a 24 month period. This proposed contract is going through the union's ratification process and, if ratified, would cover the period ending May 31, 2002.

The City and BOE began bargaining with the UFT in September 2000. In the summer of 2001 PERB declared an impasse. Hearings were held in the winter of 2001 and an advisory recommendation was released in April 2002. On June 10, 2002 the City and the UFT reached a collective bargaining agreement which covers the 30-and-one-half-month period from November 16, 2000 to May 31, 2003. This agreement provides a raise of 4% on the first day, a raise of 5% on the first day of the thirteenth month, approximately 1.2% of additional benefits including significant increases in the entry level pay of certified teachers beginning on September 1, 2002 and, in exchange for working an additional 100 minutes per week, an additional 6% beginning on September 1, 2002. The cost of this contract without the 6% is 11.2% over the contract period. This is the prorated equivalent of the cost of 9.86% over 27 months in the contract settlements with all civilian employees. The cost of the additional 6% is approximately $275 million in fiscal year 2003 and $360 million annually beginning in fiscal year 2004. The State is providing the City with an additional $275 million in fiscal year 2003 to pay for the additional 6%.

For information regarding the City's assumptions with respect to the cost of future labor settlements and related effects on the Financial Plan, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services 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: FINANCIAL PLAN—Long-Term Capital Program" and "Financing Program."

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 April 25, 2001, the City published the Ten-Year Capital Strategy for fiscal years 2002 through 2011. The Ten-Year Capital Strategy totals $54.4 billion, of which approximately 95% would be financed with City funds. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*" The Ten-Year Capital Strategy provides $4.7 billion for the BOE for fiscal years 2002 through 2005. See "SECTION VII: FINANCIAL PLAN."

The Ten-Year Capital Strategy includes: (i) $13.3 billion to construct new schools and improve existing educational facilities; (ii) $9.3 billion for improvements to the water and sewer system; (iii) $5.1 billion for expanding and upgrading the City's housing stock; (iv) $3.6 billion for reconstruction or resurfacing of City streets; (v) $1.4 billion for continued City-funded investment in mass transit; (vi) $6.0 billion for the continued reconstruction and rehabilitation of all four East River bridges and 337 other bridge structures; (vii) $1.8 billion to expand current jail capacity; and (viii) $1.4 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 issued by the City and bonds issued by the Water Authority, the TFA and TSASC. 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: FINANCIAL PLAN—Financing Program."

The City's capital expenditures, including expenditures funded by State and federal grants, totaled $24.4 billion during the 1998 through 2002 fiscal years. City-funded expenditures, which totaled $21.8 billion during the 1998 through 2002 fiscal years, have been financed through the issuance of bonds by the City, the TFA, the Water Authority, TSASC, HHC and the Dormitory Authority of the State of New York ("DASNY"). The following table summarizes the major categories of capital expenditures in the City's 1998 through 2002 fiscal years.

	1998	1999	2000	2001	2002	Total
			(In Millions)			
Education	$1,228	$1,559	$1,296	$1,708	$1,765	$ 7,556
Environmental Protection	765	788	797	830	1,037	4,217
Transportation	589	636	637	577	724	3,163
Transit Authority(1)	246	342	270	279	191	1,328
Housing	235	365	290	414	380	1,684
Hospitals	71	41	43	34	62	251
Sanitation	116	71	118	178	185	668
All Other(2)	850	1,017	1,358	1,290	1,976	6,491
Total Expenditures(3)	$4,100	$4,819	$4,809	$5,310	$6,320	$25,358
City-funded Expenditures(4)	$3,631	$4,595	$4,096	$4,389	$5,436	$22,147

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

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

(3) Total expenditures for the 1998 through 2002 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures are derived from the Comprehensive Annual Financial Report of the Comptroller.

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

OMB has directed City agencies to reduce their capital commitments by 30% commencing in fiscal year 2003.

The City annually issues 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: FINANCIAL PLAN—Long-Term Capital Program."

SECTION VI: FINANCIAL OPERATIONS

The City's Basic 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, 2002, 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—1998-2002 Summary of Operations."

Except as otherwise indicated, all of the financial data relating to the City's operations contained herein, although derived from the City's books and records, are unaudited. In addition, neither the City's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the Financial Plan or other estimates or projections contained elsewhere herein, nor have they expressed any opinion or any other form of assurance on such prospective financial information or its achievability, and assume no responsibility for, and disclaim any association with, all such prospective financial information.

The Financial Plan is prepared in accordance with standards set forth in the Financial Emergency Act. The Financial Plan contains projections and estimates that are based on expectations and assumptions which existed at the time such projections and estimates were prepared. The estimates and projections contained in this Section and elsewhere herein 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. This prospective information is not fact and should not be relied upon as being necessarily indicative of future results. Readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information. The City makes no representation or warranty that these estimates and projections will be realized. The estimates and projections contained in this Section and elsewhere herein were not prepared with a view towards compliance with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information.

In June 1999, Governmental Accounting Standards Board ("GASB") issued Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" ("GASB 34"). The City implemented the new standards beginning in its financial statements for the fiscal year ended June 30, 2001. GASB 34 requires, among other things, that new "government-wide" financial statements be presented which are comprised of a statement of net assets and a statement of activities. The "government-wide" financial statements use the accrual method of accounting and are prepared on a different measurement focus than the City's fund financial statements. GASB 34 also requires the preparation of fund financial statements which include the General Fund. The accounting for the General Fund is similar to that previously presented in the City's financial statements and continues to use the modified accrual basis of accounting. A summary reconciliation of the difference between the "government-wide" financial statements and the fund financial statements is presented in the City's financial statements. GASB 34 also requires as supplementary information a section entitled "Management's Discussion and Analysis," which includes an analytical overview of the City's financial activities. See "APPENDIX B—FINANCIAL STATEMENTS." As more fully described in the section entitled "Management's Discussion and Analysis," the application of the accrual basis of accounting in the "government-wide" financial statements results in an excess of liabilities over assets and a decline in net assets in each of fiscal years 2001 and 2002.

1998-2002 Summary of Operations

The following table sets forth the City's results of operations for its 1998 through 2002 fiscal years in accordance with GAAP.

The information regarding the 1998 through 2002 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 2001 and 2002 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 1998 through 2000 financial statements are not separately presented herein. 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				
	1998	1999	2000	2001	2002
			(In Millions)		
Revenues and Transfers					
Real Estate Tax(2)	$ 7,239	$ 7,631	$ 7,850	$ 8,246	$ 8,761
Other Taxes(3)(4)	13,171	13,660	14,409	14,965	12,957
Miscellaneous Revenues	2,835	2,692	3,089	3,623	3,799
Other Categorical Grants	412	367	432	492	615
Unrestricted Federal and State Aid(3)	622	652	631	634	666
Federal Categorical Grants	4,292	4,262	4,417	4,550	6,097
State Categorical Grants	6,372	6,639	7,062	7,768	8,030
Less: Disallowances Against Categorical Grants	(14)	(39)	(5)	(46)	0
Total Revenues and Transfers(5)	$34,929	$35,864	$37,885	$40,232	$40,865
Expenditures and Transfers					
Social Services	$ 7,785	$ 7,892	$ 8,330	$ 8,717	$ 9,098
Board of Education	8,812	9,478	10,674	11,545	11,718
City University	364	389	398	408	440
Public Safety and Judicial	4,946	5,318	5,649	5,875	6,434
Health Services	1,553	1,651	1,777	1,959	2,132
Pensions(6)	1,409	1,342	615	1,127	1,392
Debt Service(3)(7)	2,934	3,360	3,339	2,522	1,371
MAC Debt Service Funding(3)(7)	773	386	451	458	5
All Other(7)	6,348	6,042	6,647	7,616	8,270
Total Expenditures and Transfers(5)	$34,924	$35,859	$37,880	$40,227	$40,860
Surplus(7)	$ 5	$ 5	$ 5	$ 5	$ 5

(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) Real Estate Tax for fiscal years 1998, 1999, 2000, 2001 and 2002 also includes $23 million, $127 million, $73 million, $211 million and $44.5 million from the sale of real property tax liens, respectively. In fiscal years 1999, 2000, 2001 and 2002, Real Estate Tax includes $31.8 million, $59.9 million, $89.4 million and $112.4 million, respectively, which was provided to the City by the State as a reimbursement for the reduced property tax revenues resulting from the STAR Program.

(3) Revenues includes 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. City Debt Service includes, and MAC Debt Service Funding is reduced by, payments by the City of debt service on City obligations held by MAC. Personal income taxes for the 1998 fiscal year includes $185 million of Criminal Justice Fund revenues and exclude $16 million, $144 million, $247 million, $407 million and $451 million in fiscal years 1998, 1999, 2000, 2001 and 2002 respectively retained by the TFA. Debt Service does not include debt service on TFA bonds or TSASC bonds. Miscellaneous Revenues includes tobacco settlement revenues that are not retained by TSASC for debt service and operating expenses.

(4) Other Taxes includes transfers of net OTB revenues. Other Taxes also reflects the effects of the repeal of the 12.5% surcharge commencing in fiscal year 1999 and reflects, commencing in fiscal year 2000, the repeal of the nonresident earnings tax as of July 1, 1999 and reflects, for calendar year 2001 only, the reduction and restructuring of the 14% personal income tax surcharge.

For fiscal year 2001, Other Taxes excludes prior year real property penalty and interest of $37 million which is included in Interest Income under Miscellaneous Revenues. Other Taxes includes tax audit revenues. For further information regarding the City's revenues from Other Taxes, see "SECTION IV: SOURCES OF CITY REVENUES—Other Taxes."

(5) Total Revenues and Transfers and Total Expenditures and Transfers exclude Inter-Fund Revenues. Approximately $1.245 billion of fiscal year 2002 expenditures are costs related to the September 11 attack.

(6) For information regarding pension expenditures, see "SECTION IX: OTHER INFORMATION."

(7) The General Fund surplus is the surplus after discretionary and other transfers and expenditures. The City had General Fund operating surpluses of $682 million, $2.949 billion, $3.192 billion, $2.625 billion and $2.091 billion before discretionary and other transfers and expenditures for the 2002, 2001, 2000, 1999 and 1998 fiscal years, respectively. Discretionary and other transfers are included in Debt Service, MAC Debt Service Funding and for transit subsidies in All Other.

Forecast of 2003 Results

The following table compares the forecast for the 2003 fiscal year contained in the financial plan submitted to the Control Board on June 26, 2002 (the "June 2002 Forecast") with the Financial Plan submitted on November 18, 2002 (the "November 2002 Forecast"). The Forecast was prepared on a basis consistent with GAAP. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

	June 2002 Forecast	November 2002 Forecast	Increase (Decrease) from June 2002 Forecast
		(In Millions)	
REVENUES			
Taxes			
General Property Tax	$ 9,001	$10,204	$1,203 (1)
Other Taxes	13,486	12,720	(766)(2)
Tax Audit Revenue	427	502	75
Miscellaneous Revenues	4,256	4,229	(27)
TFA	1,500	1,500	0
Unrestricted Intergovernmental Aid	790	790	0
Anticipated Federal Actions	230	230	0
Other Categorical Grants	623	716	93
Inter-Fund Revenues	326	331	5
Less: Intra-City Revenues	(997)	(1,104)	(107)
Disallowances Against Categorical Grants	(15)	(15)	0
Total City Funds	$29,627	$30,103	$ 476
Federal Categorical Grants	4,419	4,950	531 (3)
State Categorical Grants	8,297	8,296	(1)
Total Revenues	$42,343	$43,349	$1,006
EXPENDITURES			
Personal Services	$22,955	$23,017	$ 62 (4)
Other Than Personal Services	17,848	18,154	306 (5)
Debt Service	2,082	1,964	(118)(6)
Budget Stabilization Account and Prepayments	—	804	804 (7)
MAC Debt Service	255	214	(41)
General Reserve	200	300	100
Total Expenditures	$43,340	$44,453	$1,113
Less: Intra-City Expenses	(997)	(1,104)	(107)
Net Total Expenditures	$42,343	$43,349	$1,006

(1) The increase in General Property Tax resulted from a decrease in reserves for uncollectibles by $46 million, a decrease in refunds by $40 million, and an increase of $1.133 billion from a proposed 25% property tax increase, effective January 1, 2003 offset by a decrease in net tax lien sale proceeds of $17 million. General Property Tax does not include $111.8 million which

was provided to the City by the State as a reimbursement for the reduced property tax revenues resulting from the STAR Program. The City Council approved an 18.49% property tax increase which will reduce projected property tax revenues by $296 million, $608 million, $633 million and $660 million in fiscal years 2003 through 2006, respectively.

(2) The decrease in Other Taxes resulted from decreases in personal income taxes of $344 million, sales and use taxes of $91 million, general corporation tax of $205 million, banking corporation tax of $62 million, unincorporated business tax of $94 million, utility tax of $19 million and all other taxes of $19 million offset by increases in the mortgage recording tax of $21 million, real property transfer taxes of $33 million, the commercial rent tax of $10 million and STAR Program aid of $4 million.

(3) The increase in Federal Categorical Grants is partially due to increased FEMA funding of $173 million related to the September 11 attack costs and budget modifications processed during the year.

(4) The increase in the Personal Services forecast is due in part to $149 million in increased pension costs, $40 million in overtime needs in the Fire Department and $133 million in categorical budget modifications processed from July 2002 through October 2002, offset by agency net reductions of $281 million.

(5) The increase in Other than Personal Services is due in part to $406 million in categorical budget modifications processed from July 2002 through October 2002 and agency needs of $215 million, offset by agency reductions of $315 million.

(6) The decrease in Debt Service is primarily due to lower than anticipated short term interest rates and savings from debt refinancing.

(7) The increase in Budget Stabilization Account and Prepayments reflects an increase of $273 million in the projected discretionary transfer to the General Debt Service Fund in the 2003 fiscal year for debt service due in the 2004 fiscal year and the inclusion of a prepayment of $531 million in the 2003 fiscal year for MAC debt service due in the 2004 fiscal year.

SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 2003 through 2006 fiscal years as contained in the 2003-2006 Financial Plan. This table should be read in conjunction with the accompanying notes, "Actions to Close the Remaining Gaps" and "Assumptions," below. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

	2003-2006 Fiscal Years(1)(2) (In Millions)			
	2003	2004	2005	2006
REVENUES				
Taxes				
General Property Tax(3)	$10,204	$11,675	$12,160	$12,670
Other Taxes(3)(4)(5)(6)	12,720	14,103	14,523	15,070
Tax Audit Revenue	502	502	502	502
Miscellaneous Revenues(7)	4,229	3,733	3,745	3,767
TFA(8)	1,500	—	—	—
Unrestricted Intergovernmental Aid	790	580	555	555
Anticipated Federal Actions (9)	230	—	—	—
Other Categorical Grants	716	447	430	431
Less: Intra-City Revenues	(1,104)	(1,037)	(1,034)	(1,033)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$29,772	$29,988	$30,866	$31,947
Inter-Fund Revenues(10)	331	320	320	320
Total City Funds and Inter-Fund Revenues	$30,103	$30,308	$31,186	$32,267
Federal Categorical Grants	4,950	4,886	4,149	4,153
State Categorical Grants	8,296	8,547	8,637	8,706
Total Revenues	$43,349	$43,741	$43,972	$45,126
EXPENDITURES				
Personal Services	$23,017	$23,158	$24,183	$25,367
Other Than Personal Services	18,154	18,373	17,600	17,754
Debt Service	1,964	2,947	3,372	3,537
Budget Stabilization Account and Prepayments (11)	804	—	—	—
MAC Debt Service(4)	214	—	490	492
General Reserve	300	300	300	300
Total Expenditures	$44,453	$44,778	$45,945	$47,450
Less: Intra-City Expenses	(1,104)	(1,037)	(1,034)	(1,033)
Net Total Expenditures	$43,349	$43,741	$44,911	$46,417
GAP TO BE CLOSED	$ —	$ —	$ (939)	$(1,291)

(1) The four-year financial plan for the 2002 through 2005 fiscal years, as submitted to the Control board on June 13, 2001, contained the following projections for the 2002-2005 fiscal years: (i) for 2002, total revenues of $39.698 billion and total expenditures of $39.698 billion; (ii) for 2003, total revenues of $39.713 billion and total expenditures of $42.491 billion, with a gap to be closed of $2.778 billion; (iii) for 2004, total revenues of $40.976 billion and total expenditures of $43.587 billion, with a gap to be closed of $2.611 billion; and (iv) for 2005, total revenues of $42.228 billion and total expenditures of $44.464 billion, with a gap to be closed of $2.236 billion.

The four-year financial plan for the 2001 through 2004 fiscal years, as submitted to the Control Board on June 15, 2000, contained the following projections for the 2001-2004 fiscal years: (i) for 2001, total revenues of $37.614 billion and total expenditures of $37.614 billion; (ii) for 2002, total revenues of $37.485 billion and total expenditures of $40.121 billion, with a gap to be closed of $2.636 billion; (iii) for 2003, total revenues of $38.170 billion and total expenditures of $40.874 billion, with a gap to be closed of $2.704 billion; and (iv) for 2004, total revenues of $38.789 billion and total expenditures of $41.462 billion, with a gap to be closed of $2.673 billion.

The four-year financial plan for the 2000 through 2003 fiscal years, as submitted to the Control Board on June 14, 1999, contained the following projections for the 2000-2003 fiscal years: (i) for 2000, total revenues of $35.175 billion and total

(Footnotes continued on the next page)

(Footnotes continued from previous page)

expenditures of $35.175 billion; (ii) for 2001, total revenues of $35.850 billion and total expenditures of $37.694 billion, with a gap to be closed of $1.844 billion; (iii) for 2002, total revenues of $36.007 billion and total expenditures of $37.876 billion, with a gap to be closed of $1.869 billion; and (iv) for 2003, total revenues of $36.812 billion and total expenditures of $38.616 billion, with a gap to be closed of $1.804 billion.

The four-year financial plan for the 1999 through 2002 fiscal years, as submitted to the Control Board on June 26, 1998, contained the following projections for the 1999-2002 fiscal years: (i) for 1999, total revenues of $34.186 billion and total expenditures of $34.186 billion; (ii) for 2000, total revenues of $34.072 billion and total expenditures of $36.345 billion, with a gap to be closed of $2.273 billion; (iii) for 2001, total revenues of $34.162 billion and total expenditures of $37.269 billion, with a gap to be closed of $3.107 billion; and (iv) for 2002, total revenues of $34.920 billion and total expenditures of $37.602 billion with a gap to be closed of $2.682 billion.

(2) The Financial Plan combines the operating revenues and expenditures of the City, the 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) Assumes a 25% property tax increase effective January 1, 2003. The City Council approved an 18.49% increase which will reduce projected property tax revenues by $296 million, $608 million, $633 million and $660 million in fiscal years 2003 through 2006, respectively. For a description of the effects of the property tax increase effective January 1, 2003, STAR Program and other property tax reductions and other assumptions, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—2. Real Estate Tax."

(4) Other Taxes includes 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, although the City has no control over the statutory application of such revenues to the extent MAC requires them. Estimates of Debt Service include, and estimates of MAC Debt Service are reduced by, anticipated payments by the City of debt service on City obligations held by MAC. Other Taxes includes transfers of net OTB revenues. Personal income taxes will flow directly from the State to the TFA, and from the TFA to the City only to the extent not required by the TFA for debt service, reserves and operating expenses. Sales taxes will flow directly from the State to the TFA, after required payments are made to MAC, to the extent necessary to provide statutory coverage. Other Taxes does not include amounts that are expected to be retained by the TFA for its debt service and operating expenses. Estimates of Debt Service do not include debt service on TFA obligations.

(5) For Financial Plan assumptions, including the impact of the proposed restructuring of the personal income tax, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—3. Other Taxes."

(6) Other Taxes reflects lower tax revenues of $20 million, $20 million, $19 million and $15 million in fiscal years 2003 through 2006, respectively, as a result of accelerated depreciation allowances under the business tax provisions and Liberty Zone provisions of the recently enacted Federal Job Creation and Worker Assistance Act of 2002 (the "Job Creation Act"). The City and State passed legislation differentiating City business tax and depreciation rules from those under the Job Creation Act, except for businesses in the Liberty Zone and those below Houston Street. This differentiation results in a City tax reduction only for those businesses located in the Liberty Zone and below Houston Street.

(7) Miscellaneous Revenues reflects the receipt by the City of a portion of the funds from the settlement of litigation with the four leading cigarette companies. The Financial Plan reflects the sale of the City's right to receive such funds to TSASC which has issued debt and is expected to continue to issue debt payable from such funds to finance approximately $2.2 billion of capital projects. Miscellaneous Revenues does not include tobacco settlement revenues that are expected to be retained by TSASC for debt service and operating expenses totaling approximately $673 million from fiscal years 2003 through 2006. Estimates of Debt Service do not include debt service on TSASC obligations.

(8) TFA reflects $1.5 billion of Recovery Note and Bond proceeds used to compensate for revenue losses that are costs relating to the September 11 attack.

(9) The Financial Plan assumes unspecified initiatives requiring Federal action of $230 million in fiscal year 2003.

(10) Inter-Fund Revenues represents General Fund expenditures, properly includable in the Capital Budget, made on behalf of the Capital Projects Fund pursuant to inter-fund agreements.

(11) Budget Stabilization Account and Prepayments includes projected discretionary transfers to the General Debt Service Fund in the 2003 fiscal year for debt service due in the subsequent fiscal year and the prepayment in the 2003 fiscal year of MAC debt service due in the 2004 fiscal year.

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 "Assumptions" and "Certain Reports" below.

Actions to Close the Remaining Gaps

Although the City has maintained balanced budgets in each of its last twenty-two fiscal years and is projected to achieve balanced operating results for the 2003 and 2004 fiscal years, 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 Financial Plan is based on numerous assumptions, including the condition of the City's and the region's economies and the concomitant receipt of economically sensitive tax revenues in the amounts projected. The Financial Plan is subject to various other uncertainties and contingencies relating to, among other factors, the effects on the City economy of the September 11 attack, the extent, if any, to which wage increases for City employees exceed the annual wage costs assumed for the 2003 through 2006 fiscal years; realization of projected interest earnings 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 to provide the aid contemplated by the Financial Plan and to take various other actions to assist the City; the ability of HHC and other such entities to maintain balanced budgets; the willingness of the federal government to provide the amount of federal aid contemplated in the Financial Plan; the impact on City revenues and expenditures of federal and State welfare reform and any future legislation affecting Medicare or other entitlement programs; 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 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 ability of the City and other financing entities to market their 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: FINANCIAL PLAN—Certain Reports."

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

Revenue Assumptions

1. GENERAL ECONOMIC CONDITIONS

The Financial Plan assumes that the City's economy remains weak through the first half of calendar year 2003, before commencing a slow recovery in the second half of calendar year 2003.

The following table presents a forecast of the key economic indicators for the calendar years 2002 through 2006. This forecast is based upon information available in November 2002.

FORECAST OF KEY ECONOMIC INDICATORS

	Calendar Years				
U.S. ECONOMY	**2002**	**2003**	**2004**	**2005**	**2006**
Economic Activity and Income					
Real GDP (billions of 1996 dollars)	9,429	9,710	10,064	10,365	10,662
Percent Change	2.3	3.0	3.7	3.0	2.9
Pre-tax Corporate Profits ($ billions)	662	771	874	858	885
Percent Change	(1.2)	16.4	13.3	(1.8)	3.1
Personal Income ($ billions)	8,946	9,349	9,872	10,395	10,946
Percent Change	3.0	4.5	5.6	5.3	5.3
Non-Agricultural Employment (millions)	130.8	132.4	135.2	137.2	138.6
Change From Prior Year	(1.1)	1.6	2.8	2.0	1.4
Unemployment Rate	5.9	5.9	5.3	5.0	5.0
CPI-All Urban (1982-84=100)	180.2	185.8	191.0	196.2	201.6
Percent Change	1.8	3.1	2.8	2.7	2.8
Wage Rate ($ per year)	38,415	39,882	41,434	43,043	44,759
Percent Change	2.4	3.8	3.9	3.9	4.0
10-Year Treasury Bond Rate	4.6	4.6	5.7	6.0	6.3
Federal Funds Rate	1.6	1.7	3.3	4.2	5.0
NEW YORK CITY ECONOMY					
Personal Income ($ billions)	314	322	340	359	383
Percent Change	0.8	2.5	5.5	5.7	6.8
Non-Agricultural Employment (thousands)	3,620	3,607	3,659	3,699	3,738
Change From Prior Year	(83.0)	(13.3)	52.1	40.7	39.0
Real Gross City Product (billions of 1996 dollars)	402	400	414	430	449
Percent Change	(2.5)	(0.5)	3.6	3.8	4.4
Wage Rate ($ per year)	60,384	61,479	64,206	67,644	71,446
Percent Change	(0.4)	1.8	4.4	5.4	5.6
CPI-All Urban NY-NJ Area (1982-84=100)	191.6	197.8	203.8	210.2	216.9
Percent Change	2.4	3.2	3.0	3.2	3.2

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."

Projections of real estate tax revenues assume a 25% property tax increase effective January 1, 2003 which would increase property tax revenues by $1.1 billion in fiscal year 2003, $2.3 billion in fiscal year 2004, $2.4 billion in fiscal year 2005 and $2.5 billion in fiscal year 2006. The City Council has approved an 18.49% property tax increase which will reduce projected property tax revenues by $296 million, $608 million, $633 million and $660 million in fiscal years 2003 through 2006, respectively.

Projections of real estate tax revenues include $91 million, $82 million, $62 million and $58 million net revenue from the sale of real property tax liens in fiscal years 2003 through 2006, respectively. Projections of real estate tax revenues include the effects of the STAR Program which will reduce the property tax revenues by an estimated $112 million in fiscal year 2003 and $108 million in each of fiscal years 2004 through 2006. Projections of real estate tax revenues reflect the estimated cost of extending the current tax reduction for owners of cooperative and condominium apartments amounting to $194 million, $204 million, $214 million and $222 million in fiscal years 2003 through 2006, respectively, and the cost of extending tax abatements through the Lower Manhattan Commercial Revitalization Program of $3 million, $6 million, $6 million and $6 million in fiscal years 2003 through 2006, respectively.

The delinquency rate was 2.9% for the 2001 fiscal year and 3.3% for fiscal year 2002. The Financial Plan projects delinquency rates of 2.9%, 3.5%, 3.5% and 3.6% in the 2003 through 2006 fiscal years, respectively. 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 Financial Plan. The amounts set forth below include projected tax program revenues and exclude the Criminal Justice Fund and audit revenues.

	2003	2004	2005	2006
		(In Millions)		
Personal Income(1)	$ 4,014	$ 5,048	$ 4,894	$ 4,880
General Corporation	1,304	1,481	1,600	1,685
Banking Corporation	283	355	407	464
Unincorporated Business Income	781	840	926	1,013
Sales(2)	3,485	3,575	3,763	3,965
Commercial Rent(3)	380	389	404	416
Real Property Transfer	450	418	450	480
Mortgage Recording	415	384	413	436
Utility	258	209	276	278
All Other(4)	1,350	1,344	1,390	1,451
Total	$12,720	$14,103	$14,523	$15,070

Note: Totals may not add due to rounding.

(1) Personal Income does not include $578 million, $868 million, $1,031 million and $1,051 million of personal income tax revenues projected to be paid to the TFA for debt service in the 2003 through 2006 fiscal years, respectively. These projections include the effects of the STAR Program, which will reduce personal income tax revenues by an estimated $555 million, $585 million, $614 million and $663 million in the 2003 through 2006 fiscal years, respectively. The State will reimburse the City for such reduced revenues. These projections include the effects of a proposed restructuring of the personal income tax, which would increase personal income tax revenues by an estimated $1.013 billion, $684 million and $239 million in the 2004 through 2006 fiscal years, respectively, and which requires State approval.

(2) Sales reflects, among other changes, a reduction in the sales tax on utilities and includes MAC debt service of $214 million, $490 million and $492 million in the 2003, 2005 and 2006 fiscal years, respectively.

(3) Commercial Rent reflects the estimated cost of increasing the commercial rent tax threshold amounting to $41 million, $42 million, $43 million and $45 million in fiscal years 2003 through 2006, respectively.

(4) All Other includes, among others, OTB net revenues, cigarette, beer and liquor taxes, the hotel tax and the automobile use tax. All Other also includes $652 million, $656 million, $676 million and $716 million in fiscal years 2003 through 2006, respectively, to be provided to the City by the State as reimbursement for the reduced property tax and personal income tax revenues resulting from the STAR Program.

The Financial Plan reflects the following assumptions regarding projected baseline revenues from Other Taxes: (i) with respect to personal income tax revenues, a decline in fiscal year 2003 reflecting continued earnings weakness in the securities industry, a rebound in fiscal year 2004 reflecting an end to securities industry declines, and moderate growth in fiscal years 2005 and 2006 reflecting a recovery in the national and local economies; (ii) with respect to general corporation tax revenues, a decline in fiscal year 2003 reflecting reductions in corporate profits in calendar year 2002 followed by moderate growth in fiscal years 2004 through 2006 reflecting projected increases in national corporate profits and in securities industry profits as the national recovery accelerates; (iii) with respect to banking corporation tax revenues, a decline in fiscal year 2003 reflecting increases in non-performing loans, depressed investment banking revenues and declines in trading revenues followed by moderate growth in fiscal years 2004 through 2006 reflecting projected increases in corporate profits and securities industry earnings as the national economy recovers; (iv) with respect to unincorporated business tax revenues, a decline in fiscal year 2003 reflecting falling corporate profits followed by moderate growth in fiscal years 2004 through 2006 reflecting increases in corporate profits and securities industry earnings as the national recovery accelerates; (v) with respect to sales tax revenues, modest growth in fiscal year 2003 reflecting a partial recovery in the hotel and tourism industries followed by continued moderate growth in fiscal years 2004 through 2006 reflecting a recovery of the national and local economies; (vi) with respect to real property transfer tax revenues, strong growth in fiscal year 2003 sustained by continued residential strength due to low interest rates and continued sales of large commercial properties, a decline in 2004 as the impact of employment losses and interest rate increases are felt, and growth in fiscal years 2005 and 2006 reflecting the projected recovery of the national and local economies; (vii) with respect to mortgage recording tax revenues, a large decline in 2003 due to the decline in the inventory of available refinancings, declines in 2004 as the impact of employment losses and interest rate increases are felt, and growth in fiscal years 2005 and 2006 with the projected recovery of the national and local economies; (viii) with respect to commercial rent tax revenues, flat growth in 2003, moderate growth in fiscal year 2004 and stronger growth in fiscal years 2005 and 2006 as the national and local economic recoveries mature.

The Financial Plan also assumes a restructuring of the personal income tax, effective July 1, 2003, that would reduce personal income tax rates by 25% while broadening the base to include all income earned in the City, including that of nonresidents. The top tax rate would fall from 3.65% in tax year 2002 to 2.75%, effective July 1, 2003 and to 2.25% by tax year 2006. This initiative is expected to provide $1.0 billion, $684 million and $239 million in fiscal years 2004 through 2006, respectively. Personal income tax increases require the approval of the State Legislature.

4. Miscellaneous Revenues

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

	2003	2004	2005	2006
		(In Millions)		
Licenses, Permits and Franchises	$ 345	$ 346	$ 349	$ 342
Interest Income	43	67	95	116
Charges for Services	449	454	455	456
Water and Sewer Payments(1)	887	869	889	906
Rental Income	103	95	91	91
Fines and Forfeitures	551	570	569	569
Other	747	294	263	253
Intra-City Revenues	1,104	1,037	1,034	1,033
Total	$4,229	$3,733	$3,745	$3,767

(1) Received from the Water Board. For further information regarding the Water Board, see "Section VII: Financial Plan—Long-Term Capital Program" and "Financing Program."

Miscellaneous Revenues—Other reflects $153 million, $56 million, $29 million and $32 million of projected resources in fiscal years 2003 through 2006, respectively, from the receipt by the City of funds from the settlement of litigation with certain tobacco companies. Miscellaneous Revenues—Other does not reflect a total of $673 million expected to be retained by TSASC during fiscal years 2003 through 2006. Miscellaneous Revenues—Other includes, in fiscal year 2003, $125 million from reimbursement of landfill closure costs and $100 million from the transfer of City assets.

5. Unrestricted Intergovernmental Aid

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

	2003	2004	2005	2006
		(In Millions)		
State Revenue Sharing	$327	$327	$327	$327
Other Aid	463	253	228	228
Total	$790	$580	$555	$555

The Other Aid category primarily consists of Federal aid as reimbursement for costs relating to the September 11 attack of $185 million in fiscal year 2003; $25 million from reimbursement of landfill closing costs and $15 million from State bonds issued for municipal recycling pursuant to the 1972 Environmental Quality Bond Act in fiscal year 2003; approximately $158 million annually in fiscal years 2003 through 2006 from aid associated with the State takeover of long-term care Medicaid costs; $35 million annually from State audits; $12 million in prior year claims settlements annually in fiscal years 2003 through 2006; and $23 million of other State actions in each of the fiscal years 2003 through 2006.

The receipt of State Revenue Sharing funds could be affected by potential prior claims asserted by the State. For information concerning projected State budget gaps and the possible impact on State aid to the City, see "Section I: Recent Financial Developments—The State."

6. TFA Financing

In fiscal year 2003, the City has used $1.5 billion of proceeds of Recovery Bonds or Notes issued by the TFA to compensate for revenue losses related to the September 11 attack, pursuant to authorization by the State legislature.

7. 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 Financial Plan.

	2003	2004	2005	2006
		(In Millions)		
Federal				
Community Development	$ 298	$ 265	$ 257	$ 252
Welfare	2,385	2,184	2,178	2,185
Education	1,271	1,255	1,237	1,237
Other(1)	996	1,182	477	479
Total	$4,950	$4,886	$4,149	$4,153
State				
Welfare	$1,556	$1,580	$1,587	$1,587
Education	5,807	5,801	5,868	5,933
Higher Education	164	164	164	164
Health and Mental Hygiene	448	460	474	485
Other(2)	321	542	544	537
Total	$8,296	$8,547	$8,637	$8,706

(1) Assumes the receipt of $700 million in federal aid to fund additional emergency preparedness spending in fiscal year 2004, which is subject to federal approval.

(2) Assumes the continuation of State funding of $275 million annually for extending the school day in each of fiscal years 2004 through 2006, which is subject to State approval.

The 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 projected State budget gaps and the possible impact on State aid to the City, see "Section I: Recent Financial Developments—The State." As of October 31, 2002, approximately 15.02% of the City's full-time and full-time equivalent employees (consisting of employees of the mayoral agencies and the BOE) were paid by Community Development funds, water and sewer funds and from other sources not funded by unrestricted revenues of the City.

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 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.

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. Substantial disallowances of aid claims may be asserted during the course of the Financial Plan. The amounts of such disallowances attributable to prior years declined from $124 million in the 1977 fiscal year to $0 in the 2002 fiscal year. This decrease reflects favorable experience with the level of disallowances in recent years, which may not continue. As of June 30, 2002, the City had an accumulated reserve of $203 million for future disallowances of categorical aid.

Expenditure Assumptions

1. Personal Services Costs

The following table sets forth projected expenditures for personal services costs contained in the Financial Plan.

	2003	2004	2005	2006
		(In Millions)		
Wages and Salaries	$16,362	$16,021	$15,999	$16,017
Pensions	1,921	2,690	3,370	4,252
Other Fringe Benefits	4,329	4,047	4,412	4,693
Reserve for Collective Bargaining				
Board of Education	49	56	56	56
Other	356	344	346	349
Reserve Subtotal	405	400	402	405
Total	$23,017	$23,158	$24,183	$25,367

The Financial Plan projects that the authorized number of City-funded full-time employees whose salaries are paid directly from City funds, as opposed to federal or State funds or water and sewer funds, will decrease from an estimated level of 206,610 on June 30, 2003 to an estimated level of 204,696 by June 30, 2006. The number of full-time equivalent employees will decrease from 48,340 on June 30, 2003 to an estimated level of 45,759 on June 30, 2006, before implementation of out-year gap-closing programs included in the Financial Plan.

The Financial Plan includes savings from labor productivity actions which may require approval by the unions representing City employees and action by the State Legislature. The savings are projected to be $223 million in fiscal year 2003 and $600 million in each of fiscal years 2004 through 2006. Savings could be achieved by any combination of more efficient deployment of the workforce or reductions in pension or benefit costs associated with City employment.

The Reserve for Collective Bargaining contains funding for the cost of wage increases for unsettled uniformed unions equal to those agreed to with the uniformed coalition. It also contains funds for settlements with most employees covered by Section 220 of the labor law and the Council of Supervisors and Administrators equal to those agreed to in the DC 37 collective bargaining agreement plus smaller amounts for unions that remain unsettled for the 1995 through 2000 round. The Reserve for Collective Bargaining does not contain provisions for wage increases beyond the 2000-2002 round of bargaining.

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.

For a discussion of the City's pension systems, see "SECTION IX: OTHER INFORMATION—Pension Systems" and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note E.5."

2. OTHER THAN PERSONAL SERVICES COSTS

The following table sets forth projected other than personal services ("OTPS") expenditures contained in the Financial Plan.

	2003	2004	2005	2006
		(In Millions)		
Administrative OTPS	$10,091	$10,004	$10,180	$10,332
Public Assistance	2,217	2,056	2,063	2,063
Medical Assistance	3,915	4,233	4,375	4,515
HHC Support	198	192	189	188
Other	1,733	1,888	793	656
Total	$18,154	$18,373	$17,600	$17,754

Legislation passed by the State prohibits the disposal of solid waste in any landfill located within the City after December 31, 2001. The Financial Plan includes the estimated costs of phasing out the use of landfills located within the City under the category OTPS-Other. The Financial Plan reflects the suspension of glass and plastic recycling in fiscal year 2003, the suspension of glass recycling only in fiscal year 2004 and the restoration of metal, glass, and plastic ("MGP") recycling in fiscal year 2005. The New York City Recycling Law, Local Law No. 19 for the year 1989 ("Local Law 19") was amended to permit suspension of plastic and glass recycling. The amendment to Local Law 19 requires the City Council and the Mayor to create a temporary task force in order to develop a long-term recycling plan.

Administrative OTPS and Energy

The Financial Plan contains estimates of the City's administrative OTPS expenditures for general supplies and materials, equipment and selected contractual services and estimates of energy costs in the 2003 fiscal year. Thereafter, to account for inflation, selected OTPS expenditures are projected to rise by approximately 2.8% in fiscal years 2004 through 2006, respectively. Energy costs for each of the 2003 through 2006 fiscal years are assumed to increase at varying rates of inflation, with total energy expenditures projected at $571 million in the 2003 fiscal year, rising to $600 million in fiscal year 2006.

Administrative OTPS includes $275 million in each of fiscal years 2004 through 2006 for the extension of the school day for which the City is seeking funding from the State.

Public Assistance

The average number of persons receiving income benefits under public assistance programs is projected to be 424,266 per month in the 2003 fiscal year. The Financial Plan projects that the average number of recipients will decrease by 7.1% in the 2003 fiscal year from the average number of recipients in the 2002 fiscal year. The Financial Plan assumes that public assistance grant levels will remain flat in the 2003 fiscal year. Of total public assistance expenditures in the City for the 2003 fiscal year, the City-funded portion is projected to be $390.1 million and is projected to increase to $417.4 million in fiscal year 2006.

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 $3.021 billion for the 2003 fiscal year and is expected to increase to $3.512 billion in fiscal year 2006. 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 Financial Plan do not include 81.2% of the non-Federal share of long-term care costs which have been assumed by the State. The Financial Plan projects savings of $854.2 million in the 2003 fiscal year due to the State having assumed such costs, and projects such savings will increase to $934 million in fiscal year 2006.

Health and Hospitals Corporation

HHC operates under its own section of the Financial Plan as a Covered Organization. HHC's financial plan projects City-funded expenditures of $843 million for the 2003 fiscal year, increasing to $896 million in fiscal year 2006. The City-funded expenditures in the 2003 fiscal year include $53 million for the care of prisoners and uniformed personnel, $8.5 million of general City support, and $730 million for the City's share of HHC Medicaid payments.

HHC is projected to achieve balanced budgets in fiscal years 2003 through 2006 on a cash basis. Total receipts are projected to be $4.105 billion in fiscal year 2003, increasing to $4.127 billion in fiscal year 2006. Total disbursements are projected to be $4.266 billion in fiscal year 2003, increasing to $4.628 billion in fiscal year 2006. These projections assume: (i) increases in other than personal service costs in fiscal years 2003 through 2006 and (ii) small growth in Medicaid fee-for-service revenue between fiscal years 2003 and 2006. Significant changes have been and may be made in Medicaid, Medicare and other third-party payor programs, which could have adverse impacts on HHC's financial condition.

Other

The projections set forth in the Financial Plan for OTPS-Other include the City's contributions to NYCT, 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.

OTPS-Other includes the impact of several State and federal actions which the City is seeking as part of the City's gap closing program. These include increased expenditures for emergency preparedness of $700 million in fiscal year 2004 for which the City seeks federal funding, spending reductions of $200 million, $600 million and $800 million in fiscal years 2004 through 2006, respectively, from regional transportation initiatives which will require action by the State, reductions of $200 million in each of fiscal years 2004 through 2006 from other proposed State initiatives and $200 million in fiscal year 2004 and $250 million in each of fiscal years 2005 and 2006 from other proposed federal initiatives. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

New York City Transit

In November 2002, the City prepared a financial plan for NYCT covering its 2002 through 2006 fiscal years (the "NYCT Financial Plan"). NYCT's fiscal year coincides with the calendar year. For 2002, the NYCT Financial Plan projects $4.6 billion in revenues and $4.9 billion in expenses, leaving a budget gap of $216 million. This gap will be offset by $190 million in anticipated cash flow adjustments including reserve funds and additional receipts, and funds made available from a $26 million cash basis surplus in 2001. NYCT's cash basis budget will be balanced for fiscal year 2002. City assistance in 2002 to NYCT's operating budget is $239 million, in addition to $154 million in real estate tax revenue dedicated for NYCT's use.

The NYCT Financial Plan forecasts budget gaps of $622 million, $405 million, $431 million, and $451 million in 2003 through 2006, respectively, before the implementation of cash flow adjustments and additional gap-closing actions. The Financial Plan does not require that NYCT's out-year gaps be funded. The Financial Plan assumes that the gaps in 2003 through 2006 will be closed in part by increased user charges, productivity measures, reduced service levels, additional management actions, or some combination of these actions.

On May 30, 2002, the Metropolitan Transportation Authority ("MTA") board approved an amended five-year, $18.3 billion capital plan for the MTA for 2000 through 2004 (the "2000-2004 Capital Program"), including approximately $12.0 billion for NYCT, to be funded with federal, State and City capital funds, MTA bonds, and other MTA resources. The 2000-2004 Capital Program includes $540 million in City capital funds, as well as $340 million in City capital funds exchanged for proceeds from the sale of the Coliseum. Although the original 2000-2004 Capital Program was approved by the Capital Program Review Board ("CPRB"), the State Legislature and the Governor, the amended program has not yet been submitted for approval.

The 2000-2004 Capital Program follows the $13.2 billion capital program for 1995 through 1999, which included $9.3 billion for NYCT. The Capital Program for 1995 through 1999 superseded the previous capital program for the period 1992 through 1996, which totaled $9.56 billion, with $7.4 billion in projects for NYCT.

There can be no assurance that all the necessary governmental actions for the 2000-2004 Capital Program 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's 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.

On September 19, 2001, the MTA issued a statement that certain portions of its operations were affected by the September 11 attack. The MTA reported that damage occurred to tunnels, stations and infrastructure at transit system locations at or around the World Trade Center. The MTA expects that insurance and federal disaster assistance funds will cover substantially all of the property losses related to this event. The MTA continues to assess the long-term impact of, among other things, State subsidies generated by regional economic transactions, such as the regional sales and use tax and certain business taxes.

Department of Education

The Stavisky-Goodman Act required the City to allocate to the BOE an amount of funds from the total budget either equal to the average proportion of the total budget appropriated for the BOE in the three preceding fiscal years or an amount agreed upon by the City and the BOE. 31.23% of the City adopted budget for fiscal year 2003 was allocated to the BOE, exceeding the amount required by the Stavisky-Goodman Act. Under recently enacted State legislation, a new funding requirement will replace the provisions of the Stavisky-Goodman Act. The City will be required to provide City funds for the DOE each year, beginning in fiscal year 2004, in an amount not less than the amount appropriated for the preceding fiscal year, excluding amounts for debt service and pensions for the DOE. Such City funding must be maintained, unless total City funds for the fiscal year are estimated to be lower than in the preceding fiscal year, in which case the mandated City funding for the DOE may be reduced by an amount up to the percentage reduction in total City funds.

Judgments and Claims

In the fiscal year ended on June 30, 2002, the City expended $521.8 million for judgments and claims, $154 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of $427.3 million, $472.9 million, $501.3 million and $532.8 million for the 2003 through 2006 fiscal years, respectively. These projections incorporate the impact of an agreement between the City and HHC, whereby a substantial amount of claims costs attributed to HHC will be paid for by HHC. These amounts, which have been deducted from the City's projected annual liability, are estimated at $172.4 million, $184.8 million, $189.9 million and $194.9 million for the 2003 through 2006 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, 2002 amounted to approximately $4.3 billion. This estimate was made by categorizing the various claims and applying a statistical model, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and by supplementing the estimated liability with information supplied by the City's Corporation Counsel. For further information regarding certain of these claims, see "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 Financial Statements for the year ended June 30, 2002 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2002, could amount to approximately $582 million. Provision has been made in the Financial Plan for estimated refunds of $208 million, $253 million, $257 million and $257 million for the 2003 through 2006 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 D.5."

3. Debt Service

Debt service estimates for the 2003 through 2006 fiscal years include estimates of debt service costs on outstanding City bonds and notes and conduit debt and future debt issuances based on current and projected future market conditions.

Certain Reports

From time to time, the Control Board staff, OSDC, the City Comptroller, the IBO 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 December 26, 2002, the City Comptroller released a report on the state of the City's economy and finances. In his report, the City Comptroller stated that it appears that the City will end fiscal year 2003 in balance. However, the report noted that the recent passage of an 18.49% increase in the property tax, rather than the 25% increase assumed in the Financial Plan, reduced the budget stabilization account for fiscal year 2003 from $804 million to $509 million and has decreased property tax revenue projections by $608 million in fiscal year 2004, and noted that the outlook for fiscal years 2004 through 2006 presents serious challenges, reflecting, among other factors, continuing softness in the economy, a lackluster stock market, the effects of the September 11 attack and the budget gaps projected in the Financial Plan for fiscal years 2004 through 2006.

With respect to fiscal year 2003, the report identified risks totaling $545 million, which could be more than offset by the budget stabilization account, the $300 million general reserve and other possible prior year adjustments. The risks identified for fiscal year 2003 include: (i) the possibility that overtime could be $155 million greater than assumed in the Financial Plan; (ii) fringe benefit cost containment initiatives totaling $223 million, which require approval of the City's unions; (iii) possible additional expenditures totaling $60 million for recipients enrolled in the Disaster Relief Medicaid Program in fiscal year 2002; and (iv) anticipated federal actions totaling $230 million. The report noted that these risks could be partially offset by increased tax revenues of $138 million in fiscal year 2003, reflecting the possibility of greater than anticipated business tax receipts, partially offset by lower than anticipated personal income tax revenues. With respect to fiscal years 2004 through 2006, the report noted the possibility that tax revenues could exceed those assumed in the Financial Plan by $144 million, $153 million and $177 million, respectively, reflecting greater than assumed personal income and business tax revenues, partially offset by lower than anticipated property tax revenues.

With respect to the City's gap-closing program for fiscal years 2004 through 2006, the report noted that it relies heavily on the approval, cooperation and assistance of the State and federal governments, as well as the labor unions representing City employees. The initiatives identified in the report which require approvals include: restructuring the personal income tax to require non-City residents who work in the City to pay the same tax as City residents, and regional transportation initiatives, which could include initiatives to toll the East River bridges and transfer responsibility for the City's private bus system to the MTA, which require State legislative approval; other State and federal actions; and assumed productivity gains, which require successful negotiations with the City's labor unions. The report noted that the Financial Plan also assumes that the State will continue funding $275 million annually for the cost of teachers' salaries for an extended school day and that the federal government will make a one-time revenue grant of $700 million in 2004 to fund implementation of security measures against future terrorist attacks. The report concluded that early resolution of these uncertain initiatives is critical to ensure either timely implementation or timely development of viable alternatives.

With respect to the economy, the report noted that the City is still struggling to recover from its recession, which began in the first quarter of 2001, and may not fully recover until the second half of 2003. The report noted that the Comptroller's forecast for the City's economy is slightly more negative than the City's, reflecting tax increases at the City level and anticipated State tax increases, as well as a continuing slow rate of growth in the national economy. The report noted that risks to the national economy include the threat of military action in Iraq and the continued decline in the financial markets. Finally, the report noted that the Financial Plan does not assume any wage increases for the new round of collective bargaining, which has already begun, and noted that the City could face additional Medicaid costs of $60 million annually, due to other increased expenditures for recipients who enrolled in the Medicaid program through the Disaster Relief Medicaid Program in 2002 and additional Medicaid expenditures in fiscal years 2005 and 2006 totaling $75 million and $147 million, respectively.

On December 18, 2002, the staff of the Control Board issued a report reviewing the Financial Plan. In its report, the staff concluded that the City is in a good position to balance its budget in fiscal year 2003, but that there are substantial risks to initiatives in the Financial Plan in subsequent years, which rely on the assistance or cooperation of the State, the federal government and the City's unions.

In its report, the staff identified net risks of $490 million, $3.4 billion, $3.2 billion and $3.0 billion for fiscal years 2003 through 2006, respectively, which, when combined with the gaps projected in the Financial Plan, result in estimated gaps of $490 million, $3.4 billion, $4.2 billion and $4.3 billion for fiscal years 2003 through 2006, respectively. The staff noted that initiatives in the Financial Plan which depend upon the cooperation of others totaled $453 million, $2.5 billion, $2.6 billion and $2.3 billion in fiscal years 2003 through 2006, respectively. These initiatives include labor productivity savings, such as health insurance co-payments for City employees, cost containment of City pension plan contributions, an extension of the work week or other productivity initiatives, which require union approval; State and federal actions, which could include additional funding, relaxation of mandated programs, or authorization to impose new levies, such as a personal income tax on non-City residents employed in the City; regional transportation initiatives, which may include the imposition of tolls on the East River bridges; and continuation of State funding for extending school days. The report also noted that the adoption by the City Council of an 18.5% property tax increase, rather than the 25% increase proposed in the Financial Plan, would reduce tax revenues projected in the Financial Plan by $296 million and reduce the budget stabilization account to $508 million in fiscal year 2003, and would increase the projected gaps by greater than $600 million annually in each of fiscal years 2004 through 2006. Additional risks included in the report are the assumed receipt of $100 million from the sale of tax benefits in fiscal year 2003 and the possibility that overtime could be greater than expected by between $80 million and $95 million in each of fiscal years 2003 through 2006, which could be offset by the possibility that non-property tax receipts will be $150 million greater than anticipated in fiscal year 2003 and the possibility of greater than anticipated miscellaneous revenues in subsequent years. Finally, the report noted that the Financial Plan does not provide for wage increases beyond the end of fiscal year 2003.

On December 13, 2002, the staff of the OSDC issued a report on the Financial Plan for fiscal years 2003 through 2006. The report identified risks, including the gaps projected in the Financial Plan, totaling $678 million, $3.6 billion, $4.5 billion and $4.6 billion for fiscal years 2003 through 2006, respectively.

In its report, the staff noted that the recent adoption by the City Council of an 18.5% increase in the real property tax, rather than the 25% assumed in the Financial Plan, would decrease projected real property tax revenues by $296 million, $611 million, $638 million and $664 million in fiscal years 2003 through 2006, respectively. In addition, the report identified as risks to the Financial Plan: (i) initiatives totaling $553 million, $2.5 billion, $2.7 billion and $2.5 billion in fiscal years 2003 through 2006, respectively, substantially all of which require federal, State or municipal union approval; and (ii) additional risks totaling $125 million, $154 million, $176 million and $176 million in fiscal years 2003 through 2006, respectively, including the possibility of increased spending for overtime. The initiatives which require federal, State or municipal union approval include restructuring the City's personal income tax to include non-City residents and lowering tax rates over four years, which requires State approval; labor productivity savings, such as extending the work day, providing fewer vacation days, allowing more flexible work rules or reducing pension or fringe benefits costs, which require negotiations with the municipal unions; regional transportation initiatives, such as placing tolls on the East River bridges and shifting responsibility for the private bus lines to the MTA, which would require approval by the Governor and, possibly, the State Legislature; continuation of State education aid in fiscal years 2004 through 2006; and additional federal and State assistance. The report noted that the City had $508 million in the budget stabilization account, $300 million in the general reserve and potential savings of at least $200 million for overestimated prior year expenses which could more than offset the risks identified in the report for fiscal year 2003.

With respect to the economy, the report noted that the City's economy has lost 164,900 jobs since the current downturn began in December 2000, many of which were high-paying financial service or professional positions, that the downturn in the financial markets has reduced profits in financial firms and severely limited capital gains realizations and that Wall Street profits have declined from $21 billion in 2000 to $10.4 billion in 2001, and are projected to decline to $8 billion in 2002. The report also noted that the downturn in the stock market in recent years has resulted in pension investment losses, and that costs associated with losses during fiscal years 2001 and 2002 and lowered expectations for fiscal year 2003 have increased City costs by $315 million, $785 million, $1.5 billion and $2.3 billion in fiscal years 2003 through 2006, respectively. Finally, the report noted that the current agreements with the City's principal unions expire starting June 30, 2002, and that wage increases at the projected inflation rate would increase costs by $260 million, $825 million, $1.4 billion and $2.1 billion in fiscal years 2003 through 2006, respectively, unless funded with productivity savings.

On December 18, 2002, the IBO released a report which concluded that the City faces gaps of $2.3 billion, $3.2 billion and $3.7 billion in fiscal years 2004 through 2006, respectively, and noted that the Mayor and City Council face a serious challenge in closing the remaining gap for fiscal year 2004. The report identified $2.2 billion in actions assumed in the Financial Plan which are uncertain and will require considerable cooperation from labor and the State and federal governments. For fiscal year 2004, the IBO report projected that tax revenues would be $1.2 billion greater than in the Financial Plan due to the IBO's more optimistic forecast for the local economy starting in the second half of calendar year 2003, reflecting its outlook for employment growth and for profits in the securities industry. The IBO report also projected $289 million in higher spending than the Financial Plan, primarily due to spending in the education department and higher Medicaid and overtime costs.

On August 25, 1998, the City Comptroller issued a report reviewing the current condition of the City's major physical assets and the capital expenditures required to bring them to a state of good repair. The report estimated that the expenditure of approximately $91.83 billion would be required over the next decade to bring the City's infrastructure to a systematic state of good repair and address new capital needs already identified, and that the City's current Ten-Year Capital Strategy, together with funding received from other sources, is projected to provide approximately $52.08 billion. This represents the first time the Comptroller has issued such a report since May 1979. The capital need identified in the 1979 report was approximately two times greater than the actual capital expenditures for the period covered by that report. OMB notes that in the 1979 report, the Comptroller identified a capital need over seven times greater than the capital budget then proposed by the Mayor. The Comptroller's 1998 report estimates a capital need of approximately twice the amount of the capital spending proposed by the Mayor.

The 1998 report noted that the City's ability to meet all capital obligations is limited by law, as well as funding capacity, and that the issue for the City is how best to set priorities and manage limited resources. The report stated that its analysis is not limited to assets valued over $10 million. It is noted that the annual City capital asset condition survey as required by section 1110-a of the City Charter reviews items valued at $10 million or more. The report also includes major systems like traffic signal systems, street lighting, the East River bridges and assets leased to the Transit Authority and the Water Board. The report's findings relate only to current infrastructure and do not address future capacity or technology needs. While the report indicates that the demands of the City's infrastructure outstrip the City's ability to pay for them, the report identifies several potential alternative methods for capital financing.

Long-Term Capital 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.

The City utilizes a three-tiered capital planning process consisting of the Ten-Year Capital Strategy, the Four-Year Capital Plan 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 $6.3 billion in 2003. City-funded expenditures, which more than tripled between fiscal years 1980 and 1985, are forecast at $4.8 billion in the 2003 fiscal year; total expenditures are forecast at $5.4 billion in 2003. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2002 through 2011, see "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures."

The following table sets forth the major areas of capital commitment projected for the 2003 through 2006 fiscal years. See "SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures." See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*"

2003-2006 CAPITAL COMMITMENT PLAN(1)

	2003		2004		2005		2006	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
	(In Millions)							
Mass Transit(2)	$ 601	$ 601	$ 106	$ 106	$ 106	$ 106	$ 106	$ 106
Roadway, Bridges	941	1,087	1,094	1,268	1,016	1,173	914	937
Environmental Protection(3)	2,158	2,194	2,229	2,327	1,718	1,743	1,003	1,028
Education	997	998	892	902	839	839	1,085	1,085
Housing	404	541	271	403	310	432	403	477
Sanitation	251	265	158	158	252	252	290	290
City Operations/Facilities	3,783	4,054	1,879	2,085	786	800	1,767	1,826
Economic and Port Development	552	874	188	192	90	90	233	233
Reserve for Unattained Commitments	(3,390)	(3,390)	(182)	(182)	531	531	(52)	(52)
Total Commitments(4)	$ 6,298	$ 7,225	$6,635	$7,259	$5,648	$5,966	$5,749	$5,931
Total Expenditures(5)	$ 4,783	$ 5,366	$5,418	$8,066	$5,774	$6,320	$5,477	$5,919

Note: Numbers may not add due to rounding.

(1) OMB has directed City agencies to reduce their capital commitments by 30% commencing in fiscal year 2003.

(2) Excludes NYCT's non-City portion of the MTA's five-year Capital Program.

(3) Includes water supply, water mains, water pollution control, sewer projects and related equipment.

(4) Commitments represent contracts registered with the City Comptroller, except for certain projects which are undertaken jointly by the City and State.

(5) Expenditures represent cash payments and appropriations planned to be expended for capital costs, excluding amounts for original issue discount.

A Federal law, the Americans with Disabilities Act of 1990, generally requires that various facilities be made accessible to disabled persons. The City continues to analyze actions that 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. In addition, the City could incur substantial additional capital expenditures for school construction if alternative proposals to relieve overcrowding in the public schools are not developed and implemented.

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.

In October 2002, the City issued its annual assessment of the asset condition and a proposed maintenance schedule for 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 "AIMS Report"). This report does 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 there have been changes in the use of a facility. The AIMS Report estimated that $4.25 billion in capital investment was needed for fiscal years 2004 through 2007 to bring the assets to a state of good repair. The report also estimated that $289 million, $161 million, $215 million and $227 million should be spent on maintenance in fiscal years 2004 through 2007, respectively.

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 Plan and the Ten-Year Capital Strategy. Only a portion of the funding set forth in the Four-Year Capital Plan 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. Therefore, there is 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 Plan. The City also issues an annual report (the "Reconciliation Report") that compares the recommended capital investment with the capital spending allocated by the City in the Four-Year Capital Plan to the specifically identified inventoried assets.

The most recent Reconciliation Report, issued in May 2002, concluded that the capital investment in the Four-Year Capital Plan for the specifically identified inventoried assets funds 59% of the total investment recommended in the preceding AIMS Report issued in December 2001. Capital investment allocated in the Ten-Year Capital Strategy published in April 2001 will fund an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 45% of the expense maintenance levels recommended were included in the financial plan.

Financing Program

The following table sets forth the par amount of bonds issued and expected to be issued during the 2003 through 2006 fiscal years to implement the Financial Plan. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

2003-2006 FINANCING PROGRAM

	2003	2004	2005	2006	Total
			(In Millions)		
City General Obligation Bonds	$1,200	$2,700	$4,000	$3,900	$11,800
TFA	1,100	705	0	0	1,805
TFA Recovery Financing	1,000	0	0	0	1,000
TSASC (1)	1,309	604	0	0	1,913
Water Authority (2)	1,635	1,745	1,932	1,728	7,040
DASNY and Other Conduit Debt (3)	256	739	230	316	1,541
Total	$6,500	$6,493	$6,162	$5,944	$25,099

Note: Figures exclude refunding bonds and, with respect to the TFA and the Water Authority, include notes and exclude bonds that defease notes. Totals may not add due to rounding.

(1) TSASC includes a $150 million loan pursuant to the Transportation Infrastructure Finance and Innovation Act, of which $108 million is expected to be drawn down in fiscal year 2003.

(2) Water Authority includes a total allocation for reserve funds of $679 million.

(3) DASNY and Other Conduit Debt includes DASNY financing of the City Courts Capital Program and three HHC projects, the Jay Street Development Corp. financing of the 330 Jay Street project, and other projects. The amounts reflected in fiscal years 2003 through 2006 include a total allocation for reserve funds of $182 million.

The City's financing program includes the issuance of bonds by TSASC, which are payable from funds derived from the settlement of litigation with tobacco companies selling cigarettes in the United States and are not subject to the constitutional debt limitation.

The City's financing program also includes the issuance of bonds and notes by the TFA, which are secured by the City's personal income tax revenues, and sales tax revenues if personal income tax revenues do not satisfy specified debt ratios, and which are not subject to the constitutional debt limitation. The TFA is authorized to issue $11.5 billion of bonds and notes for City capital purposes and has issued approximately $9.7 billion of such bonds and notes to date. The TFA is expected to issue an additional approximately $1.8 billion of such bonds and notes in fiscal years 2003 and 2004. The TFA is also authorized to have outstanding $2.5 billion of Recovery Notes and Bonds to pay Recovery Costs, of which approximately $2 billion is outstanding. The City has used $1.5 billion of proceeds of Recovery Bonds and Notes in fiscal year 2003 to compensate for revenue losses that are Recovery Costs. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness.*"

In addition, the City's financing program includes the issuance of water and sewer revenue bonds by the Water Authority which 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 2002 through 2011 projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately $8.9 billion of the $51.9 billion City-funded portion of the plan. The City's capital commitment plan for the 2003 through 2006 fiscal years supersedes the Ten-Year Capital Strategy for those fiscal years and increases the total anticipated City-funded water and sewer commitments (which are expected to be financed with the proceeds of Water Authority debt) for the 2003 through 2006 fiscal years from $4.6 billion to $7.2 billion.

The City is subject to statutory and regulatory standards relating to the quality of its drinking water. The City's water supply now meets all technical standards and the City's current efforts are directed toward protection of the watershed area. A full scale water treatment facility to filter Croton system water is required under a federal consent decree. In 1996, the United States Environmental Protection Agency ("USEPA") issued an interim Filtration Avoidance Determination ("FAD") pursuant to which the City is not required to filter water from the Catskill and Delaware Systems. On November 26, 2002, USEPA announced the issuance of a new FAD which supersedes the previous FAD and will remain in effect until further determination is made, now scheduled for April 2007. The 2002 FAD provides that the City take action over the next five years to protect the Catskill and Delaware water supplies and justify the continuation of filtration avoidance. The City has estimated that if filtration of the Catskill/Delaware water supply system is ultimately required, the construction expenditures required could be between $3 billion and $4 billion.

Implementation of the financing program is dependent upon the ability of the City and other financing entities to market its securities successfully in the public credit markets. The terms and the success of projected public sales of City general obligation bonds, Water Authority, TFA and HHC revenue bonds and TSASC 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 and such other entities are 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 2002 through 2011 totals $54.4 billion, of which approximately 95% is to be financed with funds borrowed by the City and such other entities. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities—*Limitations on the City's Authority to Contract Indebtedness*". Congressional developments affecting federal taxation generally could reduce the market value of tax-favored investments and increase the debt-service costs of carrying out the currently tax-exempt major portion of the City's 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.*"

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 anticipates that its seasonal financing needs for its 2003 fiscal year will be satisfied by its $1.5 billion of short term obligations issued on October 9, 2002. To finance its projected cash flow needs, the City issued $1.5 billion of short-term obligations in fiscal year 2002, $750 million of short-term obligations in fiscal year 2001, $750 million of short-term obligations in fiscal year 2000, $500 million of short-term obligations in fiscal year 1999, $1.075 billion of short-term obligations in fiscal year 1998 and $2.4 billion of short-term obligations in fiscal year 1997. 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.

SECTION VIII: INDEBTEDNESS

Indebtedness of the City and Certain Other Entities

Outstanding City, MAC and PBC 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 September 30, 2002.

(In Thousands)

Gross City Long-Term Indebtedness(1)	$27,273,156	
Less: Assets Held for Debt Service(1)	64,841	
Net City Long-Term Indebtedness		$27,208,315
Gross MAC Long-Term Indebtedness(2)	2,524,600	
Less: Assets Held for Debt Service(2)	274,825	
Net MAC Long-Term Indebtedness		2,249,775
PBC Indebtedness(3)		
Bonds Payable	515,405	
Capital Lease Obligations	1,802,855	
Gross PBC Indebtedness	2,318,260	
Less: Assets Held for Debt Service	260,238	
Net PBC Indebtedness		2,058,022
Combined Net City, MAC and PBC Indebtedness		$31,516,112

(1) With respect to City long-term indebtedness, "Assets Held for Debt Service" consists of General Debt Service Fund assets, and $64.0 million principal amount of City serial bonds held by MAC. Amounts do not include the indebtedness of the TFA and TSASC, which were $11.4 billion (including $2 billion of Recovery Bonds and Notes) and $1.2 billion, respectively, as of September 30, 2002.

(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.

(3) "PBC Indebtedness" refers to City obligations to PBCs. For further information regarding the indebtedness of certain PBCs, see "Public Benefit Corporation Indebtedness" below.

Trend in Outstanding Net City, MAC and PBC 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 2002 and as of September 30, 2002.

	City(1)		MAC(2)			
	Long-Term Net Debt(3)	Short-Term Debt	Long-Term Net Debt(4)	Short-Term Debt	Component Unit and City Guaranteed Debt(3)	Total
			(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
1996	25,052	—	3,936	—	1,155	30,143
1997	26,180	—	3,717	—	1,182	31,079
1998	25,917	—	3,108	—	1,129	30,154
1999	26,287	—	2,809	—	1,403	30,499
2000	25,543	—	2,477	—	1,575	29,595
2001	25,609	—	2,019	—	1,533	29,162
2002	27,312	—	2,225	—	1,537	31,074
September 30, 2002	27,208	—	2,250	—	2,058	31,516

(1) Amounts do not include debt of the City held by MAC. See "*Outstanding City, MAC and PBC Indebtedness*—note 2." Amounts do not include indebtedness of the TFA and TSASC, which were $11.4 billion (including $2 billion of Recovery Bonds and Notes) and $1.2 billion, respectively, as of September 30, 2002.

(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, $4,694 million, $4,563 million, $4,267 million, $3,895 million, $3,532 million, $3,217 million, $3,217 million and $2,880 million as of June 30 of each of the years 1989 through 2002.

(3) Net of reserves. See "Outstanding Indebtedness—note 2." Component Units are PBCs included in the City's financial statements. For more information concerning Component Unit PBCs, see "Public Benefit Corporation Indebtedness" below.

(4) Calculations of net MAC indebtedness include the total bonds outstanding under MAC's 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 September 30, 2002, 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	24.57%
10 years	49.53
15 years	70.83
20 years	87.32
25 years	96.88
30 years	99.98

City, MAC and City-guaranteed PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of September 30, 2002, on City and MAC term and serial bonds outstanding and City-guaranteed debt of and capital lease obligations to certain PBCs.

	City Long-Term Debt		Component Unit and City Guaranteed Debt(2)	MAC Funding Requirements	
Fiscal Years	**Principal of Bonds(1)**	**Interest(1)**			**Total**
			(In Thousands)		
2003	$ 229,356	$ 912,135	$ 148,845	$ 505,757	$ 1,796,093
2004	1,488,292	1,398,196	197,989	505,943	3,590,420
2005	1,468,218	1,341,967	207,437	495,537	3,513,159
2006	1,424,774	1,250,092	204,439	497,099	3,376,404
2007 through 2147	22,597,675	11,322,810	3,189,562	986,958(3)	38,097,005
Total	$27,208,315	$16,225,200	$3,948,272	$2,991,394	$50,373,081

(1) Includes debt service on general obligation bonds only.

(2) Component Units are PBCs included in the City's financial statements. For additional information concerning these PBCs, see "Public Benefit Corporation Indebtedness" below.

(3) Amount shown is for fiscal years 2007 through 2008.

Certain Debt Ratios

The following table sets forth information for each of the fiscal years 1989 through 2002, with respect to the approximate ratio of debt to certain economic factors. As used in this table, debt includes net City, MAC, TFA, TSASC and PBC debt.

		Debt as % of Total Taxable Real Property By	
Fiscal Year	**Debt Per Capita**	**Assessed Valuation**	**Estimated Full Valuation(1)**
1989	$2,202	25.4%	4.6%
1990	2,490	26.0	4.5
1991	2,920	28.0	4.5
1992	3,193	27.9	3.9
1993	3,388	30.4	3.8
1994	3,687	34.1	3.7
1995	3,892	37.2	4.1
1996	4,122	39.2	7.1
1997	4,218	40.2	8.3
1998	4,363	41.0	9.0
1999	4,662	42.2	10.4
2000	4,854	42.0	10.6
2001	4,628	40.9	10.2
2002	5,083	41.8	10.0

Source: Comprehensive Annual Financial Report of the Comptroller for the fiscal year ended June 30, 2002.

(1) Based on full valuations for each fiscal year derived from the application of the special equalization ratio reported by the State Board for such fiscal year.

Ratio of Debt to Personal Income

The following table sets forth, for each of fiscal years 1984 through 2000, debt per capita as a percentage of personal income per capita in current dollars. As used in this table, debt includes net City, MAC, TFA, TSASC 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	18,318	10.01
1987	1,893	19,488	9.71
1988	2,041	21,479	9.50
1989	2,202	23,004	9.57
1990	2,490	24,893	10.00
1991	2,920	25,577	11.42
1992	3,193	27,331	11.68
1993	3,338	27,677	12.06
1994	3,687	28,416	12.98
1995	3,892	30,192	12.89
1996	4,122	32,147	12.82
1997	4,218	33,228	12.69
1998	4,363	35,606	12.25
1999	4,662	37,234	12.52
2000	4,502	37,565	11.88

Source: Comprehensive Annual Financial Report of the Comptroller for the fiscal year ended June 30, 2002.
(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.

The City's debt service appropriation provides for the interest on, but not the principal of, short-term indebtedness, which has in recent years been issued as TANs and RANs. If such principal were not provided for from the anticipated sources, it would be, like debt service on City bonds, a general obligation of the City.

Pursuant to the Financial Emergency Act, a general debt service fund (the "General Debt Service Fund" or the "Fund") has been established for the purpose of paying Monthly Debt Service, as defined in the Act. 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 once for a period not to exceed six months. Budget Notes may be issued only to fund cost overruns in the expense budget; 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 legislation which created MAC (the "MAC Act") contains two limitations on the amount of short-term debt which the City may issue. As of September 30, 2002, the maximum amount of additional short-term debt which the City could issue was $7.26 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 September 30, 2002, 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 $841.4 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, including contracts for capital projects to be paid with the proceeds of City bonds ("contracts for capital projects"), 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"). See "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Assessment*." 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 authority for variable rate bonds is limited, with statutory exceptions, to 25% 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.

To provide for the City's capital program, the TFA and TSASC were created, the debt of which is not subject to the general debt limit of the City. Without the TFA and TSASC, or other legislative relief, new contractual commitments for the City's general obligation financed capital program would have been virtually brought to a halt during the Financial Plan period beginning early in the 1998 fiscal year. The City's current projections indicate that it has sufficient financing capacity to complete its Ten-Year Capital Strategy.

The following table sets forth the calculation of the debt-incurring power of the City, the TFA and TSASC as of November 30, 2002.

(In Thousands)

Total City Debt-Incurring Power under General Debt Limit		$35,993,333
Gross Debt-Funded	$27,130,021	
Less: Excluded Debt	528,777	
	26,601,243	
Less: Fiscal Year 2003 Appropriations for Principal of Debt	314,372	
	26,286,871	
Contracts and Other Liabilities, Net of Prior TSASC and TFA Financings and Restricted Cash	7,398,638	
Total Indebtedness	33,685,509	
Less: Anticipated TFA Financing of Liabilities(1)	1,306,113	
Less: Anticipated TSASC Debt-Incurring Power	1,259,754	31,119,642
City, TFA and TSASC Debt-Incurring Power(2)		$ 4,873,690

Note: Numbers may not add due to rounding.

(1) Reflects TFA debt-incurring capacity of $11.5 billion, which was increased from $7.5 billion by State legislation in June 2000. These figures do not include an additional $2.5 billion of debt-incurring capacity granted by State legislation in September 2001 to pay costs related to the September 11 attack.

(2) Without the creation of the TFA and TSASC, the debt-incurring power of the City under the general debt limit, as of November 30, 2002, would have been exceeded by $8.8 billion.

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 Federal Bankruptcy 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, except for the stock transfer tax revenues, which are rebated to the payers of the tax. 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 September 30, 2002, MAC had outstanding an aggregate of approximately $2.525 billion of its bonds. MAC is authorized to issue bonds and notes to refund its outstanding bonds and notes and to fund certain reserves.

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") and the CUCF.

New York City Educational Construction Fund

As of September 30, 2002, approximately $125.2 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 September 30, 2002, the City had guaranteed $11.1 million principal amount of HA bonds. The City has also guaranteed the repayment of $112.9 million principal amount of HA indebtedness to the State, of which the Federal government has agreed to pay debt service on $40.0 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 $21.2 million in the 2002 fiscal year and to $19.9 million in the 2003 fiscal year.

New York State Housing Finance Agency

As of June 30, 2002, $195.2 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 September 30, 2002, $668.6 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 Authority bonds and certain fees and expenses of DASNY.

City University Construction Fund

As of September 30, 2002, approximately $613.3 million principal amount of DASNY bonds, relating to Community College facilities, 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 DASNY for Community College facilities which are applied to the payment of debt service on DASNY's bonds issued to finance the leased projects plus related overhead and administrative expenses of DASNY.

New York State Urban Development Corporation

As of September 30, 2002, $44.7 million principal amount of New York State Urban Development Corporation ("UDC") bonds subject to executed or proposed lease arrangements was outstanding. This amount differs from the amount calculated by UDC ($61.6 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.

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, 2001 consisted of approximately 344,000 current employees, of whom approximately 81,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations. In addition, there were approximately 244,000 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 a non-actuarial retirement system for 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.

For fiscal year 2002, the City's pension contributions for the five major actuarial pension systems, made on a statutory basis based on actuarial valuations performed as of June 30, 2001, plus the other pension expenditures were approximately $1.491 billion. Expense projections for fiscal years 2003 through 2006 are estimated at $1.921 billion, $2.690 billion, $3.370 billion and $4.252 billion, respectively. These figures are developed from projections prepared by the Chief Actuary and reflect certain adjustments and initiatives. The baseline projections reflect the Actuary's funding assumptions, a market value restart in fiscal year 2000, and an eight percent investment return assumption which is governed by State law. These projections also incorporate the estimated costs of benefit improvements, including automatic cost of living adjustments ("COLA") for retirees and eligible beneficiaries enacted into law in 2000. The Financial Plan includes a ten-year phase-in period to fund the costs of this COLA.

In addition, these projections reflect the impact of negative investment earnings of approximately 8.3% in each of fiscal years 2001 and 2002 and no investment earnings in fiscal year 2003. The additional employer contributions associated with these losses are phased-in over the subsequent five-year periods in accordance with the actuarial asset valuation method.

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 2002 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, are estimated at approximately 16% of total payroll costs. In addition, contributions are also made by certain component units of the City and other government units directly to the three cost sharing multiple employer actuarial systems. The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired.

Annual pension costs are computed in accordance with Governmental Accounting Standards Board Statement Number 27 and are consistent with generally accepted actuarial principles. Actual pension contributions are less than annual pension costs, primarily because (i) the City is only one of the participating employers in the New York City Employees' Retirement System ("NYCERS"), the New York City Teachers' Retirement System (the "Teachers System") and the New York City Board of Education Retirement System (the "BOE System") and (ii) Chapter 125 of the Laws of 2000 ("Chapter 125"), which provides eligible retirees and eligible beneficiaries with automatic cost-of-living adjustments beginning in September 2000, also provides for a phase-in schedule for funding the additional liabilities created by the benefits provided by Chapter 125.

For the New York City Police Pension Fund, Subchapter Two (the "Police Fund") and the New York City Fire Department Pension Fund, Subchapter Two (the "Fire Fund"), Net Pension Obligations of approximately $228.0 million and approximately $99.8 million, respectively, were recorded as of June 30, 2002.

The following table sets forth, for the five major actuarial pension systems, the amounts by which the actuarial accrued liabilities exceeded the actuarial values of assets for June 30, 1995 to June 30, 2001. For those retirement systems where the actuarial asset values exceeded the actuarial accrued liabilities (i.e., NYCERS for June 30, 1995 to 1999, the Teachers System for June 30, 1999 only, and the BOE System and the Police Fund for June 30, 1999, 2000 and 2001) the amounts shown include zero for these retirement systems.

June 30	Unfunded Pension Liability Amount(1) (In Billions)
1995	$4.03
1996	4.29
1997	4.28
1998	4.64
1999	.15
2000	.17
2001	.21

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

For further information regarding the City's pension systems see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note E.5."

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. Claims related to the September 11 attack are not described below. The City has received approximately 2,300 notices of claims totaling approximately $12 billion relating to the September 11 attack. 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 Financial Plan. The City has estimated that its potential future liability on account of outstanding claims against it as of June 30, 2002 amounted to approximately $4.3 billion. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Services 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 $582 million at June 30, 2002. 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 D.5."

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 has 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 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. Actions relating to the real estate tax levies for fiscal years 1993, 1994, 1995 and 1996 have been commenced by groups of taxpayers and are pending in State Supreme Court, Albany County. The first such action was dismissed on standing grounds. 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).

Miscellaneous

1. In three pending actions plaintiffs seek broad injunctive relief directed toward the City's lead paint poisoning prevention activities. In the federal action, a class has been certified consisting of children under the age of seven and pregnant women residing in housing owned by the City or where the City administers federal community development block grant funds.

In one of the State actions, a class has been certified consisting of children under the age of seven living in multiple dwellings in New York City where a complaint of lead paint has been made which the City allegedly has not timely and adequately inspected and abated. Orders were issued in this action directing the City's Department of Housing Preservation and Development and Department of Health to issue regulations in conformance with the court's interpretation of Local Law 1 of 1982 governing the removal of lead paint in residential buildings. While both agencies were in the process of promulgating these regulations, the parties to the litigation agreed to a stay of the relevant orders in contemplation of legislative change. In the summer of 1999, the City Council passed and the Mayor signed a new local law governing lead paint in residential buildings and repealed Local Law 1 of 1982. Two lawsuits were filed against the City challenging the new local law as having been passed in violation of State and City environmental laws, and in violation of the State's Municipal Home Rule Law. In October 2000, a trial court judge ruled that the City did not comply with the pertinent environmental laws when it adopted this local law. The City appealed from the judgment entered, and in March 2002, the Appellate Division, First Department reversed the trial court's ruling. Plaintiff's motion for leave to appeal to the Court of Appeals was denied by the First Department. Plaintiffs made a similar motion to the Court of Appeals, which granted the motion for leave to appeal in November 2002. Although no date has been set, it is anticipated that the appeal will be heard in the next several months. Also in October 2000, a trial court judge ruled that the lawsuit alleging non-compliance with the State's Municipal Home Rule Law was moot in light of the ruling on the environmental lawsuit. The petitioner in that lawsuit filed a notice of appeal, which was not perfected in a timely manner. In March 2002, the First Department ruled that this appeal had been abandoned.

The State class action also challenges the City's activities relating to the screening of children for lead poisoning, the timeliness and adequacy of enforcement efforts, and inspection of day care facilities. The federal action seeks warnings to tenants of lead paint hazards, abatement of lead paint hazards, and medical monitoring of class members. In another State action, plaintiffs challenge the City's enforcement activities with regard to lead paint in day care centers, nursery schools and kindergartens. Adverse determinations on these issues could result in substantial additional costs to the City.

In addition, approximately 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 paint hazards in City-owned buildings and for failing to enforce lead safety standards in privately owned buildings. Such claims could cost the City in excess of $300 million in the future.

2. In February 1997, a former New York City school principal filed an action in New York State Supreme Court challenging the investment policies and practices of the Retirement Board of the Teachers' Retirement System of The City of New York (the "System") with regard to a component of the System consisting of member contributions and earnings thereon known as the Variable B Fund (the "Fund"). Plaintiff alleges that the trustees of the System illegally maintained the Fund as a fixed-income fund and ignored a requirement that a substantial amount of the Fund's assets be invested in equity securities. The defendants are the System and its individual trustees. Plaintiff seeks damages on behalf of all Fund participants in excess of $2 billion. In May 1999, the Appellate Division, First Department, affirmed the Supreme Court's earlier denial of the defendants' motion for summary judgment. If the plaintiff were to prevail in this action, it could result in substantial costs to the City.

Tax Exemption

In the opinion of Sidley Austin 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 Internal Revenue Code of 1986, as amended (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 Sidley Austin 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 Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the 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 Sidley Austin 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) 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.

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 the applicability of any such collateral consequences.

The excess, if any, of the amount payable at maturity of any maturity of the Tax-Exempt Bonds purchased as part of the initial public offering over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Tax-Exempt Bonds with original issue discount (a "Discount Bond") will be excluded from gross income for Federal, State and City income tax purposes to the same extent as interest on the Tax-Exempt Bonds. In general, the issue price of a maturity of the Tax-Exempt Bonds is the first price at which a substantial amount of Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bonds for Federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral Federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of a Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of such Tax-Exempt Bonds is sold to the public may be determined according to rules that differ from those described above. An owner of a Discount Bond should consult his tax advisors with respect to the determination for Federal income tax purposes of the amount of original issue discount with respect to such Discount Bond and with respect to state and local tax consequences of owning and disposing of such Discount Bond.

The excess, if any, of the tax basis of the Tax-Exempt Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such Tax-Exempt Bonds for federal income tax purposes (or, in the case of a bond with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). Owners of such Tax-Exempt Bonds are required to decrease their adjusted basis in such Tax-Exempt Bonds by the amount of amortizable bond premium attributable to each taxable year such Tax-Exempt Bonds are held. The amortizable bond premium on such Tax-Exempt Bonds attributable to a taxable year is not deductible for federal income tax purposes; however, bond premium is treated as an offset to qualified stated interest received on such Tax-Exempt Bonds. Owners of such Tax-Exempt Bonds should consult their tax advisors with respect to the determination for Federal income tax purposes of the treatment of bond premiums upon sale or other disposition of such Tax-Exempt Bonds and with respect to the state and local tax consequences of owning and disposing of such Tax-Exempt 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 the tax exemption or the market price of the Tax-Exempt 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

The Bonds have been rated A2 by Moody's, A by Standard & Poor's and A+ by Fitch. These ratings do not reflect any bond insurance relating to any portion of the Bonds. The City expects that ratings on the FSA Insured Bonds and the CIFGNA Insured Bonds will be received prior to January 22, 2003. The ratings on the FSA Insured Bonds and the CIFGNA Insured Bonds will be based on the insurance policies to be issued by FSA and CIFGNA, respectively. Bonds insured by FSA and CIFGNA are rated Aaa by Moody's, AAA by Standard & Poor'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 not be revised downward or withdrawn entirely. Any such downward revision or withdrawal could have an adverse effect on the market prices of such bonds. On July 16, 1998, Standard & Poor's revised its rating of City bonds to A– from BBB+. On September 13, 2000, Standard & Poor's revised its rating of City bonds upward to A. On November 26, 2002, Standard & Poor's issued a negative outlook on City bonds. Moody's rating of City bonds was revised in August 2000 upward to A2 from A3. On November 15, 2001, Moody's issued a negative outlook on City bonds. On March 8, 1999, Fitch revised its rating of City bonds upward to A from A– and on September 15, 2000, Fitch revised its rating to A+. On December 23, 2002, Fitch issued a negative outlook on City bonds.

Legal Opinions

The legality of the authorization and issuance of the Bonds will be covered by the approving legal opinion of Sidley Austin 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 H 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 Clifford Chance US LLP, New York, New York, counsel for the Underwriters. Such firm is also acting as counsel for and against the City in certain unrelated matters.

Verification

The accuracy of (i) the mathematical computations of the adequacy of the maturing principal of and interest earned on the government obligations to be held in escrow to provide for the payment of the principal of and interest and redemption premiums, if any, on the bonds identified in Appendix D hereof and (ii) certain mathematical computations supporting the conclusion that the Bonds are not "arbitrage bonds" under the Code, will be verified by a firm of independent certified public accountants.

Underwriting

The Tax-Exempt Bonds and the Series H Taxable Bonds are being purchased for reoffering by the Underwriters for whom UBS PaineWebber Inc., Bear, Stearns & Co. Inc., Morgan Stanley & Co. Incorporated and Salomon Smith Barney Inc. are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Tax-Exempt Bonds and the Series H Taxable Bonds shall be $5,046,062.65.

The Series F Taxable Bonds are being purchased for reoffering by Morgan Stanley & Co. Incorporated. The compensation for services rendered in connection with the underwriting of the Series F Taxable Bonds shall be $603,424.97.

All of the Bonds will be purchased 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 or 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.

Continuing Disclosure Undertaking

As authorized by the Act, and to the extent that (i) Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "1934 Act") requires the underwriters (as defined in the Rule) of securities offered hereby (under this caption, if subject to the Rule, the "securities") to determine, as a condition to purchasing the securities, 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 securities (under this caption, if subject to the Rule, "Bondholders") to provide:

(a) within 185 days after the end of each 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 herein in Sections IV, V and VIII and under the captions "1998-2002 Summary 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 securities, 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 securities do not provide for "debt service reserves."

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 securities, unless the City applies for or participates in obtaining the enhancement.

Event (6) is relevant only to the extent interest on the securities is tax-exempt.

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 in the final official statement (as defined in the Rule), (ii) the only open issue is which securities 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 securities and (iv) public notice of redemption is given pursuant to Exchange Act Release No. 23856 of the SEC, even if the originally scheduled amounts are reduced prior to optional redemptions or security purchases.

At the date hereof, there is no New York State information depository and the nationally recognized municipal securities information repositories are: Bloomberg Municipal Repository, 100 Business Park

Drive, Skillman, New Jersey 08558; Standard & Poor's J.J. Kenny Repository, Inc., 55 Water Street, 45th Floor, New York, New York 10041; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; and Interactive Data, 100 William Street, New York, New York 10038, Attn: Repository.

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 securities 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 securities after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and 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. An 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 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, 75 Park Place, New York, New York 10007, and copies of the published Comprehensive Annual Financial Reports of the Comptroller are available upon written request to the Office of the Comptroller, Deputy Comptroller for Public Finance, Fifth Floor, Room 517, Municipal Building, One Centre Street, New York, New York 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 DEMOGRAPHIC INFORMATION

This section presents information regarding certain economic and demographic information about 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 tables. Although the City considers the sources to be reliable, the City has made no independent verification of the information provided by non-City sources and does not warrant its accuracy.

New York City Economy

The City has a highly diversified economic base, with a substantial volume of business activity in the service, wholesale and retail trade and manufacturing industries and is the location of many securities, banking, law, accounting, new media and advertising firms.

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. 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 186 missions to the United Nations and the 96 foreign consulates.

Economic activity in the City has experienced periods of growth and recession and can be expected to experience periods of growth and recession in the future. The City experienced a recession in the early 1970s through the middle of that decade, followed by a period of expansion in the late 1970s through the late 1980s. The City fell into recession again in the early 1990s which was followed by an expansion that lasted until 2001. The Financial Plan assumes that the economic decline that began in 2001 will continue through the first half of calendar year 2003 as a result of the September 11 attack, a national economic recession, and a downturn in the securities industry. The Financial Plan assumes the City's economy will begin a slow recovery around the middle of calendar year 2003.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, has steadily increased from 1990 to 2000 (the most recent year for which City personal income data are available). From 1990 to 2000, personal income in the City averaged 5.1% growth compared to 5.4% for the nation. The following table sets forth information regarding personal income in the City from 1990 to 2000.

PERSONAL INCOME IN NEW YORK CITY(1)

Year	Total NYC Personal Income ($ billions)	Per Capita Personal Income NYC	Per Capita Personal Income U.S.	NYC as a Percent of U.S.
1990	$182.3	$24,849	$19,572	127.0%
1991	186.8	25,333	20,023	126.5
1992	199.7	26,875	20,960	128.2
1993	202.9	27,024	21,539	125.4
1994	208.6	27,556	22,340	123.3
1995	221.9	29,071	23,255	125.0
1996	236.6	30,739	24,270	126.7
1997	245.3	31,559	25,412	124.2
1998	263.6	33,548	26,893	124.7
1999	276.6	34,800	27,843	125.0
2000	300.8	37,541	29,469	127.4

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

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

Employment Trends

The City is a leading center for the banking and securities industry, life insurance, communications, publishing, fashion design and retail fields. From 1989 to 1992, the City lost approximately 9% of its employment base. From 1993 to 2001, the City experienced significant private sector job growth with the addition of approximately 435,000 new private sector jobs (an average growth rate of approximately 2.0%). As of November 2002, total employment in the City was approximately 3,637,500 compared to approximately 3,681,200 in November 2001, a decline of approximately 1.2%. In 2001, average annual employment in the City fell by 21,000 and is projected by OMB to decline by approximately 83,000 jobs in 2002 and 13,000 in 2003 before increasing in 2004.

The table below shows the distribution of employment from 1991 to 2001.

NEW YORK CITY EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Private Sector											
Non-Manufacturing											
Services	1,097	1,093	1,116	1,148	1,184	1,227	1,275	1,325	1,384	1,457	1,465
Wholesale and Retail Trade	565	546	538	544	555	565	578	590	610	627	619
Finance, Insurance and Real Estate	494	473	472	480	473	469	473	483	486	491	487
Transportation and Public Utilities	218	205	203	201	203	205	206	206	208	213	212
Construction	100	87	86	89	90	91	94	102	114	122	125
Total Non-Manufacturing	2,474	2,404	2,415	2,463	2,505	2,557	2,625	2,707	2,802	2,911	2,908
Manufacturing:											
Durable	77	72	71	69	68	66	64	64	63	61	58
Non-Durable	231	220	218	211	206	201	201	195	188	182	172
Total Manufacturing	308	293	289	280	274	266	265	259	251	243	230
Total Private Sector	2,782	2,697	2,704	2,744	2,779	2,823	2,890	2,967	3,053	3,154	3,139
Government	593	585	588	578	560	546	552	561	567	570	564
Total	3,375	3,282	3,291	3,322	3,339	3,369	3,442	3,528	3,621	3,723	3,702

Note: Totals may not add due to rounding.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Sectoral Distribution of Employment and Income

In 2001, the City's services employment sector hit an all-time peak, providing approximately 1.4 million jobs and accounting for 40% of total employment. Figures on the sectoral distribution of employment in the City reflect a significant shift to non-manufacturing employment, particularly to the areas of services and finance, insurance and real estate ("FIRE") and a shrinking manufacturing base in the City relative to the nation.

The structural shift from manufacturing to the services and FIRE sectors affects the level of earnings per employee because employee compensation in finance and related business and professional services is considerably higher than in manufacturing. Moreover, per employee earnings in the FIRE sector are significantly higher in the City than in the nation. From 1980 to 2000, the employment share for FIRE remained approximately 13% while the FIRE sector earnings share for the same period rose from 18% to 34% in the City. This shift in employment and earnings distribution toward the FIRE sector was more pronounced in the City than in the nation overall, as indicated in the table below. Due to this shift in earnings distribution, sudden or large shocks in the financial markets may have a disproportionately adverse effect on the City relative to the nation.

The City's and the nation's employment and earnings by industry are set forth in the following table.

SECTORAL DISTRIBUTION OF EMPLOYMENT AND EARNINGS(1)

	Employment				Earnings(2)			
	1980		2000		1980		2000	
Sector	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
Private Sector:								
Non-Manufacturing:								
Services	27.0%	19.8%	39.1%	30.7%	25.9%	18.5%	32.1%	29.5%
Wholesale and Retail Trade	18.6	22.5	16.8	23.0	15.0	16.6	9.1	15.0
Finance, Insurance and Real Estate	13.6	5.7	13.2	5.7	17.8	5.9	34.2	9.5
Transportation and Public Utilities	7.8	5.7	5.7	5.3	10.1	7.5	5.2	6.9
Contract Construction	2.3	4.8	3.3	5.1	2.6	6.3	2.8	6.0
Mining	0.0	1.1	0.0	0.4	0.3	2.1	0.0	0.9
Total Non-Manufacturing	69.3	59.6	78.1	70.3	71.7	56.9	83.4	67.7
Manufacturing:								
Durable	4.4	13.4	1.6	8.4	3.6	15.7	1.2	10.0
Non-Durable	10.6	9.0	4.9	5.6	9.4	8.8	4.8	5.9
Total Manufacturing	15.0	22.4	6.5	14.0	13.0	24.5	6.0	15.9
Total Private Sector	84.3	82.0	84.7	84.3	85.1	81.9	89.8	84.3
Government(3)	15.7	18.0	15.3	15.7	14.9	18.1	10.2	15.7

Note: Totals may not add due to rounding.

Sources: The two primary sources of employment and earnings information are U.S. Dept. of Labor, Bureau of Labor Statistics, and U.S. Department of Commerce, Bureau of Economic Analysis.

(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 the City is 2000 data.

(3) Excludes military establishments.

Unemployment

The unemployment rate of the City's resident labor force is shown in the following table. As of November 2002, the total unemployment rate in the City was 8.0% compared to 7.1% in November 2001.

ANNUAL UNEMPLOYMENT RATE(1)(2)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
New York City	8.7%	11.0%	10.4%	8.7%	8.2%	8.8%	9.4%	8.0%	6.7%	5.7%	6.1%
United States	6.9%	7.5%	6.9%	6.1%	5.6%	5.4%	5.0%	4.5%	4.2%	4.0%	4.8%

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.

(1) 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).

(2) 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.

Public Assistance

The following table sets forth the number of persons receiving public assistance in the City. As of November 2002, the number of persons receiving public assistance in the City was 425,387 compared to 469,142 in November 2001.

PUBLIC ASSISTANCE(1)

(Annual Averages in Thousands)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
896.5	976.5	1,047.3	1,116.0	1,146.8	1,055.4	940.0	812.6	713.7	618.2	534.8

(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.

Taxable Sales

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. The sales tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. Retail sales account for almost 50% of the total taxable sales volume.The total taxable sales volume has grown steadily over the past 13 years, except for the period from 1991-1992, with a growth rate averaging over 4%. It is projected that total taxable sales will decrease in 2002 and increase in 2003 after having increased in 2000 and 2001. The following table illustrates the volume of sales and purchases subject to the sales tax from 1989 to 1999.

TAXABLE SALES AND PURCHASES SUBJECT TO SALES TAX
(In Billions)

Year(1)	Retail(2)	Utility & Communication Sales(3)	Services(4)	Manufacturing	Other(5)	All Total
1989	$24.5	$7.6	$ 9.0	$3.8	$7.8	$52.8
1990	25.4	8.1	9.2	3.7	7.9	54.4
1991	24.0	8.5	9.1	3.3	7.8	52.6
1992	23.8	7.3	8.9	3.2	7.9	51.1
1993	24.1	9.4	9.1	3.2	8.7	54.5
1994	26.2	9.3	10.3	3.3	8.1	57.2
1995	27.6	9.0	10.7	3.3	8.8	59.4
1996	29.1	9.8	11.4	3.6	9.3	63.2
1997	31.5	9.8	13.5	3.9	8.8	67.5
1998	33.4	9.8	14.8	4.2	9.7	71.9
1999	35.0	9.6	16.1	4.2	9.6	74.5

Source: State Department of Taxation and Finance publication “Taxable Sales and Purchases, County and Industry Data.”

(1) The yearly data is for the period from September 1 of the year prior to the listed year through August 31 of the listed year.

(*Footnotes continued on the next page)*

(Footnotes continued from previous page)

(2) Retail sales include building materials, general merchandise, food, auto dealers/gas stations, apparel, furniture, eating and drinking and miscellaneous retail.

(3) Utility and Communication sales include electric and gas and communication.

(4) Services include business services, hotels, personal services, auto repair and other services.

(5) All other sales include construction, wholesale trade and others.

Population

The 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 Los Angeles, Chicago and Houston, the three next most populous cities in the nation.

POPULATION OF NEW YORK CITY

Year	Total Population
1970	7,895,563
1980	7,071,639
1990	7,322,564
2000	8,008,278

Note: Figures do 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 1990 and 2000.

DISTRIBUTION OF POPULATION BY AGE

	1990		2000	
Age		% of Total		% of Total
Under 5	509.740	7.0	540,878	6.8
5 to 14	907,549	12.4	1,091,931	13.6
15 to 19	470,786	6.4	520,641	6.5
20 to 24	576,581	7.9	589,831	7.4
25 to 34	1,369,510	18.7	1,368,021	17.1
35 to 44	1,116,610	15.2	1,263,280	15.8
45 to 54	773,842	10.6	1,012,385	12.6
55 to 64	644,729	8.8	683,454	8.5
65 and Over	953,317	13.0	937,857	11.7

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

Housing

In 1999, the housing stock in the City consisted of approximately 3,039,000 housing units, excluding certain special types of units primarily in institutions such as hospitals and universities. The 1999 housing inventory represented an increase of approximately 44,000 units, or 1.5%, since 1996 and an increase of approximately 62,000 units, or 2.1% since 1993. The 1999 Housing and Vacancy Survey indicates that rental housing units predominate in the City. Of all occupied housing units in 1999, approximately 34% were conventional home-ownership units, cooperatives or condominiums and approximately 66% were rental units. The following table presents trends in the housing inventory in the City.

Housing Inventory in New York City
(In Thousands)

Ownership/Occupancy Status	1981	1984	1987	1991	1993	1996	1999
Total Housing Units	2,792	2,803	2,840	2,981	2,977	2,995	3,039
Owner Units	755	807	837	858	825	858	932
Owner-Occupied	746	795	817	829	805	834	915
Vacant for Sale	9	12	19	29	20	24	17
Rental Units	1,976	1,940	1,932	2,028	2,040	2,027	2,018
Renter-Occupied	1,934	1,901	1,884	1,952	1,970	1,946	1,953
Vacant for Rent	42	40	47	77	70	81	64
Vacant Not Available for Sale or Rent(1)	62	56	72	94	111	110	89

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

Sources: U.S. Bureau of the Census, 1981, 1984, 1987, 1991, 1993, 1996 and 1999, New York City Housing and Vacancy Surveys.

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

Largest Real Estate Taxpayers

No single taxpayer accounts for 10% or more of the City's real property tax. For the 2003 fiscal year, the billable assessed valuation of real estate of utility corporations is $8.2 billion. The following table presents the 40 non-utility properties having the greatest assessed valuation in the 2003 fiscal year as indicated in the tax rolls.

Property	2003 Fiscal Year Assessed Valuation	Property	2003 Fiscal Year Assessed Valuation
Met Life Building	$251,730,000	Waldorf-Astoria	$135,000,000
General Motors Building	224,875,000	The Chase Manhattan Building	133,020,000
Sperry Rand Building	202,842,000	Bear Stearns Bldg (Madison Ave.)	132,040,000
Stuyvesant Town	201,410,000	Chase World Headquarters	131,040,000
McGraw-Hill Building	190,170,000	Park Avenue Atrium	128,970,000
International Building	186,338,000	Paramount Plaza	128,080,000
Alliance Capital Building	185,770,000	N.Y. Hilton & Towers	121,050,000
Empire State Building	183,950,000	666 Fifth Avenue	120,105,800
Bear Stearns Building (Park Ave.)	180,900,000	595 Lexington Avenue	118,980,000
Time & Life Building	177,530,000	One Liberty Plaza	118,836,479
Bristol Meyers Building	172,890,000	Simon & Schuster Building	114,564,000
Credit Lyonnais Building	170,969,998	Carpet Center	112,510,000
UBS Building	161,799,993	Kalikow Building	112,190,000
Equitable Tower	155,360,000	Park Avenue Plaza	111,600,000
One Penn Plaza	154,530,000	617 Lexington Avenue	110,660,000
Celanese Building	153,000,000	W.R. Grace Building	107,010,000
Worldwide Plaza	150,750,000	One Astor Plaza	106,866,000
Morgan Stanley Building	149,421,500	Sheraton New York	104,400,000
Morgan Guaranty	145,080,000	Reuters 3 Times Square	103,950,000
Solow Building	144,900,000	IBM Tower	97,938,000

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

BASIC FINANCIAL STATEMENTS OF THE CITY OF NEW YORK

June 30, 2002 and 2001

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Deloitte & Touche

Independent Auditors' Report

The People of The City of New York:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New York, New York, (the "City") as of and for the year ended June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of New York's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of those entities disclosed in Note E.1 which represent 52 percent and 15 percent, respectively, of the assets and revenues of the City of New York. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities disclosed in Note E.1. The financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City for the year ended June 30, 2001 were audited by other auditors whose report, dated October 30, 2001, expressed an unqualified opinion on those statements, expressed reliance on other auditors and included an emphasis of a matter regarding the adoption of GASB Statement No. 34.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City New York, New York, as of June 30, 2002, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages B-4 through B-22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2002 supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

October 28, 2002

Deloitte
Touche
Tohmatsu

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of The City of New York (City) for the fiscal years ended June 30, 2002 and 2001. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) management's discussion and analysis (MD&A), (2) government-wide financial statements, (3) fund financial statements, and (4) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in *net assets* may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during each fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes, and earned, but unused vacation leave).

The government-wide financial statements present information about the City as a primary government, which includes the City's blended component units. All of the activities of the primary government are considered to be governmental activities. This information is presented separately from the City's discretely presented component units.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, including the Financial Emergency Act.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of a fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds and governmental activities.*

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The fiduciary funds include the Pension and Other Employee Benefit Trust Funds and the Agency Fund.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements. The notes also present certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Financial Reporting Entity

The financial reporting entity consists of the primary government, including the Board of Education of The City of New York and the community colleges of the City University of New York, other 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 financial statements to be misleading or incomplete.

The definition of the reporting entity is based 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 it is able to either 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.

Blended Component Units

Certain component units, despite being legally separate from the primary government, are blended with the primary government. These component units all provide services exclusively to the City and thus are reported as if they were part of the primary government. The blended component units, which are all reported as nonmajor governmental funds, are the following:

Municipal Assistance Corporation for the City of New York (MAC)
New York City Transitional Finance Authority (TFA)
New York City Samurai Funding Corporation (SFC)
TSASC, Inc. (TSASC)
New York City Educational Construction Fund (ECF)
City University Construction Fund (CUCF)
New York City School Construction Authority (SCA).

Discretely Presented Component Units

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

The following entities are presented discretely in the City's financial statements as major component units:

New York City Health and Hospitals Corporation (HHC)
New York City Off-Track Betting Corporation (OTB)
New York City Housing Development Corporation (HDC)
New York City Housing Authority (HA)
New York City Economic Development Corporation (EDC)
New York City Water and Sewer System (NYW).

The following entities are presented discretely in the City's financial statements as nonmajor component units:

New York City Industrial Development Agency (IDA)
Business Relocation Assistance Corporation (BRAC)
Brooklyn Navy Yard Development Corporation (BNYDC)
Jay Street Development Corporation (JSDC).

Financial Analysis of the Government-wide Financial statements

In the government-wide financial statements, all of the activities of the City, aside from its discretely presented component units, are considered governmental activities. Governmental activities decreased the City's net assets by $3.852 billion during fiscal year 2002, decreased the City's net assets by $1.148 billion during fiscal year 2001 and increased the City's net assets by $1.455 billion during fiscal year 2000.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2002 governmental funds statement of revenues, expenditures, and changes in fund balance which reports a decrease of $2.849 billion in fund balances and the reported increase in the excess of liabilities over assets reported in the government-wide statement of activities $3.852 billion, a difference of $1.003 billion. A similar reconciliation is provided for fiscal year 2001 amounts.

Key elements of the reconciliation of these two statements are that the government-wide statement of activities report the issuance of debt as a liability, the purchases of capital assets as assets which are then charged to expense over their useful lives (depreciated) and changes in long-term liabilities as adjustments of expenses. Conversely the governmental funds statements report the issuance of debt as an other financing source of funds, the repayment of debt as an expenditure, the purchase of capital assets as an expenditure and does not reflect changes in long-term liabilities.

Key elements of these changes are as follows:

	Governmental Activities For the fiscal year ended June 30,		
	2002	2001	2000
		(in thousands)	
Revenues:			
Program revenues:			
Charges for services	$ 3,001,330	$ 2,868,605	$ 2,620,702
Operating grants and contributions	14,651,155	12,773,015	11,907,550
Capital grants and contributions	493,798	572,514	378,807
General revenues:			
Taxes	21,939,595	23,712,065	22,157,704
Investment income	190,041	391,902	346,857
Other Federal and State aid	975,281	928,184	920,547
Other	435,149	633,579	347,937
Total revenues	41,686,349	41,879,864	38,680,104
Expenses:			
General government	2,070,573	1,881,812	1,578,356
Public safety and judicial	9,524,318	8,661,411	7,772,048
Education	13,249,344	12,248,775	11,533,688
City University	807,960	668,954	652,576
Social services	9,567,970	9,166,149	8,783,221
Environmental protection	2,205,704	2,350,867	2,058,606
Transportation services	1,329,314	1,654,344	1,401,725
Parks, recreation and cultural activities	719,867	488,865	574,024
Housing	905,461	1,000,300	847,358
Health (including payments to HHC)	2,816,360	2,329,191	1,976,975
Libraries	161,250	362,034	268,931
Debt service interest	2,180,711	2,214,717	2,114,285
Total expenses	45,538,832	43,027,419	39,561,793
	(3,852,483)	(1,147,555)	(881,689)
Decrease in accrued pension liability	—	—	2,336,230
Change in net assets	(3,852,483)	(1,147,555)	1,454,541
Net Assets—Beginning	(19,847,159)	(18,699,604)	(20,154,145)
Net Assets—Ending	$(23,699,642)	$(19,847,159)	$(18,699,604)

In fiscal year 2002, the government-wide revenues decreased from fiscal year 2001 levels by approximately $194 million, while government-wide expenses grew by approximately $2.5 billion.

While government-wide revenue remained fairly consistant, there were major fluctuations within:

- A decrease in personal income tax, resulting largely from the after effects of September 11th and overall job market weakness throughout the fiscal year;
- An increase in real estate tax, resulting from a continuing increase in real property valuations;
- A decrease in investment income, resulting from lower interest rates;
- An increase in federal aid, resulting in large part from the FEMA assistance;
- An increase in State aid for the City's Board of Education.

The major components of the government-wide expense increases were:

- Significant expenses relating to the recovery and clean-up effort of the September 11th attack on the World Trade Center;
- Increases in health and social service spending, resulting in large part from the September 11th aftermath and an increased spending on medicaid;
- Wage and salary increases for City employees relating to collective bargaining; and
- An increase in education spending.

In fiscal year 2001, the government-wide revenues increased from fiscal year 2000 levels by approximately $3.2 billion, while the Government-wide expenses grew by approximately $3.5 billion. In addition, a one-time gain from the elimination of a pension liability occurred in fiscal year 2000.

The major components of the government-wide revenue increase were:

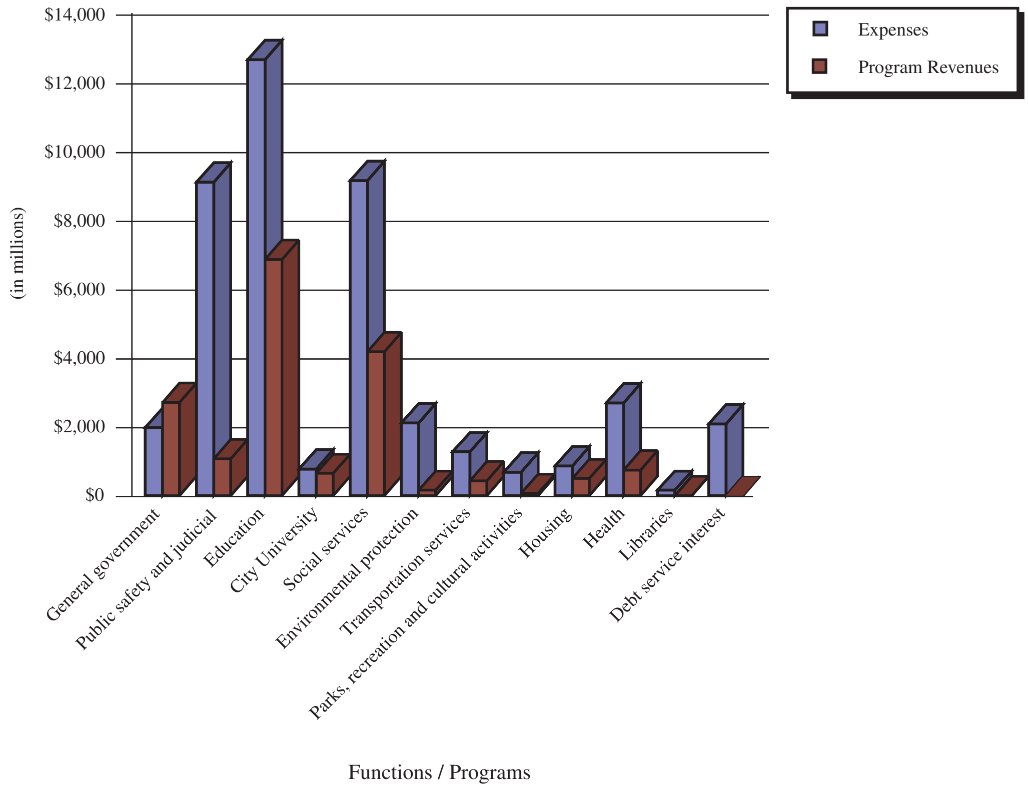
- A one-time payment from the Metropolitan Transportation Authority resulting from the sale of the New York Coliseum;
- An increase in State aid for the City's Board of Education; and
- An increase in personal income and property tax revenues, resulting from the strength of the economy and increased property values which are phased into the property tax levy.

The major components of the government-wide expense increases were:

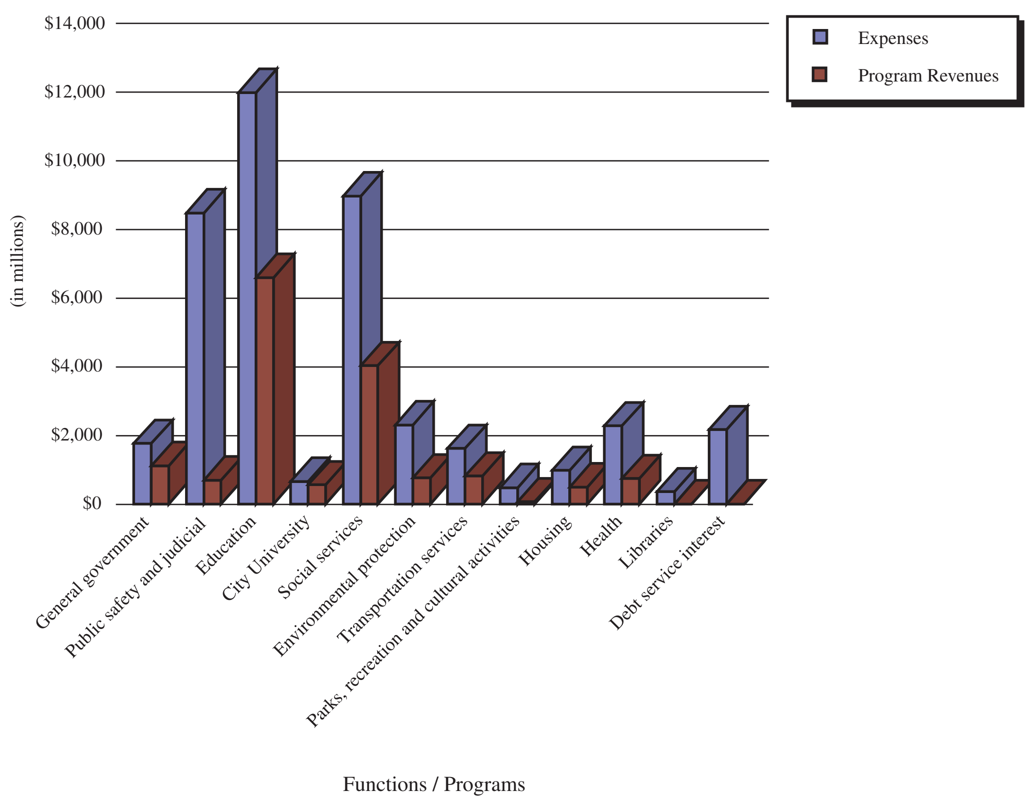
- A substantial increase in spending by the City's Board of Education, including a reserve for collective bargaining and the increased State funding as previously mentioned;
- An increase in pension expense, resulting from pension benefit enhancements and the phase-in of cost of living adjustments, as required by changes in State law;
- An increase in social services spending, primarily related to increased spending on Medicaid and day care.
- Wage and salary increases for City employees related to collective bargaining; and
- Increased expenses for environmental protection, primarily additional costs for waste exportation and Fresh Kills landfill closure and post-closure care.

The following two charts compare the expenses for each of the City's programs with the revenues that are derived from each program for fiscal years 2002 and 2001. The excess of program expenses over revenues represents the net cost of each program that must be financed from the City's general revenues.

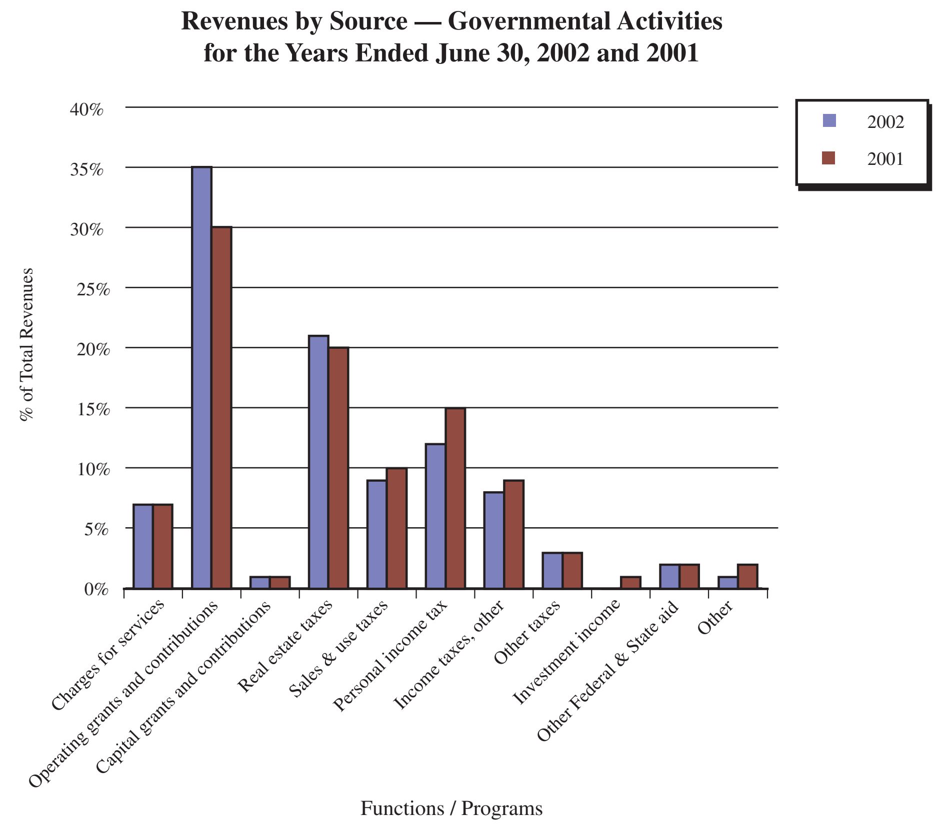
Expenses and Program Revenues — Governmental Activities June 30, 2002



Expenses and Program Revenues — Governmental Activities June 30, 2001



The following chart compares the amounts of program and general revenues for fiscal years 2002 and 2001:



As noted earlier, increases and decreases of net assets may serve over time as a useful indicator of changes in a government's financial position. In the case of the City, liabilities exceeded assets by $23.700 billion at the close of the most recent fiscal year, an increase of $3.852 billion from June 30, 2001, which had increased $1.148 billion from June 30, 2000.

	Governmental Activities		
	2002	2001	2000
		(in thousands)	
Current and other assets	$ 17,794,682	$ 17,876,159	$ 19,299,094
Capital assets	26,659,071	24,497,361	22,538,547
Total assets	44,453,752	42,373,520	41,837,641
Long-term liabilities outstanding	55,080,090	50,065,513	48,839,966
Other liabilities	13,073,305	12,155,166	11,697,279
Total liabilities	68,153,394	62,220,679	60,537,245
Net assets:			
Invested in capital assets, net of related debt	(3,968,442)	(2,415,545)	(4,456,404)
Restricted	1,922,910	3,814,045	4,189,167
Unrestricted	(21,654,110)	(21,245,659)	(18,432,367)
Total net assets	$(23,699,642)	$(19,847,159)	$(18,699,604)

The excess of liabilities over assets reported on the government-wide statement of net assets is a result of several factors. The largest component of the net deficit is the result of the City having long-term debt with no corresponding capital assets. The following summarizes the main components of the negative net asset value as of June 30, 2002 and 2001:

Components of Net Asset Deficit	**2002**	**2001**
	(in billions)	
Net Assets Invested in Capital Assets		
Some City-owned assets have a depreciable life used for financial reporting that is different from the period over which the related debt principal is being repaid. Schools and related education assets depreciate more quickly than their related debt is paid, and they comprise the largest component of this difference	$ (4.0)	$ (2.4)
Net Assets Restricted for Debt Service		
Funds legally restricted for Debt Service	1.9	3.8
Unrestricted Net Assets		
MAC issued debt during the 1970's which funded some City operating expenses. This is the remaining MAC debt outstanding as of year end	(2.9)	(3.2)
TFA issued debt to finance costs related to the recovery from the September 11, 2001 World Trade Center disaster, which are operating expenses of the City	(0.5)	—
The City has issued debt for the acquistion and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority, NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end. Bond Issuance costs and original issuance discounts are included here as well	(13.0)	(13.0)
Certain long-term obligations do not require current funding:		
Judgments and claims	(4.3)	(4.2)
Vacation and sick leave	(2.2)	(2.1)
Pension liability	(0.3)	(0.2)
Landfill closure and postclosure costs	(1.3)	(1.4)
All unrestricted non-capital assets exceed the total of the City's other liabilities by approximately:	2.9	2.9
Total Unrestricted Net Assets	(21.6)	(21.2)
Total Governmental Net Assets	$(23.7)	$(19.8)

Financial Analysis of the Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The table below summarizes the changes in the fund balances of the City's governmental funds.

Governmental Funds

	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustment/ Eliminations	Total Governmental Funds
			(in thousands)			
Fund Balances (deficit), June 30, 2000	$ 392,985	$(1,109,325)	$ 2,513,482	$ 1,571,746	$ 175,054	$ 3,543,942
Revenues	40,231,872	1,412,906	35,613	2,357,531	(1,443,379)	42,594,543
Expenditures	(37,264,424)	(5,309,954)	(2,819,070)	(2,700,519)	1,202,753	(46,891,214)
Other financing sources (uses)	(2,962,553)	2,888,706	2,390,822	602,091	(19,150)	2,899,916
Fund Balances (deficit), June 30, 2001	397,880	(2,117,667)	2,120,847	1,830,849	(84,722)	2,147,187
Revenues	40,385,721	1,512,184	37,155	2,444,911	(1,489,539)	42,890,432
Expenditures	(39,498,314)	(6,320,102)	(2,732,708)	(3,149,808)	1,544,269	(50,156,663)
Other financing sources (uses)	(882,147)	5,459,354	1,272,125	(1,420,341)	(11,569)	4,417,422
Fund Balances (deficit), June 30, 2002	$ 403,140	$(1,466,231)	$ 697,419	$ (294,389)	$ (41,561)	$ (701,622)

The City's General Fund is required to adopt an annual budget prepared on a basis consistent with generally accepted accounting principles. Surpluses from any fiscal year cannot be appropriated in future fiscal years.

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of $682 million and $2.949 billion before certain expenditures and discretionary and other transfers for fiscal years 2002 and 2001, respectively. After these certain expenditures and discretionary and other transfers, the General Fund reported an operating surplus of $5 million in both fiscal years 2002 and 2001, which resulted in an increase in fund balance by this amount.

The General Debt Service Fund receives transfers from the General Fund from which it pays the City's debt service requirements. Its fund balance at June 30, 2002 can be attributed principally to a discretionary transfer and other transfer (as described above) from the General Fund totaling $659 million in fiscal year 2002. Similar transfers in fiscal year 2001 of $2.097 billion also primarily account for the General Debt Service Fund fund balance at June 30, 2001.

The New York City Capital Projects Fund accounts for the financing of the City's capital program. The primary resources are obtained from the issuance of City debt as well as transfers from TFA and TSASC. Capital-related expenditures are first paid from the General Fund, which is then reimbursed for these expenditures by the New York City Capital Projects Fund. To the extent that capital expenditures exceed proceeds from bond issuances, transfers from TFA and TSASC and other revenues and financing sources, this fund will have a deficit. The deficit fund balances at June 30, 2002 and 2001 are primarily attributed to amounts that are owed to the General Fund to repay that Fund's advance of resources for the City's capital program.

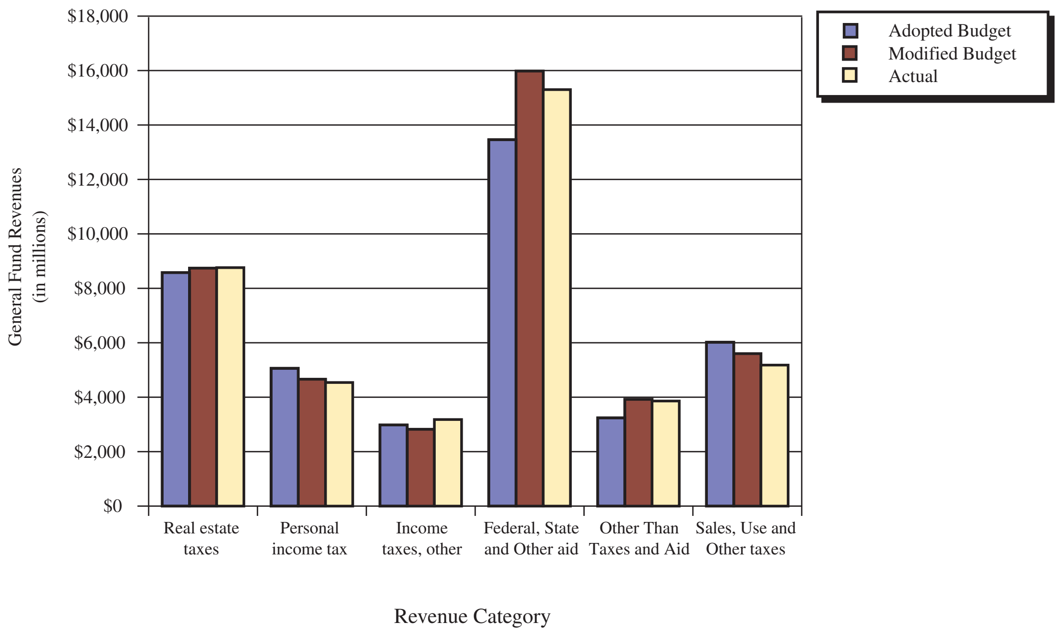
General Fund Budgetary Highlights

The following information is presented to assist the reader in comparing the original budget (Adopted Budget), and the final amended budget (Modified Budget) and how actual results compared with these budgeted amounts. The Modified Budget can be modified subsequent to the end of the fiscal year.

General Fund Revenues

The following charts and tables summarize actual revenues by category for fiscal years 2002 and 2001 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

General Fund Revenues
Fiscal Year 2002

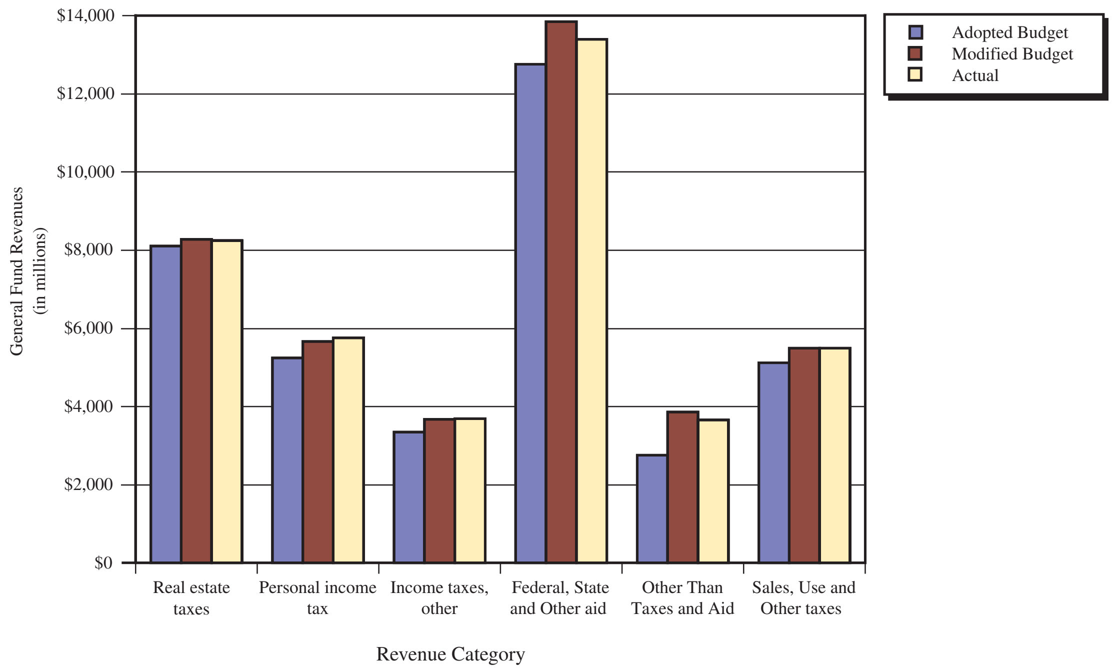


General Fund Revenues

Fiscal Year 2002
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
Real estate taxes	$ 8,590	$ 8,753	$ 8,761
Sales and use taxes	4,268	3,960	3,957
Personal income tax	5,074	4,669	4,555
Income taxes, other	2,979	2,825	3,192
Other taxes	1,752	1,640	1,231
Taxes (net of refunds)	22,663	21,847	21,696
Federal, State and Other aid:			
Categorical	12,760	15,287	14,646
Unrestricted	707	695	666
Federal, State and Other aid	13,467	15,982	15,312
Other Than Taxes and Aid:			
Charges for services	1,389	1,386	1,458
Other revenues	1,829	2,149	1,920
OTB Transfers	33	25	22
TFA Transfers	—	366	457
Other Than Taxes and Aid	3,251	3,926	3,857
Total Revenues	$39,381	$41,755	$40,865

General Fund Revenues
Fiscal Year 2001



General Fund Revenues

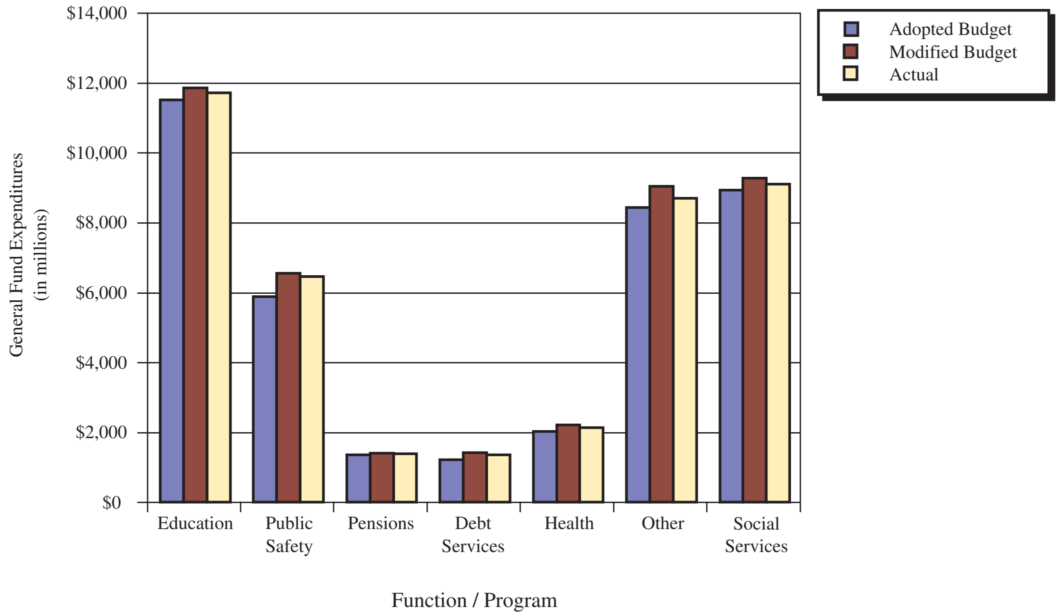
Fiscal Year 2001
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
Real estate taxes	$ 8,111	$ 8,277	$ 8,246
Sales and use taxes	3,946	4,265	4,196
Personal income tax	5,240	5,670	5,757
Income taxes, other	3,342	3,672	3,685
Other taxes	1,176	1,238	1,294
Taxes (net of refunds)	21,815	23,122	23,178
Federal, State and Other aid:			
Categorical	12,193	13,264	12,764
Unrestricted	564	593	634
Federal, State and Other aid	12,757	13,857	13,398
Other Than Taxes and Aid:			
Charges for services	1,375	1,434	1,461
Other revenues	1,343	2,390	2,162
OTB Transfers	34	34	33
Other Than Taxes and Aid	2,752	3,858	3,656
Total Revenues	$37,324	$40,837	$40,232

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2002 and 2001 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

General Fund Expenditures
Fiscal Year 2002

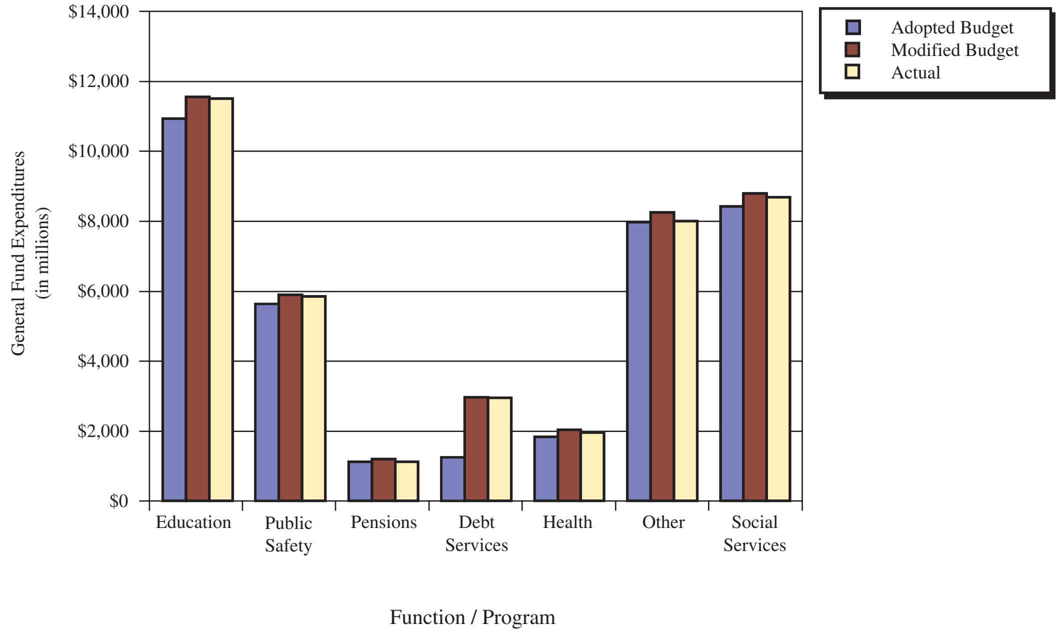


General Fund Expenditures

Fiscal Year 2002
(in millions)

	Adopted Budget	Modified Budget	Actual
General Government	$ 1,222	$ 1,964	$ 1,810
Public Safety and Judicial	5,885	6,558	6,462
Education	11,522	11,862	11,715
City University	445	457	418
Social Services	8,927	9,275	9,098
Environmental Protection	1,637	1,649	1,602
Transportation Services	605	692	679
Parks, Recreation, and Cultural Activities	315	308	305
Housing	454	464	440
Health (including HHC)	2,033	2,208	2,131
Libraries	131	124	124
Pensions	1,364	1,398	1,392
Judgments and Claims	310	390	522
Fringe Benefits and Other Benefit Payments	2,289	2,428	2,426
Other	1,027	565	374
Transfers and Other Payments for Debt Service	1,215	1,413	1,362
Total Expenditures	$39,381	$41,755	$40,860

General Fund Expenditures
Fiscal Year 2001



General Fund Expenditures

Fiscal Year 2001
(in millions)

	Adopted Budget	Modified Budget	Actual
General Government	$ 1,054	$ 1,109	$ 1,078
Public Safety and Judicial	5,659	5,915	5,875
Education	10,973	11,594	11,545
City University	426	428	393
Social Services	8,459	8,829	8,717
Environmental Protection	1,599	1,552	1,528
Transportation Services	617	791	750
Parks, Recreation, and Cultural Activities	287	318	317
Housing	461	517	478
Health (including HHC)	1,843	2,039	1,959
Libraries	242	383	383
Pensions	1,132	1,209	1,127
Judgments and Claims	442	498	595
Fringe Benefits and Other Benefit Payments	2,161	2,172	2,200
Other	715	510	315
Transfers and Other Payments for Debt Service	1,254	2,973	2,967
Total Expenditures	$37,324	$40,837	$40,227

General Fund Surplus

The City had General Fund operating surpluses of $682 million, $2.949 billion and $3.192 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2002, 2001 and 2000, respectively. For the fiscal years 2002, 2001 and 2000, the General Fund surplus was $5 million after expenditures and discretionary transfers.

The expenditures and transfers (discretionary and other) made by the City after the adoption of its fiscal years 2002, 2001 and 2000 budgets follow:

	2002	2001	2000
		(in millions)	
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service	$ 509	$ 917	$ 414
Discretionary transfers to the General Debt Service Fund	150	1,180	2,095
Net equity contribution in bond refunding that accrued to future years debt service savings	4	46	17
Debt service prepayments for lease purchase debt service due in the fiscal year	—	56	73
Prepayment of debt service for the Municipal Assistance Corporation	—	458	451
Advance cash subsidies to the Public Library system	—	131	—
Advance cash subsidies to the Transit Authority	14	151	137
Advance cash subsidies to the Housing Authority	—	5	—
Total expenditures and transfers (discretionary and other)	677	2,944	3,187
Reported Operating Surplus	5	5	5
Total Operating Surplus	$ 682	$ 2,949	$ 3,192

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following tables show the variance between actuals and fiscal year 2002 Adopted Budget:

	2002
	(in millions)
Additional Resources:	
Federal categorical aid (including FEMA reimbursement)	$ 1,654
State categorical aid	89
Lower than expected debt service and interest on Short-term Notes	193
Other miscellaneous revenues	465
Non-grant revenue	223
Collections for general government services	46
Licenses, permits and privileges	36
Rental income—other	9
Net savings from administrative costs for supplies, equipment and other than personnel services (including WTC costs)	174
Lower than expected costs for heat, light, power and fuel	114
Public assistance	70
Social Services, excluding public assistance and Medicaid	66
Decreased funding to the Health and Hospitals Corporation	62
Fines and Forfeitures	6
Lower than expected provision for Disallowance Reserve of Federal and State Aid	15
General Reserve	200
Total	3,422
Enabled the City to provide for:	
Lower than expected net tax revenue collections excluding tax lien sales and stock transfer tax	721
Lower than expected Off-Track Betting Surtax and other revenues	11
Lower than expected net State and other revenue sharing	41
Higher than anticipated judgment and claims	148
Future General Obligation debt-service costs net of appropriations in the FY 2003 Adopted Budget	318
Equity contributions in conjunction with bond refundings	4
Lower than expected tax liens sales	32
Lower than expected FICA refunds	8
Lower than expected sale of City-owned assets	73
Lower than expected interest income	74
Lower than expected income from JFK and LaGuardia Airports	5
Higher than anticipated overtime costs (including WTC-related overtime)	616
Increased pension costs	38
Higher than anticipated personal-service costs excluding pensions and overtime	163
Higher than anticipated Medicaid costs	315
Increased contractual services costs	588
Prepayment of certain fiscal year 2003 subsidy payments to the Transit Authority	14
Loss of State appropriations for the stock transfer tax	114
Withstand all other net overspending and revenues below budget	134
Total	3,417
Reported Surplus	$ 5

The following table shows the variance between actuals and fiscal year 2001 Adopted Budget:

	2001 (in millions)
Additional Resources:	
Federal categorical aid	$ 228
State categorical aid	236
Net State and other revenue sharing	71
Net tax-revenue collections excluding tax lien sales and stock transfer tax	1,785
Sale of tax liens	106
Interest income	78
Tobacco settlement revenue from lower TSASC debt service	15
Surplus from the City's Health Insurance Stabilization Fund	120
FICA refunds	51
Sale of City-owned assets	68
Other miscellaneous revenues	61
Non-grant revenue	138
Collections for general government services	23
Collections from charges for housing	25
Licenses, permits and privileges	43
Rental income for JFK and LaGuardia Airports	10
Rental income—other	28
Net savings from administrative costs for supplies, equipment and other than personal services	656
Savings from fixed and miscellaneous charges	99
Public assistance	47
Debt Service and interest on Short-term Notes	45
Social Services, excluding public assistance and medicaid	9
Fines and Forfeitures	4
General Reserve	200
Total	4,146
Enabled the City to provide for:	
Future General Obligation debt-service costs net of appropriations in the FY 2002 Adopted Budget	1,192
Equity contributions in conjunction with bond refundings	46
Lease purchase debt service due in FY 2002	56
Future debt-service costs for the Municipal Assistance Corporation	458
Funding of the library system for future years	131
Higher than anticipated overtime costs	260
Higher than anticipated judgment and claims costs	153
Increased pension costs	1
Increased personal-services costs, excluding pensions and overtime	681
Increased contractual-services costs	293
Prepayment of certain fiscal year 2002 subsidy payments to the Transit Authority	153
Prepayment of certain fiscal year 2002 subsidy payments to the Housing Authority	5
Increased Disallowance Reserve of Federal and State Aid	31
Increased costs for heat, light, power and fuel	48
Increased funding to the Health and Hospitals Corporation	111
Loss of State appropriations for the stock transfer tax	114
Withstand increased Medical-Assistance costs	259
Withstand all other net overspending and revenues below budget	149
Total	4,141
Reported Surplus	$ 5

Capital Assets

The City's investment in capital assets includes land, buildings, equipment, highways, bridges, traffic signals, street reconstruction, and parks, which are detailed as follows (net of accumulated depreciation):

	Governmental Activities		
		June 30,	
	2002	2001	2000
		(in millions)	
Land	$ 737	$ 734	$ 707
Buildings	11,253	9,710	7,890
Equipment	1,522	1,599	1,646
Infrastructure	5,950	5,594	5,311
Construction work-in-progress	7,197	6,860	6,985
Total	$26,659	$24,497	$22,539

The net increase in the City's capital assets during fiscal year 2002 was $2.162 billion, an 8.8% increase. Capital assets additions in fiscal year 2002 were $6.646 billion, an increase of $681 million from fiscal year 2001. Capital assets additions in the Education program totaling $1.468 billion and total new construction work-in-progress (the majority of which are also Education programs) totaling $2.421 billion accounted for 64.0% of the capital assets additions in fiscal year 2002.

Additional information on the City's capital assets can be found in the notes to the financial statements.

Debt Administration

The Comptroller's Office of Public Finance, in conjunction with the Mayor's Office of Management and Budget, is charged with issuing debt to finance the implementation of the City's capital program. During the 2nd quarter of 2002 a new syndicate of underwriters was selected, through an RFP process, for the City's General Obligation program (GO), and several of its related issuers, including the New York City Transitional Finance Authority (TFA), the New York City Municipal Water Finance Authority, (NYW), and the TSASC, Inc. The teams selected for each credit demonstrated an exemplary level of expertise and understanding of the City's needs. Additionally, there were "special bracket" managers selected for the GO, TFA and NYW programs. This extra tier will give several smaller firms an opportunity to serve as senior manager on some of the City's major credits.

The economic conditions that existed during fiscal year 2002, and the impact of the events of 9/11, have led the City to be more flexible in its approach to refundings while still maintaining prudent fiscal guidelines. The City has also increased its exposure to variable rate debt, and continues to examine alternative financing techniques designed to lower the City's overall cost of borrowing.

The following table summarizes the debt outstanding for New York City and City-related issuing entities at the end of fiscal year 2002, 2001 and 2000.

	New York City and City-related Debt		
	2002	2001	2000
		(in millions)	
General Obligation bonds	$28,465	$26,836	$26,892
Future tax secured bonds (TFA)	8,289	7,386	5,923
TSASC, Inc.	740	703	709
1991 general resolution bonds (MAC)	2,880	3,217	3,531
Japanese Yen bonds	40	80	120
Revenue bonds	521	543	571
Bond Anticipation Notes (TFA)	1,200	—	515
Recovery Notes (TFA)	1,000	—	—
Total bonds and notes payable	43,135	38,765	38,261
Less treasury obligations	116	168	230
Net outstanding debt	$43,019	$38,597	$38,031

General Obligation

On June 30, 2002, New York City's outstanding general obligation debt totaled $32.7 billion, including capital contract liabilities. The State Constitution provides that 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. As of June 30, 2002, the City's net general obligation debt limit was $36.0 billion (compared with $32.9 billion as of June 30, 2001) and remaining GO debt incurring power totaled $3.3 billion, after providing for capital contract liabilities.

During fiscal year 2002, the City issued approximately $3.657 billion of general obligation bonds of which approximately $1.007 billion were issued to refund certain outstanding bonds and $2.65 billion were issued for capital purposes. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refunding will provide the City with approximately $204 million in debt service savings in fiscal year 2003.

In fiscal year 2002, Moody's Investors Service Inc. (Moody's), Standard & Poor's (S&P) and Fitch Ratings maintained their ratings at A2, A and A+ respectively. On November 15, 2001, Moody's issued a negative outlook on New York City General Obligation bonds. The negative outlook reflected the disruptive economic effects of the World Trade Center tragedy, the national economic recession, and projections of revenue losses and spending increases.

Short-term financing

The City satisfied all of its seasonal needs in the public credit market with a competitive sale on October 23, 2001 of $1.5 billion of short-term Revenue Anticipation Notes (RANs) that were secured by State aid. The RANs matured on April 12, 2002 and carried the highest ratings from Moody's (MIG-1), Fitch (F-1+), and S&P (SP-1+). These ratings together with favorable market conditions enabled the City to achieve a true interest cost of borrowing of 2.032% on the RANs.

In addition to the City's General Obligation credit, several related issuers have been established including the TFA and TSASC, Inc. The debt issued by these entities is not subject to the City's consititutional debt limit.

Transitional Finance Authority

In 1997, the New York State Legislature created the TFA, a separate legal entity, in order to ease the constraints imposed by the City's debt limit. The TFA was authorized to issue up to $7.5 billion of debt. In fiscal year 2000, this authorization was increased by $4 billion, allowing the TFA a total debt incurring capacity of $11.5 billion. The TFA bond proceeds enable the City to continue its planned capital improvement program.

During fiscal year 2002, the TFA issued approximately $1.02 billion of bonds for capital purposes and $1.8 billion of BANs (Bond Anticipation Notes). A portion of the BANs ($600 million) was taken out by the 2002 Series B bonds.

In September 2001, the New York State Legislature approved a special TFA authorization of $2.5 billion to fund capital and operating costs related to or arising from the events of September 11, 2001. The Legislature also authorized the TFA to issue debt without limit, as to principal amount that is payable solely from State or Federal aid received, on account of the disaster. In October 2001, the TFA issued $1 billion of TFA New York City recovery notes. These notes were redeemed in October 2002 with the issuance of $1 billion in TFA Recovery Bonds.

In fiscal year 2002, Moody's, S&P and Fitch maintained their ratings for TFA's senior bonds at Aa2, AA+ and AA+ respectively. The bond anticipation notes and recovery notes were rated at MIG-1, SP-1+ and F1+ by Moody's, S&P and Fitch. TFA's Recovery Bonds and Recovery Notes, though secured by a lien junior to that of the TFA's senior bonds, received identical ratings to those of senior lien bonds and notes.

TSASC

TSASC entered into a loan agreement on December 1, 2001 with the U.S. Department of Transportation (USDOT) and the City pursuant to the Transportation Infrastructure Finance and Innovation Act. The loan is for $159.2 million secured by tobacco revenues. Under the agreement, TSASC can issue bonds, on parity with outstanding debt, to be purchased by the USDOT. Pursuant to the loan, TSASC issued approximately $45 million of Senior Bonds during fiscal year 2002. The monies were applied by the City towards the Staten Island Ferries and Ferry Terminal Projects. TSASC has approximately $114 million in remaining capacity from the loan.

On August 15, 2002, TSASC issued $500 million (Series 2002-1), of which $120 million was used to reimburse the City for closure of the Fresh Kills Landfill. The remainder is being used to fund the City's on-going capital needs.

Subsequent to June 30, 2002, the City GO, TFA and TSASC completed the following financings:

On July 02, 2002, the TFA sold $1.239 billion of bonds for refunding.

On July 11, 2002, the TFA sold $480 million of Recovery bonds to pay operating and capital costs incurred by the City of New York related to the events of September 11, 2001.

On July 11, 2002, the TFA sold $322.5 million of 1999 conversion bonds to convert variable rate debt to fixed rate debt.

On August 01, 2002, the City sold $1.005 billion of bonds for refunding purposes.

On August 15, 2002, TSASAC sold $500 million of bonds for capital purposes.

On August 28, 2002, the TFA sold $750 million of bonds for refunding purposes.

On September 10, 2002, the TFA sold $520 million of Recovery bonds to pay operating and capital costs incurred by the City of New York related to the events of September 11, 2001.

On October 1, 2002, the TFA sold $1.026 billion of Recovery bonds to take out TFA's fiscal year 2002 Series A recovery notes, which were used to provide funds to pay recovery, operating and capital costs related to September 11, 2001.

Commitments

At June 30, 2002, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $10.3 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 $48.6 billion over the remaining fiscal years 2003 through 2011. To help meet its capital spending program, the City, TFA, and TSASC borrowed $4.8 billion in the public credit market in fiscal year 2002.

Economic Factors and the World Trade Center Attack

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center and damage to other buildings in the vicinity. Continuing recovery, clean up and repair efforts will result in substantial expenditures. The Federal government has committed over $21 billion for disaster assistance in New York, including disaster recovery and related activities, increased security and reconstruction of infrastructure and public facilities. This amount includes approximately $15.5 billion of appropriations for costs such as cleanup, economic development, job training, transit improvements, road reconstruction and grants to residents and businesses in lower Manhattan. It also includes approximately $5.5 billion for economic stimulus programs directed primarily at businesses located in the Liberty Zone, the area surrounding the World Trade Center site. These programs include expanding tax credits, increasing depreciation deductions, authorizing the issuance of tax-exempt private activity bonds and expanding authority to advance refund some bonds issued to finance facilities in the City. In addition, the State authorized the TFA to have outstanding $2.5 billion of bonds ("Recovery Bonds") and notes ("Recovery Notes") to pay costs related to or arising from the September 11 attack ("Recovery Costs").

The City is also seeking to be reimbursed by the Federal government for all of its direct costs for response and remediation of the World Trade Center site. These costs are now expected to be substantially below previous estimates. The City also expects to receive Federal funds for costs of economic revitalization and other needs, not directly payable through the City budget, relating to the September 11 attack.

Prior to September 11, the national and local economies had been weakening, reflecting lower business investment, increased unemployment and, recently, a decline in consumer confidence. Since September 11, the further decline in jobs, the threat of war, and the loss of stock market values has lessened consumer confidence even more. It is not possible to quantify at present with any certainty the long-term impact of the September 11 attack on the City and its economy, any offsetting economic benefits which may result from recovery and rebuilding activities and the amount of additional resources from Federal, State, City and other sources which will be required.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The City of New York, Office of the Comptroller, Bureau of Accountancy, 1 Centre Street, Room 800, New York, New York 10007-2341.

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THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2002
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
Cash and cash equivalents	$ 1,172,279	$ 1,244,275
Investments, including accrued interest	5,338,583	574,117
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $343,412)	582,498	—
Federal, State and other aid	5,400,029	—
Taxes other than real estate	2,599,687	—
Other	434,382	1,698,915
Mortgage loans and interest receivable, net	1,721	2,663,015
Inventories	210,072	46,635
Due from Primary Government	—	243
Due from Component Units	513,131	—
Restricted cash and investments	1,169,834	3,182,512
Deferred Charges—Issuance Costs	266,439	—
Capital assets:		
Land and construction work-in-progress	7,933,642	4,245,032
Other Capital assets (net of depreciation):		
Property, plant and equipment	12,775,243	16,252,735
Infrastructure	5,950,186	—
Other	106,026	332,463
Total assets	44,453,752	30,239,942
LIABILITIES:		
Accounts payable and accrued liabilities	9,444,923	1,802,685
Accrued interest payable	626,572	71,601
Deferred revenues:		
Prepaid real estate taxes	1,373,884	—
Other	1,175,731	144,392
Due to Primary Government	—	513,131
Due to Component Units	243	—
Estimated disallowance of Federal, State and other aid	202,560	—
Payable for investment securities purchased	249,391	—
Other	—	80,028
Noncurrent Liabilities:		
Due within one year	5,470,811	969,281
Due in more than one year	49,609,279	14,792,921
Total liabilities	68,153,394	18,374,039
NET ASSETS:		
Invested in capital assets, net of related debt	(3,968,442)	9,527,069
Restricted for:		
Capital projects	—	62,990
Debt service	1,922,910	583,407
Operations	—	118,848
Loans/Security Deposits	—	83,773
Donor restrictions	—	13,413
Unrestricted (deficit)	(21,654,110)	1,476,403
Total net assets (deficit)	$(23,699,642)	$11,865,903

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2001
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
Cash and cash equivalents	$ 1,012,881	$ 529,192
Investments, including accrued interest	6,573,340	1,464,607
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $362,704)	616,473	—
Federal, State and other aid	5,293,312	—
Taxes other than real estate	2,550,670	—
Other	507,052	1,491,907
Mortgage loans and interest receivable, net	33,437	2,739,923
Inventories	197,593	45,017
Due from Primary Government	—	23,458
Due from Component Units	420,138	—
Restricted cash and investments	251,222	2,403,317
Deferred Charges—Issuance Costs	246,621	—
Capital assets:		
Land and construction work-in-progress	7,594,474	3,947,804
Other Capital assets (net of depreciation):		
Property, plant and equipment	11,309,118	15,406,089
Infrastructure	5,593,769	—
Other	173,420	323,375
Total assets	42,373,520	28,374,689
LIABILITIES:		
Accounts payable and accrued liabilities	8,826,929	1,653,646
Accrued interest payable	612,507	71,942
Deferred revenues:		
Prepaid real estate taxes	1,451,774	—
Other	850,368	190,931
Due to Primary Government	—	420,138
Due to Component Units	23,458	—
Estimated disallowance of Federal, State and other aid	210,268	—
Payable for investment securities purchased	179,862	—
Other	—	121,134
Noncurrent Liabilities:		
Due within one year	3,257,834	750,159
Due in more than one year	46,807,679	13,307,560
Total liabilities	62,220,679	16,515,510
NET ASSETS:		
Invested in capital assets, net of related debt (restated)	(2,415,545)	9,514,343
Restricted for:		
Capital projects	—	67,539
Debt service	3,814,045	430,479
Operations	—	120,084
Loans/Security Deposits	—	92,329
Donor restrictions	—	13,293
Unrestricted (deficit) (restated)	(21,245,659)	1,621,112
Total net assets (deficit)	$(19,847,159)	$11,859,179

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002
(in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary government:						
General government	$ 2,070,573	$ 998,465	$ 598,886	$ 73,355	$ (401,867)	$ —
Public safety and judicial	9,524,318	159,646	974,285	(5,039)	(8,395,426)	—
Education	13,249,344	63,159	7,008,306	77,638	(6,100,241)	—
City University	807,960	140,396	547,385	—	(120,179)	—
Social services	9,567,970	48,605	4,312,055	11,353	(5,195,957)	—
Environmental protection	2,205,704	809,536	83,971	3,103	(1,309,094)	—
Transportation services	1,329,314	513,104	153,243	183,320	(477,647)	—
Parks, recreation and cultural activities	719,867	61,924	3,736	909	(653,298)	—
Housing	905,461	166,291	270,359	107,334	(361,477)	—
Health (including payments to HHC)	2,816,360	40,204	698,929	41,825	(2,035,402)	—
Libraries	161,250	—	—	—	(161,250)	—
Debt service interest	2,180,711	—	—	—	(2,180,711)	—
Total Primary government	$45,538,832	$ 3,001,330	$14,651,155	$ 493,798	(27,392,549)	—
Component Units	$ 9,782,454	$ 6,522,530	$ 1,819,735	$ 878,972	—	(561,217)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					8,698,352	—
Sales and use taxes					3,957,386	—
Personal income tax					4,920,606	—
Income taxes, other					3,126,670	—
Other taxes					1,236,581	—
Investment income					190,041	217,115
Other Federal and State aid					975,281	1,898
Other					435,149	348,928
Total General revenues					23,540,066	567,941
Change in net assets					(3,852,483)	6,724
Net Assets — Beginning					(19,847,159)	11,859,179
Net Assets — Ending					$(23,699,642)	$11,865,903

See accompanying notes to financial statements.

THE CITY OF NEW YORK

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2001
(in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary government:						
General government	$ 1,881,812	$ 881,322	$ 82,914	$179,487	$ (738,089)	$ —
Public safety and judicial	8,661,411	158,925	537,248	16,034	(7,949,204)	—
Education	12,248,775	69,594	6,666,089	2,742	(5,510,350)	—
City University	668,954	135,307	433,781	—	(99,866)	—
Social services	9,166,149	41,909	4,064,614	6,771	(5,052,855)	—
Environmental protection	2,350,867	765,781	607	9,669	(1,574,810)	—
Transportation services	1,654,344	569,341	151,269	113,621	(820,113)	—
Parks, recreation and cultural activities	488,865	55,385	7,075	5,652	(420,753)	—
Housing	1,000,300	150,153	148,396	203,646	(498,105)	—
Health (including payments to HHC)	2,329,191	40,888	681,022	34,892	(1,572,389)	—
Libraries	362,034	—	—	—	(362,034)	—
Debt service interest	2,214,717	—	—	—	(2,214,717)	—
Total Primary government	$43,027,419	$2,868,605	$12,773,015	$572,514	(26,813,285)	—
Component Units	$ 9,377,130	$6,422,033	$ 1,834,287	$998,227	—	(122,583)
	General revenues:					
	Taxes (Net of Refunds):					
	Real estate taxes				8,273,172	—
	Sales and use taxes				4,199,594	—
	Personal income tax				6,128,516	—
	Income taxes, other				3,826,312	—
	Other taxes				1,284,471	—
	Investment income				391,902	221,339
	Other Federal and State aid				928,184	1,800
	Other				633,579	271,398
	Total General revenues				25,665,730	494,537
	Change in net assets				(1,147,555)	371,954
	Net Assets — Beginning				(18,699,604)	11,487,225
	Net Assets — Ending				$(19,847,159)	$11,859,179

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2002
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 1,042,909	$ 42,646	$ 26,115	$ 60,609	$ —	$ 1,172,279
Investments, including accrued interest	3,374,498	—	663,342	1,419,531	(118,788)	5,338,583
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $343,412)	582,498	—	—	—	—	582,498
Federal, State and other aid	4,918,659	481,370	—	—	—	5,400,029
Taxes other than real estate	2,450,076	—	—	165,611	(16,000)	2,599,687
Other	430,712	—	—	—	—	430,712
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $752,308)	—	—	—	1,721	—	1,721
Due from other funds	2,836,386	1,780,580	32,391	268,601	(285,626)	4,632,332
Due from Component Units	248,054	253,456	—	11,621	—	513,131
Restricted cash and investments	—	331,236	—	838,598	—	1,169,834
Other	—	40,354	—	36,062	—	76,416
Total assets	$15,883,792	$ 2,929,642	$ 721,848	$ 2,802,354	$ (420,414)	$21,917,222
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$ 7,888,065	$ 1,165,278	$ 17,021	$ 451,786	$ (77,227)	$ 9,444,923
Bond anticipation notes payable	—	—	—	2,200,000	—	2,200,000
Accrued tax refunds:						
Real estate taxes	20,136	—	—	—	—	20,136
Personal income taxes	45,593	—	—	46,136	—	91,729
Other	43,401	—	—	—	—	43,401
Accrued judgments and claims	249,872	103,336	—	—	—	353,208
Deferred revenues:						
Prepaid real estate taxes	1,373,884	—	—	—	—	1,373,884
Uncollected real estate taxes	550,385	—	—	—	—	550,385
Taxes other than real estate	2,127,013	—	—	16,000	(16,000)	2,127,013
Other	1,215,945	13,094	—	100,600	—	1,329,639
Due to other funds	1,763,555	3,114,165	7,408	32,830	(285,626)	4,632,332
Due to Component Units	243	—	—	—	—	243
Estimated disallowance of Federal, State and other aid	202,560	—	—	—	—	202,560
Payable for investment securities purchased	—	—	—	249,391	—	249,391
Total liabilities	15,480,652	4,395,873	24,429	3,096,743	(378,853)	22,618,844
Fund balances:						
Reserved for:						
Debt service	—	—	697,419	1,267,052	(41,561)	1,922,910
Noncurrent mortgage loans	—	—	—	13,342	—	13,342
Unreserved (deficit), reported in:						
General fund	403,140	—	—	—	—	403,140
New York City Capital Projects Fund	—	(1,466,231)	—	—	—	(1,466,231)
Nonmajor funds	—	—	—	(1,574,783)	—	(1,574,783)
Total fund balances (deficit)	403,140	(1,466,231)	697,419	(294,389)	(41,561)	(701,622)
Total liabilities and fund balances	$15,883,792	$ 2,929,642	$ 721,848	$ 2,802,354	$ (420,414)	$21,917,222

The reconciliation of the fund balances of governmental funds to the net assets (deficit) of governmental activities in the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2001
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 765,428	$ 27,031	$ 26,970	$ 193,452	$ —	$ 1,012,881
Investments, including accrued interest	2,739,399	—	2,118,373	1,887,158	(171,590)	6,573,340
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $362,704)	616,473	—	—	—	—	616,473
Federal, State and other aid	4,726,781	566,531	—	—	—	5,293,312
Taxes other than real estate	2,550,670	—	—	—	—	2,550,670
Other	505,284	—	—	—	—	505,284
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $750,148)	—	—	—	33,437	—	33,437
Due from other funds	2,840,419	1,154,105	—	252,073	(266,048)	3,980,549
Due from Component Units	203,619	205,456	—	11,063	—	420,138
Restricted cash and investments	—	209,080	—	42,142	—	251,222
Other	—	44,596	—	29,824	—	74,420
Total assets	$14,948,073	$ 2,206,799	$2,145,343	$2,449,149	$(437,638)	$21,311,726
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$ 7,391,448	$ 1,100,636	$ 17,088	$ 404,625	$ (86,868)	$ 8,826,929
Accrued tax refunds:						
Real estate taxes	48,979	—	—	—	—	48,979
Personal income taxes	43,884	—	—	—	—	43,884
Other	77,575	—	—	—	—	77,575
Accrued judgments and claims	309,007	105,474	—	—	—	414,481
Deferred revenues:						
Prepaid real estate taxes	1,451,774	—	—	—	—	1,451,774
Uncollected real estate taxes	586,737	—	—	—	—	586,737
Taxes other than real estate	2,246,675	—	—	—	—	2,246,675
Other	1,020,258	53,110	—	—	—	1,073,368
Due to other funds	1,140,130	3,065,246	7,408	33,813	(266,048)	3,980,549
Due to Component Units	23,458	—	—	—	—	23,458
Estimated disallowance of Federal, State and other aid	210,268	—	—	—	—	210,268
Payable for investment securities purchased	—	—	—	179,862	—	179,862
Total liabilities	14,550,193	4,324,466	24,496	618,300	(352,916)	19,164,539
Fund balances:						
Reserved for:						
Debt service	—	—	2,120,847	1,777,920	(84,722)	3,814,045
Noncurrent mortgage loans	—	—	—	30,996	—	30,996
Unreserved (deficit), reported in:						
General fund	397,880	—	—	—	—	397,880
New York City Capital Projects Fund	—	(2,117,667)	—	—	—	(2,117,667)
Nonmajor funds	—	—	—	21,933	—	21,933
Total fund balances	397,880	(2,117,667)	2,120,847	1,830,849	(84,722)	2,147,187
Total liabilities and fund balances	$14,948,073	$ 2,206,799	$2,145,343	$2,449,149	$(437,638)	$21,311,726

The reconciliation of the fund balances of governmental funds to the net assets of governmental activities in the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to financial statements.

THE CITY OF NEW YORK

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2002
(in thousands)

Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Total fund balances—governmental funds	$ (701,622)
Inventories recorded in the Statement of Net assets are recorded as expenditures in the governmental funds	210,072
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	26,659,071
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	3,131,025
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable	(40,471,671)
Accrued interest payable	(626,572)
Other Long-term liabilities	(11,899,945)
Net assets (deficit) of governmental activities	$(23,699,642)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2001
(in thousands)

Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Total fund balances—governmental funds	$ 2,147,187
Inventories recorded in the Statement of Net assets are recorded as expenditures in the governmental funds	197,593
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	24,497,361
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	3,403,801
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable	(38,429,756)
Accrued interest payable	(612,507)
Other Long-term liabilities	(11,050,838)
Net assets (deficit) of governmental activities	$(19,847,159)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2002

(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$ 8,760,872	$ —	$ —	$ —	$ —	$ 8,760,872
Sales and use taxes	3,957,386	—	—	—	—	3,957,386
Personal income tax	4,555,059	—	—	450,547	—	5,005,606
Income taxes, other	3,192,084	—	—	—	—	3,192,084
Other taxes	1,230,829	—	—	—	—	1,230,829
Federal, State and other categorical aid	14,645,970	389,151	—	314,646	—	15,349,767
Unrestricted Federal and State aid	665,820	—	—	—	—	665,820
Charges for services	1,458,393	—	—	—	—	1,458,393
Tobacco settlement	211,159	—	—	45,453	—	256,612
Investment income	80,559	—	4,764	99,707	—	185,030
Interest on mortgages, net	—	—	—	5,011	—	5,011
Other revenues	1,627,590	1,123,033	32,391	1,529,547	(1,489,539)	2,823,022
Total revenues	40,385,721	1,512,184	37,155	2,444,911	(1,489,539)	42,890,432
EXPENDITURES:						
Current Operations:						
General government	1,809,624	577,086	—	13,175	—	2,399,885
Public safety and judicial	6,462,311	828,461	—	—	—	7,290,772
Education	11,715,015	1,765,249	—	1,490,147	(1,489,539)	13,480,872
City University	417,838	10,642	—	—	—	428,480
Social services	9,097,726	106,188	—	—	—	9,203,914
Environmental protection	1,602,525	1,221,955	—	—	—	2,824,480
Transportation services	678,728	914,732	—	—	—	1,593,460
Parks, recreation and cultural activities	305,063	369,539	—	—	—	674,602
Housing	440,284	380,384	—	—	—	820,668
Health (including payments to HHC)	2,131,506	111,224	—	—	—	2,242,730
Libraries	123,808	34,642	—	—	—	158,450
Pensions	1,391,896	—	—	—	—	1,391,896
Judgments and claims	521,834	—	—	—	—	521,834
Fringe benefits and other benefit payments	2,426,143	—	—	—	—	2,426,143
Administrative and other	374,013	—	16,438	99,955	—	490,406
Debt Service:						
Interest	—	—	1,381,651	697,644	(2,628)	2,076,667
Redemptions	—	—	1,330,815	531,564	(52,102)	1,810,277
Lease payments	—	—	—	317,323	—	317,323
Refunding escrow	—	—	3,804	—	—	3,804
Total expenditures	39,498,314	6,320,102	2,732,708	3,149,808	(1,544,269)	50,156,663
Excess (deficiency) of revenues over expenditures	887,407	(4,807,918)	(2,695,553)	(704,897)	54,730	(7,266,231)
OTHER FINANCING SOURCES (USES):						
Transfers from (to) General Fund	—	—	1,272,125	(334,809)	(11,569)	925,747
Transfers from Nonmajor Capital Projects Funds	457,832	2,229,230	—	—	(2,229,230)	457,832
Transfers from Component Units for debt service	21,707	—	—	—	—	21,707
Proceeds from sale of bonds	—	2,666,748	—	1,149,075	—	3,815,823
Income from sale of rate cap	—	—	—	23,092	—	23,092
Capitalized leases	—	563,376	—	—	—	563,376
Refunding bond proceeds	—	—	1,044,889	112,353	—	1,157,242
Transfer from (to) New York City Capital Projects Fund	—	—	—	(2,229,230)	2,229,230	—
Transfers to General Debt Service Fund	(1,355,110)	—	—	—	—	(1,355,110)
Transfer to Component Units for debt service	(6,576)	—	—	—	—	(6,576)
Transfer to Nonmajor Debt Service Funds	—	—	—	(28,469)	—	(28,469)
Payments to refunded bond escrow holder	—	—	(1,044,889)	(112,353)	—	(1,157,242)
Total other financing sources (uses)	(882,147)	5,459,354	1,272,125	(1,420,341)	(11,569)	4,417,422
Net change in fund balances	5,260	651,436	(1,423,428)	(2,125,238)	43,161	(2,848,809)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	397,880	(2,117,667)	2,120,847	1,830,849	(84,722)	2,147,187
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 403,140	$(1,466,231)	$ 697,419	$ (294,389)	$ (41,561)	$ (701,622)

The reconciliation of the change in fund balances of governmental funds to the change in net assets of governmental activities in the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2001

(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$ 8,245,585	$ —	$ —	$ —	$ —	$ 8,245,585
Sales and use taxes	4,195,594	—	—	—	—	4,195,594
Personal income tax	5,757,074	—	—	407,442	—	6,164,516
Income taxes, other	3,685,224	—	—	—	—	3,685,224
Other taxes	1,293,657	—	—	—	—	1,293,657
Federal, State and other categorical aid	12,763,683	355,359	—	303,136	—	13,422,178
Unrestricted Federal and State aid	634,380	—	—	—	—	634,380
Charges for services	1,494,292	—	—	—	—	1,494,292
Tobacco settlement	154,340	—	—	49,988	—	204,328
Investment income	245,353	—	35,611	104,609	—	385,573
Interest on mortgages, net	—	—	—	6,329	—	6,329
Other revenues	1,762,690	1,057,547	2	1,486,027	(1,443,379)	2,862,887
Total revenues	40,231,872	1,412,906	35,613	2,357,531	(1,443,379)	42,594,543
EXPENDITURES:						
Current Operations:						
General government	1,078,423	583,998	—	12,604	—	1,675,025
Public safety and judicial	5,874,881	236,331	—	—	—	6,111,212
Education	11,545,119	1,707,614	—	1,439,057	(1,443,379)	13,248,411
City University	392,936	9,038	—	—	—	401,974
Social services	8,716,971	161,991	—	—	—	8,878,962
Environmental protection	1,528,271	1,008,236	—	—	—	2,536,507
Transportation services	749,682	855,677	—	—	—	1,605,359
Parks, recreation and cultural activities	317,150	255,908	—	—	—	573,058
Housing	481,757	413,896	—	—	—	895,653
Health (including payments to HHC)	1,959,084	60,426	—	—	—	2,019,510
Libraries	382,776	16,839	—	—	—	399,615
Pensions	1,127,129	—	—	—	—	1,127,129
Judgments and claims	594,846	—	—	—	—	594,846
Fringe benefits and other benefit payments	2,200,117	—	—	—	—	2,200,117
Administrative and other	315,282	—	13,447	62,930	—	391,659
Debt Service:						
Interest	—	—	1,449,178	703,377	(11,809)	2,140,746
Redemptions	—	—	1,310,263	214,339	252,435	1,777,037
Lease payments	—	—	—	268,212	—	268,212
Refunding escrow	—	—	46,182	—	—	46,182
Total expenditures	37,264,424	5,309,954	2,819,070	2,700,519	(1,202,753)	46,891,214
Excess (deficiency) of revenues over expenditures	2,967,448	(3,897,048)	(2,783,457)	(342,988)	(240,626)	(4,296,671)
OTHER FINANCING SOURCES (USES):						
Transfers from General Fund	—	—	2,390,822	571,400	(19,150)	2,943,072
Transfers from Nonmajor Capital Projects Funds		1,576,954	—	56,847	(1,576,954)	56,847
Proceeds from sale of bonds	—	1,256,501	—	1,588,164	—	2,844,665
Capitalized leases	—	55,251	—	—	—	55,251
Refunding bond proceeds	—	—	1,147,335	—	—	1,147,335
Transfer to New York City Capital Projects Fund	—	—	—	(1,576,954)	1,576,954	—
Transfers to General Debt Service Fund	(2,962,553)	—	—	—	—	(2,962,553)
Transfer to Nonmajor Debt Service Funds	—	—	—	(37,366)	—	(37,366)
Payments to refunded bond escrow holder	—	—	(1,147,335)	—	—	(1,147,335)
Total other financing sources (uses)	(2,962,553)	2,888,706	2,390,822	602,091	(19,150)	2,899,916
Net change in fund balances	4,895	(1,008,342)	(392,635)	259,103	(259,776)	(1,396,755)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	392,985	(1,109,325)	2,513,482	1,571,746	175,054	3,543,942
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 397,880	$ (2,117,667)	$ 2,120,847	$ 1,830,849	$ (84,722)	$ 2,147,187

The reconciliation of the change in fund balances of governmental funds to the change in net assets of governmental activities in the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to financial statements.

THE CITY OF NEW YORK

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2002
(in thousands)

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Net change in fund balances—total governmental funds		$ (2,848,809)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of fixed assets	$ 4,561,073	
Depreciation expense	(1,153,844)	3,407,229
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.,* sales, trade-ins, and donations) is to decrease net assets		(1,749,694)
The issuance of long-term debt (*e.g.*, bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(3,815,823)	
Principal payments of bonds	1,810,277	
Other	(30,616)	(2,036,162)
Some expenses reported in the statement of activities do not require the use of current financial resource and therefore, are not reported as expenditures in governmental funds		(302,475)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		(322,572)
Change in net assets—governmental activities		$ (3,852,483)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2001
(in thousands)

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Net change in fund balances—total governmental funds		$ (1,396,755)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of fixed assets	$ 3,366,818	
Depreciation expense	(1,243,000)	2,123,818
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.,* sales, trade-ins, and donations) is to decrease net assets		(179,048)
The issuance of long-term debt (*e.g.*, bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(2,844,665)	
Principal payments of bonds	1,777,037	
Other	(31,217)	(1,098,845)
Some expenses reported in the statement of activities do not require the use of current financial resource and therefore, are not reported as expenditures in governmental funds		(718,735)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		122,010
Change in net assets—governmental activities		$ (1,147,555)

See accompanying notes to financial statements.

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

FOR THE YEARS ENDED JUNE 30, 2002 and 2001
(in thousands)

	2002			2001		
	Budget			Budget		
	Adopted	Modified	Actual	Adopted	Modified	Actual
REVENUES:						
Real estate taxes	$ 8,590,371	$ 8,753,021	$ 8,760,872	$ 8,111,268	$ 8,277,436	$ 8,245,585
Sales and use taxes	4,267,900	3,960,300	3,957,386	3,945,900	4,265,021	4,195,594
Personal income tax	5,074,441	4,669,139	4,555,059	5,239,728	5,669,565	5,757,074
Income taxes, other	2,979,300	2,824,800	3,192,084	3,341,535	3,671,535	3,685,224
Other taxes	1,751,474	1,639,774	1,230,829	1,176,400	1,237,848	1,293,657
Federal, State and other categorical aid	12,760,412	15,286,643	14,645,970	12,193,170	13,263,962	12,763,683
Unrestricted Federal and State aid	706,419	694,776	665,820	564,323	592,643	634,380
Charges for services	1,388,898	1,386,371	1,458,393	1,374,949	1,434,424	1,460,891
Tobacco settlement	220,259	211,159	211,159	139,142	153,142	154,340
Interest income	154,540	80,170	80,559	170,910	250,305	245,353
Other revenues	1,453,977	1,858,142	1,627,590	1,032,462	1,987,123	1,762,690
Total revenues	39,347,991	41,364,295	40,385,721	37,289,787	40,803,004	40,198,471
EXPENDITURES:						
Current Operations:						
General government	1,221,977	1,964,034	1,809,624	1,054,043	1,109,173	1,078,423
Public safety and judicial	5,885,091	6,557,898	6,462,311	5,659,045	5,914,604	5,874,881
Education	11,521,485	11,862,492	11,715,015	10,972,518	11,594,255	11,545,119
City University	444,978	456,903	417,838	426,182	427,967	392,936
Social services	8,927,220	9,275,281	9,097,726	8,458,562	8,829,394	8,716,971
Environmental protection	1,637,330	1,649,043	1,602,525	1,599,362	1,552,029	1,528,271
Transportation services	605,262	691,841	678,728	616,997	790,519	749,682
Parks, recreation and cultural activities	315,341	307,959	305,063	287,070	317,508	317,150
Housing	453,916	464,155	440,284	460,983	517,382	477,636
Health (including payments to HHC)	2,033,080	2,207,726	2,131,506	1,842,472	2,039,011	1,959,084
Libraries	131,433	124,030	123,808	242,392	382,999	382,776
Pensions	1,363,845	1,397,525	1,391,896	1,132,414	1,209,043	1,127,129
Judgments and claims	309,527	389,527	521,834	442,273	498,273	594,846
Fringe benefits and other benefit payments	2,288,857	2,427,737	2,426,143	2,160,700	2,172,215	2,200,117
Other	1,026,560	565,416	374,013	714,950	509,622	315,282
Total expenditures	38,165,902	40,341,567	39,498,314	36,069,963	37,863,994	37,260,303
Excess of revenues over expenditures	1,182,089	1,022,728	887,407	1,219,824	2,939,010	2,938,168
OTHER FINANCING SOURCES (USES):						
Transfers from Component Units	33,000	24,700	21,707	34,400	34,200	33,401
Transfer from New York City Capital Projects Fund	—	365,927	457,832	—	—	—
Transfers and other payments for debt service	(1,215,089)	(1,413,355)	(1,361,686)	(1,254,224)	(2,973,210)	(2,966,674)
Total other financing sources (uses)	(1,182,089)	(1,022,728)	(882,147)	(1,219,824)	(2,939,010)	(2,933,273)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	$ —	$ —	5,260	$ —	$ —	4,895
FUND BALANCES AT BEGINNING OF YEAR			397,880			392,985
FUND BALANCES AT END OF YEAR			$ 403,140			$ 397,880

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2002
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Fund
ASSETS:		
Cash and cash equivalents	$ 173,625	$ 35,144
Receivables:		
Receivable for investment securities sold	1,941,087	—
Accrued interest and dividend receivable	436,056	—
Investments:		
Other short-term investments	3,124,469	—
Debt securities	25,701,759	1,144,965
Equity securities	44,967,678	—
International investment fund—equity	12,087,637	—
Mortgages	3,053	—
Guaranteed investment contracts	1,519,138	—
Management investment contracts	173,510	—
Mutual funds	3,047,677	—
Collateral from securities lending transactions	9,783,635	—
Due from other funds	1,143	—
Other	79,057	4
Total assets	103,039,524	1,180,113
LIABILITIES:		
Accounts payable and accrued liabilities	1,087,748	351,288
Payable for investment securities purchased	5,798,892	—
Accrued benefits payable	259,585	—
Due to other funds	1,143	—
Securities lending transactions	9,783,635	—
Other	35,226	828,825
Total liabilities	16,966,229	1,180,113
NET ASSETS:		
Held in Trust for Benefit Payments	$ 86,073,295	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2001
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	$ 485,396	$ 77,339
Receivables:		
Receivable for investment securities sold	1,717,906	—
Accrued interest and dividend receivable	466,266	—
Investments:		
Other short-term investments	3,694,342	—
Debt securities	29,369,366	1,168,699
Equity securities	53,082,431	—
International investment fund—equity	12,972,165	—
Mortgages	9,359	—
Guaranteed investment contracts	1,043,069	—
Management investment contracts	97,518	—
Mutual funds	3,238,919	—
Collateral from securities lending transactions	10,882,901	—
Due from other funds	750	—
Other	55,760	—
Total assets	117,116,148	1,246,038
LIABILITIES:		
Accounts payable and accrued liabilities	510,336	311,005
Payable for investment securities purchased	5,957,262	—
Accrued benefits payable	306,123	—
Due to other funds	750	—
Securities lending transactions	10,882,901	—
Other	21,752	935,033
Total liabilities	17,679,124	1,246,038
NET ASSETS:		
Held in Trust for Benefit Payments	$ 99,437,024	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2002

(in thousands)

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions (net of loans to members)	$ 979,058
Employer contributions	1,508,934
Other employer contributions	22,020
Total contributions	2,510,012
Investment income:	
Interest income	2,236,765
Dividend income	772,792
Net depreciation in fair value of investments	(11,670,405)
Less investment expenses	337,700
Investment loss, net	(8,998,548)
Payments from other funds	2,099
Other	28,222
Total additions	(6,458,215)
DEDUCTIONS:	
Benefit payments and withdrawals	6,783,682
Payments to other funds	2,099
Other	41,884
Administrative expenses	77,849
Total deductions	6,905,514
Decrease in plan net assets	(13,363,729)
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	99,437,024
End of Year	$ 86,073,295

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2001

(in thousands)

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions (net of loans to members)	$ 959,715
Employer contributions	1,256,832
Other employer contributions	21,324
Total contributions	2,237,871
Investment income:	
Interest income	2,978,974
Dividend income	739,949
Net depreciation in fair value of investments	(12,970,698)
Less investment expenses	723,134
Investment loss, net	(9,974,909)
Payments from other funds	750
Other	20,697
Total additions	(7,715,591)
DEDUCTIONS:	
Benefit payments and withdrawals	6,312,103
Payments to other fund	750
Other	24,319
Administrative expenses	67,254
Total deductions	6,404,426
Decrease in plan net assets	(14,120,017)
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	113,557,041
End of Year	$ 99,437,024

See accompanying notes to financial statements.

THE CITY OF NEW YORK

COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2002
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2001	Housing Authority December 31, 2001	Economic Development Corporation	Water and Sewer System	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	$ 303,296	$ 20,076	$ 1,342	$ 857,868	$ 14,117	$ 5,274	$ 42,302	$ 1,244,275
Investments, including accrued interest	—	—	186,131	385,950	235	—	1,801	574,117
Other receivables	745,489	1,372	209,355	164,901	130,120	440,482	7,196	1,698,915
Mortgage loans and interest receivable, net	—	—	2,619,995	1,284	41,736	—	—	2,663,015
Inventories	30,441	—	—	16,194	—	—	—	46,635
Due from Primary Government	—	—	—	—	—	243	—	243
Restricted cash and investments	249,082	3,837	839,490	8,897	114,256	1,865,530	101,420	3,182,512
Capital assets:								
Construction work-in-progress	163,579	—	—	—	—	3,895,147	186,306	4,245,032
Property, plant and equipment	4,334,538	55,233	7,255	8,663,762	5,769	15,085,271	95,800	28,247,628
Accumulated depreciation	(2,903,979)	(38,267)	(1,323)	(4,168,165)	(1,671)	(4,860,738)	(20,750)	(11,994,893)
Other	9,691	669	39,936	63,608	88,360	126,526	3,673	332,463
Total assets	2,932,137	42,920	3,902,181	5,994,299	392,922	16,557,735	417,748	30,239,942
LIABILITIES:								
Accounts payable and accrued liabilities	829,395	12,904	173,477	673,417	75,323	15,796	22,373	1,802,685
Accrued interest payable	9,538	—	35,898	1,709	—	24,456	—	71,601
Deferred revenues	—	—	45,191	12,136	792	76,031	10,242	144,392
Due to Primary Government	—	320	250,109	—	—	262,702	—	513,131
Noncurrent Liabilities:								
Due within one year	25,719	1,644	81,703	42,387	15	817,758	55	969,281
Due in more than one year	769,732	7,620	2,648,191	245,416	101,771	10,748,833	271,358	14,792,921
Other	2,250	5,282	—	53,517	17,592	—	1,387	80,028
Total liabilities	1,636,634	27,770	3,234,569	1,028,582	195,493	11,945,576	305,415	18,374,039
NET ASSETS:								
Invested in capital assets, net of related debt	921,221	15,320	5,932	4,357,469	3,861	4,171,982	51,284	9,527,069
Restricted for:								
Capital projects	—	—	—	—	62,990	—	—	62,990
Debt service	—	—	314,569	—	—	245,072	23,766	583,407
Operations	—	—	—	—	—	118,848	—	118,848
Loans/Security Deposits	—	—	—	—	80,745	—	3,028	83,773
Donor restrictions	13,413	—	—	—	—	—	—	13,413
Unrestricted (deficit)	360,869	(170)	347,111	608,248	49,833	76,257	34,255	1,476,403
Total net assets	$ 1,295,503	$ 15,150	$ 667,612	$ 4,965,717	$ 197,429	$ 4,612,159	$ 112,333	$ 11,865,903

See accompanying notes to financial statements.

THE CITY OF NEW YORK

COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2001
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2000	Housing Authority December 31, 2000	Economic Development Corporation	Water and Sewer System	Nonmajor Component Units	Total
Assets:								
Cash and cash equivalents	$ 314,043	$ 25,123	$ 966	$ 120,927	$ 22,516	$ 7,423	$ 38,194	$ 529,192
Investments, including accrued interest	—	—	255,364	1,206,678	138	—	2,427	1,464,607
Other receivables	775,146	1,439	—	42,729	219,841	448,017	4,735	1,491,907
Mortgage loans and interest receivable, net	—	—	2,696,121	1,556	42,246	—	—	2,739,923
Inventories	33,007	—	—	12,010	—	—	—	45,017
Due from Primary Government	—	—	—	—	—	23,458	—	23,458
Restricted cash and investments	316,139	1,595	720,027	9,095	117,510	1,017,852	221,099	2,403,317
Capital assets:								
Construction work-in-progress	312,196	—	—	—	—	3,580,396	55,212	3,947,804
Property, plant and equipment	3,883,889	51,620	6,683	8,250,654	4,463	14,369,095	78,178	26,644,582
Accumulated depreciation	(2,738,498)	(32,985)	(805)	(3,875,323)	(510)	(4,573,701)	(16,671)	(11,238,493)
Other	10,640	—	41,093	67,343	58,377	142,284	3,638	323,375
Total assets	2,906,562	46,792	3,719,449	5,835,669	464,581	15,014,824	386,812	28,374,689
Liabilities:								
Accounts payable and accrued liabilities	643,308	27,512	159,593	739,923	54,405	18,033	10,872	1,653,646
Accrued interest payable	10,416	—	37,061	1,869	—	22,596	—	71,942
Deferred revenues	—	—	45,656	58,506	674	76,562	9,533	190,931
Due to Primary Government	—	311	214,371	—	—	205,456	—	420,138
Noncurrent Liabilities:								
Due within one year	24,989	—	38,800	11,864	—	674,489	17	750,159
Due in more than one year	789,850	3,743	2,615,103	138,128	144,773	9,345,805	270,158	13,307,560
Other	23,632	—	—	48,688	47,337	—	1,477	121,134
Total liabilities	1,492,195	31,566	3,110,584	998,978	247,189	10,342,941	292,057	16,515,510
Net Assets:								
Invested in capital assets, net of related debt	826,668	16,321	5,787	4,391,023	3,953	4,232,648	37,943	9,514,343
Restricted for:								
Capital projects	—	—	—	—	67,539	—	—	67,539
Debt service	—	—	248,086	—	—	158,829	23,564	430,479
Operations	—	—	—	—	—	120,084	—	120,084
Loans/Security Deposits	—	—	—	—	88,938	—	3,391	92,329
Donor restrictions	13,293	—	—	—	—	—	—	13,293
Unrestricted (deficit)	574,406	(1,095)	354,992	445,668	56,962	160,322	29,857	1,621,112
Total net assets	$ 1,414,367	$ 15,226	$ 608,865	$ 4,836,691	$ 217,392	$ 4,671,883	$ 94,755	$ 11,859,179

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2002
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2001	Housing Authority December 31, 2001	Economic Development Corporation	Water and Sewer System	Nonmajor Component Units	Total
Expenses	$ 4,559,261	$ 251,092	$ 153,258	$ 2,396,481	$ 552,029	$ 1,841,725	$ 28,608	$ 9,782,454
Program Revenues:								
Charges for Services	3,662,809	246,695	167,426	608,036	191,023	1,618,573	27,968	6,522,530
Operating Grants and Contributions	377,242	—	—	1,381,890	60,603	—	—	1,819,735
Capital Grants, Contributions and other	140,330	—	—	434,286	276,260	12,303	15,793	878,972
Total program revenues	4,180,381	246,695	167,426	2,424,212	527,886	1,630,876	43,761	9,221,237
Net program revenues (expenses)	(378,880)	(4,397)	14,168	27,731	(24,143)	(210,849)	15,153	(561,217)
General Revenues:								
Investment income (loss)	14,621	525	44,579	59,712	(810)	97,543	945	217,115
Unrestricted Federal and State aid	—	—	—	—	1,898	—	—	1,898
Other	245,395	3,796	—	41,583	3,092	53,582	1,480	348,928
General revenues, net	260,016	4,321	44,579	101,295	4,180	151,125	2,425	567,941
Change in net assets	(118,864)	(76)	58,747	129,026	(19,963)	(59,724)	17,578	6,724
Net assets—beginning	1,414,367	15,226	608,865	4,836,691	217,392	4,671,883	94,755	11,859,179
Net assets—ending	$ 1,295,503	$ 15,150	$ 667,612	$ 4,965,717	$ 197,429	$ 4,612,159	$ 112,333	$ 11,865,903

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2001
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2000	Housing Authority December 31, 2000	Economic Development Corporation	Water and Sewer System	Nonmajor Component Units	Total
Expenses	$ 4,392,789	$ 260,868	$ 161,484	$ 2,235,941	$ 478,113	$ 1,823,024	$ 24,911	$ 9,377,130
Program Revenues:								
Charges for Services	3,622,050	249,507	165,085	607,654	178,597	1,576,884	22,256	6,422,033
Operating Grants and Contributions	454,370	—	—	1,339,060	40,857	—	—	1,834,287
Capital Grants, Contributions and other	163,630	—	—	534,419	292,397	1,748	6,033	998,227
Total program revenues	4,240,050	249,507	165,085	2,481,133	511,851	1,578,632	28,289	9,254,547
Net program revenues (expenses)	(152,739)	(11,361)	3,601	245,192	33,738	(244,392)	3,378	(122,583)
General Revenues:								
Investment income (loss)	32,953	1,844	35,479	93,141	(28,928)	84,534	2,316	221,339
Unrestricted Federal and State aid	—	—	—	—	1,800	—	—	1,800
Other	212,247	3,015	(11)	—	1,825	45,039	9,283	271,398
General revenues, net	245,200	4,859	35,468	93,141	(25,303)	129,573	11,599	494,537
Change in net assets	92,461	(6,502)	39,069	338,333	8,435	(114,819)	14,977	371,954
Net assets—beginning	1,321,906	21,728	569,796	4,498,358	208,957	4,786,702	79,778	11,487,225
Net assets—ending	$ 1,414,367	$ 15,226	$ 608,865	$ 4,836,691	$ 217,392	$ 4,671,883	$ 94,755	$ 11,859,179

See accompanying notes to financial statements.

A. Summary of Significant Accounting Policies

The accompanying basic financial statements of The City of New York (City or primary government) are presented in conformity with generally accepted accounting principles (GAAP) for governments in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The amounts shown in the "Primary Government" and "Component Units" columns of the accompanying government-wide 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:

1. Reporting Entity

The City of New York is a municipal corporation governed by the Mayor and the City Council. 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 financial reporting entity consists of the primary government including the Board of Education and the community colleges of the City University of New York, other 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 integrated with the primary government, that they are in substance part of the primary government. These component units are blended with the primary government.

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.

Blended Component Units

These component units, although legally separate, all provide services exclusively to the City and thus 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). MAC is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation. MAC was created in 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.

New York City Transitional Finance Authority (TFA). TFA is a corporate governmental agency constituting a public benefit corporation and instrumentality of the State. TFA was created in 1997 by the New York City Financial Authority Act to assist the City in funding its capital program, the purpose of which is to maintain, rebuild, and expand the infrastructure of the City.

TFA has no taxing power. All outstanding bonds issued by TFA are general obligations of TFA 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 TFA's revenues and assets. Debt service requirements and operating expenses are funded by allocations from the State's collection of personal income taxes (imposed by the City and collected by the State) and, under certain circumstances, sales taxes. Sales taxes are only available to TFA after such amounts required by MAC are deducted and if the amounts of personal income tax revenues fall below statutorily specified coverage levels. Net collections of taxes not required by TFA are paid to the City by TFA.

New York City Samurai Funding Corporation (SFC). The City created SFC in 1992. This is a special-purpose governmental not-for-profit 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. The proceeds from the City's bonds sold to SFC were used for housing and economic development projects.

TSASC, Inc. (TSASC). TSASC is a special purpose, local development corporation organized in 1999 under the laws of the State of New York. TSASC is an instrumentality of the City, but is a separate legal entity from the City.

Pursuant to a purchase and sale agreement with the City, the City sold to TSASC all of its future right, title, and interest in the tobacco settlement revenues under the Master Settlement Agreement and the Decree and Final Judgment. This settlement agreement resolved cigarette smoking-related litigation between the settling states and participating manufacturers, released the participating manufacturers from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The City is allocated a share of the tobacco settlement revenues received by New York State.

The purchase price of the City's future right, title, and interest in the tobacco settlement revenues has been financed by the issuance of a series of bonds. In addition, the City is entitled to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs as set forth in the indenture. These payments are subordinate to payments on the bonds and payment of certain other costs specified in the indenture.

New York City Educational Construction Fund (ECF). ECF was created in 1967 as a corporate governmental agency of the State of New York, constituting a public benefit corporation. ECF was established to receive and administer money for the construction of the school related portion of combined occupancy structures. ECF was created by the Education Law of the State and is authorized to issue bonds, notes, or other obligations to finance the construction and improvement of elementary and secondary school buildings within the City.

The Board of Education maintains responsibility for the selection of school sites, and design and construction of schools, but the titles to such sites and schools are vested with ECF.

City University Construction Fund (CUCF). CUCF is a corporate governmental agency constituting a public benefit corporation. CUCF was created in 1966 by the New York State Education Law. The purpose of CUCF is to provide facilities for both senior colleges and community colleges of The City University of New York (CUNY) and to support the educational purposes of CUNY.

CUCF is administered by seven State and City appointed trustees.

New York City School Construction Authority (SCA). SCA is a public benefit corporation created by the New York State Legislature in 1988. SCA's responsibilities as defined in the enabling legislation are the design, construction, reconstruction, improvement, rehabilitation and repair of the City's public schools. SCA is governed by a three-member Board of Trustees, each of whom is appointed by the Mayor who serves as the Chairman, the Governor, and the Schools Chancellor of the City, ex officio, respectively.

SCA's operations are almost entirely funded by appropriations made by the City and are guided by five-year capital plans, developed by the Board of Education of the City.

Discretely Presented Component Units

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

The component units column in the government-wide financial statements include 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). 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, Metroplus Health Plan, Inc. and HHC Capital Corporation.

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, 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.

New York City Off-Track Betting Corporation (OTB). 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 15% and 31% 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 parimutuel 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.

Jay Street Development Corporation. (JSDC). JSDC is a local development corporation organized by the City in 2000 under the not-for-profit corporation law of the State of New York. JSDC is an instrumentality of the City, but is a separate legal entity from the City.

JSDC has no taxing power. Bonds issued by JSDC do not constitute debt of the State or the City and neither the State nor the City is liable on them. Bond issuances are being used to fund the costs of the design, construction, and furnishing of a courthouse (Courts Facility) in Brooklyn. The City has leased the Courts Facility from JSDC and the rental payments will fund debt service requirements, redemption premiums (if any), financing costs, administrative expenses, and certain additional amounts determined by JSDC as necessary for this project.

New York City Housing Development Corporation (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, Housing New York Corporation, and the New York City Residential Mortgage Insurance 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 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.

New York City Housing Authority (HA). HA is a public benefit corporation chartered in 1934 under the New York State Public Housing Law. HA develops, constructs, manages, and maintains low cost housing for eligible low income families in The City of New York. HA also maintains a leased housing program which provides housing assistance payments to families.

Substantial operating losses (the difference between operating revenues and expenses) result from the essential services that HA provides, and such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, HA receives subsidies from: (a) the Federal government primarily the U.S. Department of Housing and Urban Development 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 prior to May 1, 1995, and debt service payments. Subsidies are established through budgetary procedures which establish amounts to be funded by the grantor agencies. Projected operating income or loss 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. HA has a calendar year-end.

New York City Industrial Development Agency (IDA). IDA is a public benefit corporation established in 1974 to actively promote, retain, attract, encourage and develop an economically sound commerce and industry base to prevent unemployment and economic deterioration in the City. IDA is governed by a Board of Directors, which establishes official policies and reviews and approves requests for financing assistance. Its membership is prescribed by statute and includes public officials and private business leaders.

New York City Economic Development Corporation (EDC). EDC is a local development corporation organized in 1966 according to the not-for-profit corporation law of the State of New York. EDC renders a variety of services and administers certain economic development programs on behalf of the City relating to attraction, retention, and expansion of commerce and industry in the City. These services and programs include encouragement of construction, acquisition, rehabilitation and improvement of commercial and industrial enterprises within the City, and provide loan guarantees or grants to qualifying business enterprises as a means of helping to create and retain employment therein.

Business Relocation Assistance Corporation (BRAC). BRAC is a not-for-profit corporation incorporated in 1981 according to the not-for-profit corporation law of the State of New York for the purpose of implementing and administering the Relocation Incentive Program (RIP) and other related programs. BRAC provides relocation assistance to qualifying commercial and manufacturing firms moving within The City of New York.

The funds for RIP are provided by owners/developers of certain residential projects which cause the relocation of commercial and manufacturing businesses previously located at those sites. These funds consists of conversion contributions or escrow payments mandated by the City's zoning resolution for this type of development.

All conversion contributions received by BRAC are restricted for the use of administering industrial retention/relocation programs consistent with the Zoning Resolution. The program provides grants up to $30,000 to eligible New York City commercial and manufacturing firms to defray their moving costs. Grants are awarded after a firm completes its relocation. This program will continue to operate only with the current accumulated net assets now available.

Brooklyn Navy Yard Development Corporation (BNYDC). BNYDC was organized in 1966 as a not-for-profit corporation according to the not-for-profit corporation law of the State of New York. The primary purpose of BNYDC is to provide economic rehabilitation in Brooklyn to revitalize the economy and create job opportunities. In 1971, BNYDC leased the Brooklyn Navy Yard from the City for the purpose of rehabilitating it and attracting new businesses and industry to the area. The Mayor of The City of New York appoints the majority of the members of the Board of Directors.

Water And Sewer System:

New York City Water Board (Water Board) and New York City Municipal Water Finance Authority (Water Authority). The Water and Sewer System (NYW), consisting of two legally separate and independent entities, the Water Board and the Water Authority, was established in 1985. NYW 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.

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 800, 1 Centre Street, New York, New York 10007.

2. Basis of Presentation

Government-wide Statements: The government-wide financial statements (*i.e.,* the statement of net assets and the statement of activities), display information about the primary government and its component units. These statements include the financial activities of the overall government except for fiduciary activities. For the most part, eliminations of internal activity have been made in these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. All of the activities of the City as primary government are governmental activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (i) charges for services such as rental revenue from operating leases on markets, ports, and terminals and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other revenues not properly included among program revenues are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for the governmental and fiduciary fund categories are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City uses funds 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.

Funds are classified into three categories: governmental, fiduciary, and proprietary. Except for proprietary (the only organizations that would be categorized as proprietary funds are reported as component units), each category, in turn, is divided into separate "fund types."

The City reports the following major governmental funds:

General Fund. This 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 liabilities.

New York City Capital Projects Fund. This fund is used to record all revenues, expenditures, assets, and liabilities associated with City capital projects. It accounts for resources used to construct or acquire fixed assets and make capital improvements. Resources of the New York City Capital Projects Fund are derived principally from proceeds of City, TFA, and TSASC bond issues, payments from the Water Authority, and from Federal, State, and other aid.

General Debt Service Fund. This fund, required by State legislation on January 1, 1979 is 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.

Additionally, the City reports the following fund types:

Fiduciary Funds

The Fiduciary Funds are used to account for assets and activities when a governmental unit is functioning either as a trustee or an agent for another party. They include the following:

The **Pension and Other Employee Benefit Trust Funds** account for the operations of:
- 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 City Police Department Pension Fund—Subchapter 2 (POLICE)
- New York City 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)
- Correction Officers' Variable Supplements Fund (COVSF)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP)

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 800, 1 Centre Street, New York, New York 10007.

These funds use the accrual basis of accounting and a measurement focus on the periodic determination of additions, deductions, and net assets held in trust for benefit payments.

The **Agency Funds** 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.

Discretely Presented Component Units

The discretely presented component units consist of **HHC, OTB, HDC, HA, EDC, NYW** and the nonmajor component units. 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.

New Accounting Standards Adopted

The basic financial statements reflect the City's adoption in fiscal year 2001, of four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

— Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*

— Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*

— Statement No. 37 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*

— Statement No. 38 *Certain Financial Statement Disclosures*

Statement No. 33 prescribes standards for recording nonexchange transactions on the modified accrual and accrual bases of accounting. A significant amount of the City's revenues are derived from nonexchange transactions, such as real estate, income and sales taxes, as well as Federal, State and other categorical aid. The effect of adoption of Statement No. 33 on the nonexchange transactions recorded as revenue in the City's governmental funds was insignificant. However, the City recorded in the balance sheet of its governmental fund financial statements at June 30, 2002 and 2001, $2.831 billion and $3.057 billion, respectively, as receivables with a corresponding amount reported as deferred revenues. These amounts represent revenues from nonexchange transactions during the fiscal year which are not available to finance expenditures of the current period. For reporting nonexchange transactions in the government-wide financial statements on the accrual basis of accounting, the receivables are recorded as described in the preceding sentence, however, corresponding amounts are reported as revenue instead of deferred revenue. Accordingly, the amounts recognized as revenue in the fund financial statements differs from the amounts recognized as revenue in the government-wide financial statements by the change in deferred revenue in the fund financial statements from the beginning to the end of the fiscal year.

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Obligations Account Group. In addition to the fixed assets previously recorded in the General Fixed Assets Account Group, the City retroactively capitalized infrastructure assets that were acquired beginning with fiscal year ended June 30, 1981. In addition, the government-wide statement of activities reflects depreciation expense on the City's fixed assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the City's General Fund, Capital Projects Fund, and Debt Service Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34.

Statement No. 34 also requires as required supplementary information Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and modified General Fund budget with actual results.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While this Statement did not affect amounts reported in the financial statements of the City, certain note disclosures have been added and or amended including descriptions of activities of major funds, violations of legal or contractual provisions, future debt service and lease obligations in five year increments, short-term obligations, interest rates, and interfund balances and transactions.

3. Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City either gives or receives value without directly receiving or giving equal value in exchange, include (for example, sales and income taxes, property taxes, grants, entitlements, and donations). On an accrual basis, revenue from sales and income taxes are recognized when the underlying exchange transaction takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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. Revenues from taxes are generally considered available if received within two months after the fiscal year-end. Revenues from categorical and other grants are generally considered available if received within one year after the fiscal year-end. Expenditures are recorded when the related liability is incurred and payment is due, except for principal and interest on long-term debt and certain estimated liabilities which are recorded only when payment is due.

The measurement focus of the Pension and Other Employee Benefit Trust Funds is on the flow of economic resources. This focus emphasizes the determination of net income, changes in net assets, and financial position. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. These funds use the accrual basis of accounting whereby revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred. The Pension Trust Funds' contributions from members are recorded when the employer makes payroll deductions from Plan members. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the discretely presented component units have elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

The Agency Funds use the modified accrual basis of accounting and do not measure the results of operations.

4. 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.

5. 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 2002 and 2001 were approximately $777 million and $226 million, respectively.

Most investments are reported in the balance sheet at fair value. Investment income, including changes in the fair value of investments, is reported in operations.

Investments in fixed income securities are recorded at fair value. 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 Other Employee Benefit Trust Funds are reported at fair value. Investments are stated at the last reported sales price on a national securities exchange on the last business day of the fiscal year.

A description of the City's securities lending activities for the Pension and Other Employee Benefit Trust Funds in fiscal years 2002 and 2001 is provided in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2002 and 2001 (estimated at $210 million and $198 million, respectively, based on average cost) have been reported on the governmental-wide financial statement of net assets. Inventories are recorded as expenditures in governmental funds at the time of purchase and accordingly, have not been reported on the governmental funds balance sheet.

7. 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.

8. Capital Assets

Capital 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 $35,000, and having been appropriated in the Capital Budget (see Note C.1.). Capital assets which are used for general governmental purposes and are not available for expenditure are accounted for and reported in the government-wide financial statements. These statements also contain the City's infrastructure elements that are now required to be capitalized under GAAP. Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, park land and improvements, and tunnels. 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.

Capital 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 capital 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 D.3.).

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; 5 to 35 years for equipment; and 15 to 50 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is less.

9. Allowance for Uncollectible Mortgage Loans

Mortgage loans and interest receivable in the Debt Service Funds are net of an allowance for uncollectible amounts of $752.3 million and $750.1 million for fiscal years 2002 and 2001, 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.

10. 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 in the fund financial statements. 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 as a liability in the government-wide financial statements.

11. Treasury Obligations

Bonds payable included in the government-wide financial statements 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.

12. Judgments and Claims

The City is uninsured with respect to risks including, but not limited to, property damage, personal injury, and workers' compensation. In the fund financial statements, 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 when the liability is estimable. In the government-wide financial statements, the estimated liability for all judgments and claims is recorded as a liability.

13. Long-term Liabilities

For long-term liabilities, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. All long-term liabilities are reported in the government-wide financial statement of net assets. Long-term liabilities expected to be financed from discretely presented component unit operations are accounted for in those component unit financial statements.

14. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2002 were due July 1, 2001 and January 1, 2002 except that payments by owners of real property assessed at $80,000 or less and cooperatives whose individual units on average are valued at $80,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 2002 taxes was June 7, 2001. 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 for the fund financial statements. Additionally, the government-wide financial statements recognize real estate tax revenue (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied.

The City offered the usual discount of 2% for the prepayment of real estate taxes for fiscal years 2003 and 2002. Collections of these real estate taxes received on or before June 30, 2002 and 2001 were $1,374 million and $1,452 million, respectively. These amounts were recorded as deferred revenue.

The City sold approximately $53.5 million of real property tax liens, fully attributable to fiscal year 2002, at various dates in fiscal year 2002. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been again estimated that $8.6 million worth of liens sold in fiscal year 2002 will require replacement. The estimated refund accrual amount of $9 million, including the surcharge and interest, results in fiscal year 2002 sale proceeds of $44.5 million.

In fiscal year 2002, $12.9 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2001 sale. This resulted in a decrease to fiscal year 2002 revenue of $3.9 million for the refund amount in excess of the fiscal year 2001 accrual of $9 million and decreased the proceeds of the fiscal year 2001 sale to $201 million down from the original fiscal year 2001 proceeds reported last year of $204.9 million.

The City sold approximately $213.9 million of real property tax liens, fully attributable to fiscal year 2001, at various dates in fiscal year 2001. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that $8.6 million worth of liens sold in fiscal year 2001 will require replacement. The estimated refund accrual amount of $9 million, including the surcharge and interest, results in fiscal year 2001 sale proceeds of $204.9 million.

In fiscal year 2001, $15.1 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2000 sale. This resulted in a decrease to fiscal year 2001 revenue of $9.1 million for the refund amount in excess of the fiscal year 2000 accrual of $6 million and decreased the proceeds of the fiscal year 2000 sale to $49.9 million down from the original fiscal year 2000 proceeds reported last year of $59 million.

In fiscal years 2002 and 2001, $343 million and $363 million, respectively, were provided as allowances for uncollectible real estate taxes against the balance of the receivable. Delinquent real estate taxes receivable that are estimated to be collectible but which are not collected in the first two months of the next fiscal year are recorded as deferred revenues in the governmental funds balance sheet but included in general revenues on the government-wide statement of activities.

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, 2002 and 2001, excess amounts of $509 million and $917 million, respectively, were transferred to the Debt Service Funds.

15. Other Taxes and Other Revenues

Taxpayer-assessed taxes, such as sales and income taxes, net of refunds, are recognized in the accounting period in which they become susceptible to accrual for the fund financial statements. Additionally, the government-wide financial statements recognize sales and income taxes (net of refunds) which are not available to the governmental fund type in the accounting period for which the taxes are assessed.

16. Federal, State, and Other Aid

For the government-wide and fund financial statements, categorical aid, net of a provision for estimated disallowances, is reported as receivables when the related eligibility requirements are met. Unrestricted aid is reported as revenue in the fiscal year of entitlement.

17. 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 government-wide financial statements 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.

18. Intra-entity Activity

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as operating transfers. Such payments include transfers for debt service and capital construction. In the government-wide financial statements, resource flows between the primary government and the discretely presented component units are reported as if they were external transactions.

19. 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.

20. Pensions

Pension cost is required to be measured and disclosed using the accrual basis of accounting (see Note E.5.), 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.

21. Reclassifications

Reclassifications and adjustments of certain prior year amounts have been made to conform with the current year presentation and separately issued financial statements of reported entities. In addition, the amounts reported as invested in capital assets net of related debt and unrestricted (deficit) net assets for the Primary Government — Governmental Activities on the Statement of Net Assets as of June 30, 2001 have been restated to conform with the current year's calculation. Specifically, debt of blended component units has been allocated between that which relates to capital assets and that which is reported as unrestricted. Invested in capital assets, net of related debt was originally reported as a negative $8.1 billion and has now been reported as a negative $2.4 billion. The unrestricted deficit was originally reported as $15.5 billion and has now been reported as $21.2 billion. The total net deficit reported as of June 30, 2001 is unchanged.

22. Estimates and Assumptions

A number of estimates and assumptions relating to the reporting of revenues, expenditures, assets and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

23. Pronouncements Issued But Not Yet Effective

In May, 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14.* The Statement amends Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit.

Organizations that are legally separate, tax-exempt entities and that meet *all* of the following criteria should be discretely presented as component units. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The Statement continues the requirement in Statement No. 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Those component units should be reported based on the existing blending and discrete presentation display requirements of Statement No. 14.

The provisions of Statement No. 39 are effective for financial statements for periods beginning after June 15, 2003. While earlier application is encouraged, the City has not completed the process of evaluating the impact that will result from adopting this statement, and therefore, is unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted.

B. Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net deficit of governmental activities as shown on the government-wide statement of net assets is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

A summary reconciliation of the difference between net change in fund balances as reflected on the governmental funds statement of revenues, expenditures, and changes in fund balances and change in net assets of governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

C. Stewardship, Compliance, and Accountability

1. 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, on a basis consistent with GAAP, 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 $2,374 million and $3,513 million subsequent to its original adoption in fiscal years 2002 and 2001, 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 comprises 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.

2. Deficit Fund Balance

The New York City Capital Projects Fund has cumulative deficits of $1.5 billion and $2.1 billion at June 30, 2002 and 2001, respectively. These deficits represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

D. Detailed Notes on All Funds

1. 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 are insured by the FDIC up to $100,000 per retirement system member. At June 30, 2002 and 2001, the carrying amount of the City's cash and cash equivalents was $1,381 million and $1,441 million, respectively, and the bank balances were $993 million and $1,207 million, respectively. Of the bank balances, $151 million and $437 million, respectively, were covered by Federal depository insurance and $200 million and $770 million, respectively, were uninsured and collateralized with securities held by the City's agent in the City's name. Of the bank balances, $642 million was uninsured and uncollateralized for fiscal year 2002. At June 30, 2002 and 2001, the carrying amount of the discretely presented component units' cash and cash equivalents was $1,244 million and $529 million, respectively, and the bank balances were $112 million and $103 million, respectively. Of the bank balances, $21 million and $4 million, respectively, were covered by Federal depository insurance and $54 million and $90 million, respectively, were uninsured and collateralized with securities held by the City's agent in the City's name. Of the bank balances, $37 million and $9 million, respectively, were uninsured and uncollaterized.

The uninsured, collateralized and the uninsured, uncollateralized 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 currently limited to U.S. Government guaranteed securities and U.S. Government agency securities purchased directly and through repurchase agreements from primary dealers as well as commercial paper rated A1 and P1 by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively. The repurchase agreements must be collateralized by U.S. Government guaranteed securities, U.S. Government agency securities, or eligible commercial paper in a range of 100% to 102% 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 Other Employee Benefit Trust Funds' investments are as follows:

1. Fixed income investments may be made in U.S. Government guaranteed securities or securities of U.S. Government agencies, securities of companies rated BBB or better by both Standard and 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 Laws, 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 guaranteed securities or U.S. Government agency securities.

   b. Commercial paper rated A1 or P1 or F1 by Standard & Poor's Corporation or Moody's Investors Service, Inc. or Fitch, respectively.

   c. Repurchase agreements collateralized in a range of 100% to 102% of matured value, purchased from primary dealers of U.S. Government securities.

   d. Investments in bankers' acceptances, certificates of deposit, and time deposits are limited to banks with worldwide 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 15% 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 corporation can be: (i) more than 2% of the pension plan net assets; or (ii) more than 5% of the total outstanding issues of the corporation.

All investments 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 evidence of ownership of the underlying investments 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 fulfil 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 (CU), as of June 30, 2002 and 2001 are classified as follows:

	2002											
	Category						Total Carrying Amount		Fair Value	
	1		2		3					
	City	CU	City	CU	City	CU	City	CU	City	CU
					(in millions)					
Repurchase agreements	$ 595	$ 65	$ —	$ —	$ —	$ —	$ 595	$ 65	$ 595	$ 65
U.S. Government securities	15,556	46	—	—	—	—	15,556	46	15,558	46
Commercial paper	4,779	40	—	—	—	—	4,779	40	4,779	40
Corporate bonds	12,047	—	—	—	—	—	12,047	—	12,047	—
Corporate stocks	45,013	—	—	—	—	—	45,013	—	45,013	—
Agency discount notes	516	420	—	—	—	—	516	420	517	420
Open time deposits	—	3	—	—	—	—	—	3	—	3
Securities lending investment collateral (categorized):										
Repurchase agreements	396	—	—	—	—	—	396	—	396	—
U.S. Government securities	16	—	—	—	—	—	16	—	16	—
Commercial paper	1,034	—	—	—	—	—	1,034	—	1,033	—
Corporate bonds	3,960	—	—	—	—	—	3,960	—	3,960	—
Certificates of deposit	2,272	—	—	—	—	—	2,272	—	2,272	—
Money markets	124	—	—	—	—	—	124	—	124	—
Uninvested cash	1	—	—	—	—	—	1	—	1	—
Promissory Notes	101	—	—	—	—	—	101	—	101	—
Agency discount notes	1	—	—	—	—	—	1	—	1	—
Open time deposits	1,092	—	—	—	—	—	1,092	—	1,092	—
Corporate stocks	37	—	—	—	—	—	37	—	37	—
	$ 87,540	$ 574	$ —	$ —	$ —	$ —	87,540	574	87,542	574
Mutual funds (1)							3,048	—	3,048	—
International investment fund—equity (1)							12,090	—	12,090	—
Guaranteed investment contracts (1)							1,519	—	1,519	—
Management investment contracts (1)							173	—	173	—
Short-term investment fund (1)							2,146	—	2,146	—
Tier 3 and 4 loans (1)							57	—	57	—
Small mortgages (1)							3	—	3	—
Securities lending investment collateral (uncategorized):										
Mutual funds (1)							691	—	691	—
Guaranteed investment contracts (1)							18	—	18	—
Short-term investment fund (1)							43	—	43	—
Total investments							$107,328	$ 574	$107,330	$ 574

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

In fiscal year 2002, the restricted cash and cash equivalents applicable to the governmental funds was $1,170 million of which the repayment of $1,170 million was insured or collateralized and none was uninsured and uncollateralized. There were no restricted governmental funds investments for fiscal year 2002.

In fiscal year 2002, the restricted cash, cash equivalents, and investments applicable to discretely presented component units include $368 million of cash and cash equivalents, of which the repayment of $296 million was insured or collateralized and $721 million was uninsured and uncollateralized. Restricted investments, principally in U.S. Government securities with a cost and approximate fair value of $2,815 million are fully registered with securities held by the City's agent in the entity's name of which $1,701 million have maturities of three months or less.

	2001									
	Category						Total Carrying Amount		Fair Value	
	1		2		3					
	City	CU	City	CU	City	CU	City	CU	City	CU
	(in millions)									
Repurchase agreements	$ 1,947	$ 62	$ —	$ —	$ —	$ —	$ 1,947	$ 62	$ 1,947	$ 62
U.S. Government securities	17,905	1,091	—	—	—	—	17,905	1,091	17,906	1,091
Commercial paper	4,240	—	—	—	—	—	4,240	—	4,240	—
Corporate bonds	13,744	—	—	—	—	—	13,744	—	13,744	—
Corporate stocks	53,119	—	—	—	—	—	53,119	—	53,119	—
Agency discount notes	535	279	—	—	—	—	535	279	534	279
Certificates of deposit	—	33	—	—	—	—	—	33	—	33
Securities lending investment collateral (categorized):										
Repurchase agreements	348	—	—	—	—	—	348	—	348	—
U.S. Government securities	26	—	—	—	—	—	26	—	26	—
Commercial paper	3,159	—	—	—	—	—	3,159	—	3,159	—
Corporate bonds	2,601	—	—	—	—	—	2,601	—	2,601	—
Certificates of deposit	2,182	—	—	—	—	—	2,182	—	2,182	—
Money markets	232	—	—	—	—	—	232	—	232	—
Uninvested cash	5	—	—	—	—	—	5	—	5	—
Promissory Notes	430	—	—	—	—	—	430	—	430	—
Loan Participation	4	—	—	—	—	—	4	—	4	—
Open time deposits	381	—	—	—	—	—	381	—	381	—
Corporate stocks	203	—	—	—	—	—	203	—	203	—
	$101,061	$1,465	$ —	$ —	$ —	$ —	101,061	1,465	101,061	1,465
Mutual funds (1)							4,552	—	4,552	—
International investment fund—equity (1)							12,973	—	12,973	—
Guaranteed investment contracts (1)							1,043	—	1,043	—
Management investment contracts (1)							98	—	98	—
Short-term investment fund (1)							2,791	—	2,791	—
Small mortgages (1)							9	—	9	—
Total investments							$122,527	$ 1,465	$122,527	$ 1,465

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

In fiscal year 2001, the restricted cash and cash equivalents applicable to the governmental funds was $457 million of which the repayment of $457 million was insured or collateralized and none was uninsured and uncollateralized. There were no restricted governmental funds investments for fiscal year 2001.

In fiscal year 2001, the restricted cash, cash equivalents, and investments applicable to discretely presented component units include $404 million of cash and cash equivalents, of which the repayment of $401 million was insured or collateralized and $3 million was uninsured and uncollateralized. Restricted investments, principally in U.S. Government securities with a cost and approximate fair value of $1,999 million are fully registered with securities held by the City's agent in the entity's name of which $241 million have maturities of three months or less.

Securities Lending

State statutes and boards of trustees policies permit the Pension and Retirement Systems and certain Variable Supplements Funds (Systems and 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' and Funds' custodians lend the following types of securities: short-term securities, common stock, long-term corporate bonds, U.S. Government and U.S. Government agencies' bonds, asset-backed securities, and international equities and bonds held in collective investment funds. Securities on loan at year-end are classified as a Category 1 risk in the preceding schedule of custodial credit risk. International securities are uncategorized. In return, they receive collateral in the form of cash at 100%-105% of the principal plus accrued interest for reinvestment. At year-end, the Systems and Funds had no credit risk exposure to borrowers because the amounts the Systems and Funds owe the borrowers exceed the amounts the borrowers owe the Systems and Funds. The contracts with the Systems' and Funds' custodian requires borrowers to indemnify the Systems and Funds if the borrowers fail to return the securities, if the collateral is inadequate, and if the borrowers fail to pay the Systems and 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 and 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.

The City reports securities loaned as assets on the Statement of Fiduciary Net Assets. Cash received as collateral on securities lending transactions and investments made with that cash are also recorded as assets. Liabilities resulting from these transactions are reported on the Statement of Fiduciary Net Assets. Accordingly, the City records the investments purchased with the cash collateral as Investments, Collateral From Securities Lending Transactions with a corresponding liability as Securities Lending Transactions.

2. Capital Assets

The following is a summary of capital assets activity for the fiscal years ended June 30, 2001 and 2002:

Primary Government	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002
				(in thousands)			
Governmental activities:							
Capital assets, not being depreciated:							
Land	$ 707,068	$ 30,006	$ 3,220	$ 733,854	$ 3,029	$ —	$ 736,883
Construction work-in-progress	6,984,982	2,474,041	2,598,403	6,860,620	2,420,923	2,084,784	7,196,759
Total capital assets, not being depreciated	7,692,050	2,504,047	2,601,623	7,594,474	2,423,952	2,084,784	7,933,642
Capital assets, being depreciated:							
Buildings	15,139,258	2,598,403	52,722	17,684,939	2,633,299	466,077	19,852,161
Equipment	5,135,765	404,143	109,062	5,430,846	707,379	571,876	5,566,349
Infrastructure	8,365,006	458,628	—	8,823,634	881,227	207,566	9,497,295
Total capital assets, being depreciated	28,640,029	3,461,174	161,784	31,939,419	4,221,905	1,245,519	34,915,805
Less accumulated depreciation:							
Buildings	7,249,784	725,207	—	7,974,991	648,096	23,734	8,599,353
Equipment	3,489,923	341,753	—	3,831,676	425,973	213,735	4,043,914
Infrastructure	3,053,825	176,040	—	3,229,865	480,400	163,156	3,547,109
Total accumulated depreciation	13,793,532	1,243,000(1)	—	15,036,532	1,554,469(1)	400,625	16,190,376
Total capital assets, being depreciated, net	14,846,497	2,218,174	161,784	16,902,887	2,667,436	844,894	18,725,429
Governmental activities capital assets, net	$22,538,547	$4,722,221	$2,763,407	$24,497,361	$5,091,388	$2,929,678	$26,659,071

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2002 and 2001 as follows:

	2002	2001
	(in thousands)	
Governmental activities:		
General government	$ 267,908	$ 168,503
Public safety and judicial	144,972	119,753
Education	297,499	377,447
City University	10,727	7,878
Social services	61,140	39,213
Environmental protection	186,915	193,570
Transportation services	385,748	223,479
Parks, recreation and cultural activities	175,844	86,943
Health	12,676	11,815
Libraries	11,040	14,399
Total depreciation expense—governmental activities	$1,554,469	$1,243,000

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2002 and 2001. Sources of funding for capital assets are not available prior to fiscal year 1987.

	2002	2001
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	$ 6,060,573	$ 6,467,109
City bonds	33,605,805	30,466,604
Federal grants	374,687	363,774
State grants	137,272	130,735
Private grants	53,637	51,574
Capitalized leases	2,617,473	2,054,097
Total funding sources	$42,849,447	$39,533,893

At June 30, 2002 and 2001, governmental activities capital assets include approximately $1.2 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 governmental activities capital assets and are recorded in the respective component unit financial statements.

Included in land and buildings at June 30, 2002 and 2001 are leased properties capitalized at $2,617 million and $2,054 million, respectively, with related accumulated amortization of $311 million and $250 million, respectively.

Capital Commitments

At June 30, 2002, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $10.3 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 New York City Capital Projects Fund expenditures of $48.1 billion over the remaining fiscal years 2003 through 2011. To help meet its capital spending program, the City and TFA borrowed $4.8 billion in the public credit market in fiscal year 2002. The City, TFA, and/or TSASC plan to borrow $4.4 billion in the public credit market in fiscal year 2003.

3. Leases

The City leases a significant amount of property and equipment from others. Leased property having elements of ownership is recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. 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, 2002 and 2001 were approximately $500 million and $453 million, respectively.

As of June 30, 2002, 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
Governmental activities:		(in thousands)	
Fiscal year ending June 30:			
2003	$ 194,845	$ 292,073	$ 486,918
2004	195,799	276,727	472,526
2005	207,017	260,078	467,095
2006	206,349	251,705	458,054
2007	204,857	240,939	445,796
2008-2012	857,001	881,103	1,738,104
2013-2017	706,189	559,608	1,265,797
2018-2022	571,586	230,390	801,976
2023-2027	393,420	77,854	471,274
2028-2032	295,510	59,091	354,601
2033-2037	95,846	48,616	144,462
2038-2042	38,339	30,689	69,028
Future minimum payments	3,966,758	$3,208,873	$7,175,631
Less interest	1,668,619		
Present value of future minimum payments	$2,298,139		

The present value of future minimum lease payments includes approximately $1.804 billion for leases with Public Benefit Corporations (PBC) where State law generally provides 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 paid to PBC.

The City also leases City-owned property to others, primarily for markets, ports, and terminals. Total rental revenue on these capital and operating leases for the fiscal years ended June 30, 2002 and 2001 was approximately $115 million and $154 million, respectively. As of June 30, 2002, the following future minimum rentals are provided for by the leases:

	Capital Leases	Operating Leases	Total
Governmental activities:		(in thousands)	
Fiscal year ending June 30:			
2003	$ 1,541,150	$ 66,418,653	$ 67,959,803
2004	1,617,809	57,846,717	59,464,526
2005	1,694,468	51,012,491	52,706,959
2006	1,767,531	46,066,211	47,833,742
2007	1,841,565	44,389,075	46,230,640
2008-2012	9,877,933	193,394,103	203,272,036
2013-2017	11,250,992	127,783,185	139,034,177
2018-2022	12,313,923	81,223,667	93,537,590
2023-2027	12,072,645	52,407,640	64,480,285
2028-2032	11,934,565	46,735,592	58,670,157
2033-2037	11,936,042	43,083,785	55,019,827
2038-2042	11,107,790	36,963,481	48,071,271
2043-2047	10,247,528	36,653,944	46,901,472
2048-2052	10,088,955	33,107,558	43,196,513
2053-2057	10,088,955	29,910,073	39,999,028
2058-2062	10,088,955	29,910,070	39,999,025
2063-2067	10,088,955	29,910,067	39,999,022
2068-2072	10,088,955	28,847,565	38,936,520
2073-2077	9,956,634	27,686,136	37,642,770
2078-2082	981,507	18,734,180	19,715,687
2083-2087	—	15,569,118	15,569,118
2088-2092	—	3	3
Future minimum lease rentals	160,586,857	$1,097,653,314	$1,258,240,171
Less interest	130,976,967		
Present value of future minimum lease rentals	$ 29,609,890		

4. Short-Term Liabilities

Changes in Short-term liabilities

In fiscal years 2001 and 2002, the changes in short-term liabilities were as follows:

Primary Government	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002
				(in thousands)			
Governmental activities:							
Notes payable:							
Revenue anticipation notes (1)	$ —	$ 750,000	$ 750,000	$ —	$ —	$ —	$ —
Bond anticipation notes (2)	515,000	515,000	1,030,000	—	2,800,000	600,000	2,200,000
Total notes payable	$515,000	$1,265,000	$1,780,000	$ —	$2,800,000	$600,000	$2,200,000

(1) Revenue anticipation notes are used by the City to satisfy its seasonal financing needs.

(2) Bond anticipation notes are used by TFA to provide financing for the City's capital expenditures and reimbursement to the City for costs related to and arising from events on September 11, 2001 at the World Trade Center.

5. Long-Term Liabilities

Changes in Long-term liabilities

In fiscal years 2001 and 2002, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002	Due Within One Year
				(in thousands)				
Governmental activities:								
Bonds payable:								
General obligation bonds	$26,892,106	$2,378,565	$2,434,880	$26,835,791	$3,968,609	$2,338,916	$28,465,484	$1,249,090
1991 general resolution bonds	3,531,565	—	314,530	3,217,035	106,610	444,005	2,879,640	355,040
Future tax secured bonds	5,923,155	1,536,825	73,970	7,386,010	1,020,190	117,535	8,288,665	178,185
Bond anticipation notes	515,000	—	515,000	—	—	—	—	—
Tobacco flexible amortization bonds	709,280	—	5,620	703,660	45,878	9,430	740,108	8,915
Japanese Yen bonds	120,000	—	40,000	80,000	—	40,000	40,000	40,000
Revenue bonds(1)(2)	570,651	—	27,711(3)	542,940	—	21,734(3)	521,206	31,448
Total before treasury obligations and discounts	38,261,757	3,915,390	3,411,711	38,765,436	5,141,287	2,971,620	40,935,103	1,862,678
Less treasury obligations	230,468	—	62,095	168,373	—	52,102	116,271	52,275
Total before discounts	38,031,289	3,915,390	3,349,616	38,597,063	5,141,287	2,919,518	40,818,832	1,810,403
Less discounts (net)	234,949	16,230	83,872	167,307	321,172	141,318	347,161	—
Total bonds payable	37,796,340	3,899,160	3,265,744	38,429,756	4,820,115	2,778,200	40,471,671	1,810,403
Capital lease obligations	1,803,050	55,251	53,724	1,804,577	563,376	69,814	2,298,139	58,762
Real estate tax refunds	590,781	139,689	148,075	582,395	116,152	118,827	579,720	88,804
Other tax refunds	1,468,529	121,459	261,529	1,328,459	160,130	121,459	1,367,130	135,130
Judgments and claims	4,013,688	1,206,470	993,650	4,226,508	1,047,127	936,615	4,337,020	972,104
Vacation and sick leave	2,082,300	148,571	122,169	2,108,702	212,156	104,917	2,215,941	105,020
Pension liability	—	188,200	—	188,200	161,000	21,400	327,800	37,300
Landfill closure and post-closure care costs	1,085,278	363,176	51,538	1,396,916	—	114,247	1,282,669	63,288
Total changes in governmental activities long-term liabilities	$48,839,966	$6,121,976	$4,896,429	$50,065,513	$7,080,056	$4,265,479	$52,880,090	$3,270,811

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

(2) Excludes $250,121 in 2001 and $255,460 in 2002 for CUCF to be provided by the State.

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

Note: City bonds payable are generally liquidated with resources of the General Debt Service Fund. Other long-term liabilities are generally liquidated with resources of the General Fund.

The bonds payable, net of treasury obligations, at June 30, 2002 and 2001 summarized by type of issue are as follows:

Primary Government	2002 General Obligations	2002 Revenue	2002 Total	2001 General Obligations	2001 Revenue	2001 Total
	(in thousands)					
Governmental activities:						
Bonds payable:						
General obligation bonds	$28,349,213	$ —	$28,349,213	$26,667,418	$ —	$26,667,418
1991 general resolution bonds	2,879,640	—	2,879,640	3,217,035	—	3,217,035
Future tax secured bonds	8,288,665	—	8,288,665	7,386,010	—	7,386,010
Tobacco flexible amortization bonds	740,108	—	740,108	703,660	—	703,660
Japanese yen bonds	40,000	—	40,000	80,000	—	80,000
Revenue bonds	—	521,206	521,206	—	542,940	542,940
Total bonds payable	$40,297,626	$521,206	$40,818,832	$38,054,123	$542,940	$38,597,063

The following table summarizes future debt service requirements as of June 30, 2002:

Primary Government	Governmental Activities — General Obligation Bonds Principal	General Obligation Bonds Interest(1)	Revenue Bonds Principal	Revenue Bonds Interest
	(in thousands)			
Fiscal year ending June 30:				
2003	$ 1,778,955	$ 1,925,510	$ 31,448	$ 30,928
2004	2,078,740	1,851,259	31,892	30,434
2005	2,100,001	1,755,834	32,443	28,774
2006	2,078,915	1,634,005	34,635	23,945
2007	2,129,029	1,519,685	31,035	21,925
2008-2012	9,430,355	6,066,088	141,921	80,288
2013-2017	7,718,510	3,927,450	124,104	42,640
2018-2022	6,618,992	2,172,079	47,665	17,719
2023-2027	4,486,578	939,723	37,462	7,196
2028-2032	1,068,539	169,970	8,601	784
2033-2037	30,213	5,426	—	—
2038-2042	5,753	17	—	—
Thereafter until 2147	773,046	140	—	—
	40,297,626	21,967,186	521,206	284,633
Less interest component	—	21,967,186	—	284,633
Total future debt service requirements	$40,297,626	$ —	$521,206	$ —

(1) Includes interest for general obligation bonds estimated at 4% rate on tax-exempt adjustable rate bonds and at 6% rate on taxable adjustable rate bonds which are the rates at the end of the fiscal year; also, includes interest estimated at 7% rate for Japanese yen bonds. Semiannual interest on Japanese yen bonds is based on offering rates for deposits in U.S. dollars on London interbank offerings.

The average (weighted) interest rates for outstanding City general obligation bonds as of June 30, 2002 and 2001 were 5.5% and 5.6%, respectively, and both ranged from 0.0% to 13.55%, and the interest rates on outstanding MAC bonds as of both June 30, 2002 and 2001 ranged from 3.5% to 6.25%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2002 and 2001, the City issued $1.008 billion and $1.139 billion, respectively, of general obligation bonds to advance refund general obligation bonds of $1.003 billion and $1.147 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of $3.8 million and $46.2 million, respectively, 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 government-wide financial statements. In fiscal year 2002, the refunding transactions will decrease the City's aggregate debt service payments by $200 thousand and provide an economic gain of $52.3 million. In fiscal year 2001, the refunding transactions decreased the City's aggregate debt service payments by $61.4 million and provided an economic gain of $56.3 million. At June 30, 2002 and 2001, $5.875 billion and $8.298 billion, respectively, of the City's outstanding general obligation bonds were considered defeased.

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. Excluded from this debt limitation 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 July 1, 2002, the 10% general limitation was approximately $35.993 billion (compared with $32.867 billion as of July 1, 2001). To provide for the City's capital program, TFA and TSASC were created, the debt of which is not subject to the general debt limit of the City. The debt-incurring power of TFA and TSASC has permitted the City to continue to enter into new contractual commitments. As of July 1, 2002, the combined City, TFA, and TSASC remaining debt incurring power totaled $6.750 billion, after providing for capital commitments.

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. In fiscal year 2002, discretionary and other transfers of $663 million were made from the General Fund to the General Debt Service Fund for fiscal year 2003 debt service. In addition, in fiscal year 2002, no discretionary transfers were made to component units of the Debt Service Funds. In fiscal year 2001, discretionary and other transfers of $2.097 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2002 debt service. In addition, in fiscal year 2001, discretionary transfers totaling $514 million were made to certain component units of the Debt Service Funds.

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. Claims related to the September 11 attack on the World Trade Center are not described below. The City has received approximately 2,000 notices of claims totaling approximately $9 billion relating to the September 11 attack. The ultimate outcome and fiscal impact, if any, on the City of these claims is not currently predictable. As of June 30, 2002 and 2001, claims in excess of $533 billion and $500 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be $4.3 billion and $4.2 billion, respectively.

As explained in Note A.12., the estimate of the liability for unsettled claims has been reported in the government-wide statement of net assets under noncurrent liabilities. 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.

In February, 1997, a former New York City school principal filed an action in New York State Supreme Court challenging the investment policies and practices of the Retirement Board of the New York City Teachers' Retirement System (TRS) with regard to a component of TRS consisting of member contributions and earnings thereon known as the Variable B Fund. Plaintiff alleges that the trustees of TRS illegally maintained the Variable B Fund as a fixed-income fund and ignored a requirement that a substantial amount of the Fund's assets be invested in equity securities. The defendants are TRS and its individual trustees. Plaintiff seeks damages on behalf of all Variable B Fund participants in excess of $250 million. In May, 1999, the Appellate Division, First Department, affirmed the Supreme Court's earlier denial of the defendants' motion for summary judgment. If the plaintiff were to prevail in this action, it could result in substantial costs to the City.

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 $580 million and $582 million at June 30, 2002 and 2001, respectively, as reported in the government-wide financial statements.

Pension Liability

The City's pension liability as of June 30, 1999 resulted from a statutory change in the timing of the City's contribution to its pension plans. Prior to fiscal year 1981, the City's pension contribution reflected pension costs incurred two years earlier and a phase-in of certain actuarial assumptions. The City's liability was originally amortized over 40 years. Later legislation reduced the amortization period to 20 years. As of June 30, 1999, the remaining amortization period was 11 years. In accordance with Chapter 85 of the New York State Laws of 2000, enacted on June 24, 2000, as part of a number of changes to actuarial assumptions and methods, this liability is no longer being funded separately as part of actuarially-determined pension contributions and a liability on the part of the City separate from its actuarially-determined pension contributions no longer exists. Accordingly, the amount of the recorded liability was decreased to zero as of June 30, 2000. For actuarial purposes, the liability was eliminated for the purpose of calculating fiscal year 2000 pension contributions.

As of June 30, 2002 and 2001, the City's pension liability resulted from State legislation (Chapter 125 of the Laws of 2000) enacted during their Spring 2000 session, which provides automatic cost-of-living adjustments for eligible retirees and eligible beneficiaries beginning September, 2000 and a phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by this law (see Note E.5.).

Landfill Closure and Postclosure Care Costs

Heretofore, the City's only active landfill available for waste disposal was the Fresh Kills landfill which initially ceased landfill operations in March, 2001. The landfill was reopened per the Governor's amended Executive Order No. 113, which authorized the City to continue the acceptance and disposal of waste materials received from the site of the World Trade Center disaster of September 11, 2001. The landfill subsequently closed in August, 2002. For government-wide financial statements, the measurement and recognition of the liability for closure and postclosure care is based on total estimated current cost and landfill usage to date. For fund financial statements, expenditures are recognized using the modified accrual basis of accounting where a liability is recognized only when liquidated with expendable financial resources.

Upon the landfill becoming inactive, the City is required by Federal and State law to close the landfill, including final cover, stormwater management, 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 as well as closure, postclosure, and groundwater monitoring activities for the sections no longer accepting solid waste.

The liability for these activities as of June 30, 2002 which equates to the total estimated current cost is $1,059.2 million based on the maximum cumulative landfill capacity used to date. There are no costs remaining to be recognized. During fiscal year 1996, New York State legislation was enacted which states that no waste will be accepted at the Fresh Kills landfill on or after January 1, 2002. Accordingly, the liability for closure and postclosure care costs is based upon an effective cumulative landfill capacity used to date of approximately 100%. 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.

During fiscal year 2002, expenditures for landfill closure and postclosure care costs totaled $37.4 million.

Resource Conservation and Recovery Act Subtitle D Part 258, which became effective April, 1997, requires financial assurance regarding closure and postclosure care. This assurance was most recently provided, on April 3, 2002, by the City's Chief Financial Officer placing in the Fresh Kills Landfill operating record representations in satisfaction of the Local Government Financial Test.

The City has five inactive hazardous waste sites not covered by the EPA rule. The City has recorded the long-term liability for these postclosure care costs in the government-wide financial statements.

The following represents the City's total landfill and hazardous waste sites liability which is recorded in the government-wide statement of net assets:

	Amount (in thousands)
Landfill	$1,059,232*
Hazardous waste sites	223,437
Total landfill and hazardous waste sites liability	$1,282,669

* Since September 11, 2001, the diversion of debris from the World Trade Center's destruction to Fresh Kills did not have a significant impact on the closure cost estimates.

6. Interfund Receivables and Payables

At June 30, 2002 and 2001, primary government and discretely presented component unit receivable and payable balances were as follows:

Governmental Activities:

Due from/to other funds:

Receivable Fund	Payable Fund	2002 (in thousands)	2001 (in thousands)
General Fund:	NYC Capital Projects Fund	$2,813,173(1)	$2,813,173(1)
	General Debt Service Fund	7,408	7,408
	CUCF	15,805	19,838
		2,836,386	2,840,419
NYC Capital Projects Fund	General Fund	1,763,555(1)	1,140,130(1)
General Debt Service Fund	NYC Capital Projects Fund	32,391	—
Total due from/to other funds		4,632,332	3,980,549

(1) Net of eliminations within the same fund type.

Note: During both fiscal years 2002 and 2001, the New York City Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

Component Units:

Due from/to primary government and component units:

Receivable Entity	Payable Entity	2002	2001
		(in thousands)	
Primary government—General Fund:	Component units: HDC	$ 238,488	$ 203,308
	OTB	320	311
	Water Board	9,246	—
		248,054	203,619
Primary government—NYC Capital Projects Fund	Component unit—Water Authority	253,456	205,456
Primary government—Private Housing Loan Programs	Primary government—HDC	11,621	11,063
Total due from component units		513,131	420,138
Component unit—Water Board	Primary government—General Fund	243	23,458
Total due to component units		243	23,458
Total due from/to primary government and component units		513,374	443,596
Total primary government and component units receivable and payable balances		$5,145,706	$4,424,145

E. Other Information

1. Audit Responsibility

In fiscal year 2002, the separately administered organizations included in the financial statements of the City audited by auditors other than Deloitte & Touche LLP are the Municipal Assistance Corporation for the City of New York, New York City Transitional Finance Authority, TSASC, Inc., New York City Educational Construction Fund, City University Construction Fund, New York City School Construction Authority, New York City Health and Hospitals Corporation, New York City Off-Track Betting Corporation, Jay Street Development Corporation, New York City Housing Development Corporation, New York City Industrial Development Agency, New York City Economic Development Corporation, Business Relocation Assistance Corporation, Brooklyn Navy Yard Development Corporation, New York City Water Board and New York City Municipal Water Finance Authority, and Deferred Compensation Plan for Employees of the City of New York and Related Agencies and Instrumentalities.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal year 2002:

	Government-wide		Fund-based	
	Governmental Activities	Component Units	Nonmajor Governmental Funds	Pension and Other Employee Benefit Trust Funds
	2002	2002	2002	2002
			(percent)	
Total assets	6	80	99	4
Revenues / additions (deductions) and other financing sources	2	74	99	3

In fiscal year 2001, the separately administered organizations included in the financial statements of the City audited by auditors other than KPMG 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, Deferred Compensation Plan, New York City Transitional Finance Authority, TSASC, Inc., and Jay Street Development Corporation.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal year 2001:

	Government-wide		Fund-based	
	Governmental Activities	Component Units	Nonmajor Governmental Funds	Pension and Other Employee Benefit Trust Funds
	2001	2001	2001	2001
			(percent)	
Total assets	5	37	95	4
Revenues / additions (deductions) and other financing sources	2	36	99	2

2. Subsequent Events

Long-term Financing

Subsequent to June 30, 2002, the City, TFA, and TSASC completed the following long-term financing:

City Debt: On August 1, 2002, the City sold its Series A and B bonds of $1.005 billion and on October 29, 2002, the City sold its Series C, D, and E bonds of $1.150 billion for refunding purposes, respectively.

TFA Debt: On July 2, 2002, TFA issued its fiscal 2003 Series A bonds of $1.239 billion for refunding purposes. On July 11, 2002, TFA issued Recovery bonds, Series 1, of $480 million to pay operating and capital costs incurred by the City which related to the events of September 11, 2001; also, the City had a reoffering of their 1999 A and B Conversion bonds of $322.5 million to convert variable rate debt to fixed rate debt. On August 28, 2002, TFA issued its fiscal 2003 Series B bonds of $750 million for refunding purposes. On September 10, 2002, TFA issued Recovery bonds, Series 2, of $520 million to pay operating and capital costs incurred by the City which related to the events of September 11, 2001. On October 1, 2002, TFA issued Recovery bonds, Series 3, of $1.026 billion to take out TFA's fiscal year 2003 Series A Recovery notes, which were used to refund the $1 billion Recovery note maturing on October 2, 2002.

TSASC Debt: On August 15, 2002, TSASC issued $500 million in bonds to finance various municipal capital purposes.

3. Other Employee Benefit Trust Fund

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 (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).

Section 457 requires amounts maintained under a deferred compensation plan by a state or local government to be held in trust (or custodial account or annuity contract) for the exclusive benefit of plan participants and their beneficiaries. Consequently, DCP is presented as an Other Employee Benefit Trust Fund in the City's financial statements.

Investments are managed by DCP's trustee under one of seven 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, 2001 and 2000:

	2001	2000
	(in thousands)	
Fund assets, December 31	$4,343,682	$4,270,632
Deferrals of compensation	456,688	423,004
Earnings and net decrease in investments' fair value	(257,730)	(244,905)
Payments to eligible participants and beneficiaries	(113,885)	(100,746)
Administrative expenses	(5,449)	(4,303)
Fund assets, December 31	$4,423,306	$4,343,682

4. 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 95.2% 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 City also provides reimbursement to eligible City retirees and their dependents for the Part B Medicare premium. Retirees and their dependents must be enrolled in the Medicare Part B program in order to receive reimbursement. Each eligible retiree and dependent receives a reimbursement of $50 per month.

The amounts expended for health care benefits for fiscal years 2002 and 2001 are as follows:

	2002		2001	
	Active	Retired	Active	Retired
Number of employees	347,237	187,145	347,797	183,020
Cost of health care (in thousands)*	$1,628,206	$574,667	$1,467,718	$495,778

* The amounts reflected are based on average headcounts.

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 2002 and 2001 are as follows:

	2002		2001	
	Active	Retired	Active	Retired
Number of claims	19,032	4,572	17,905	6,622
Cost of Superimposed Major Medical (in thousands)*	$ 2,407	$ 741	$ 2,156	$ 822

* Costs are based on reported claims and include a provision for estimated claims incurred but not yet reported.

5. Pension and Other Employee Benefit 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 members.

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 Charter Schools 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 Charter Schools and certain employees of the School Construction Authority.
4. New York City 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 City 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 automatic Cost-of-Living Adjustments (COLA) benefits 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 5 years of service. Except for NYCERS, permanent, full-time employees are generally required to become members of the actuarial pension systems upon employment. 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.

Plan Membership

At June 30, 2001 and 2000, the membership of the actuarial pension systems consisted of:

	2001					
	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Retirees and beneficiaries receiving benefits	123,958	51,980	9,838	35,245	16,155	237,176
Terminated vested members not yet receiving benefits	2,980	3,598	172	327	15	7,092
Active members	174,199	95,381	24,651	38,827	11,333	344,391
Total plan membership	301,137	150,959	34,661	74,399	27,503	588,659

	2000					
	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Retirees and beneficiaries receiving benefits	122,761	50,969	9,407	34,636	16,163	233,936
Terminated vested members not yet receiving benefits	6,034	4,883	717	161	17	11,812
Active members	171,013	91,494	24,720	40,451	11,492	339,170
Total plan membership	299,808	147,346	34,844	75,248	27,672	584,918

Funding Policy

The City's funding policy for periodic employer contributions to the actuarial pension systems is to contribute percentages of annualized covered payroll that, together with member contributions, will be sufficient to accumulate assets to pay benefits when due.

Annual contributions, determined in accordance with statute by the systems' Actuary, are generally funded by the employers within the appropriate fiscal year.

Member contributions are established by law and vary by Plan. In general, Tiers I and II member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. Effective December, 2000, certain Transit Authority Tier III and Tier IV members make basic contributions of 2.0% of salary in accordance with Chapter 10 of the Laws of 2000 and the election of the Transit Authority. Certain members of NYCERS and BERS also make additional member contributions.

Annual Pension Costs

The annual pension costs and the City's pension contributions for fiscal year 2002 were determined as part of the June 30, 2001 actuarial valuations on the basis of current actuarial assumptions and methods including the Frozen Initial Liability Actuarial Cost Method.

The annual pension costs, for the five major actuarial pension systems, for the fiscal years ended June 30, 2002, 2001, and 2000 were as follows:

	2002	2001	2000
		(in millions)	
NYCERS	$ 105.7	$ 100.0	$ 68.6
TRS	607.8	572.0	181.8
BERS	66.7	52.1	9.5
POLICE	631.9	543.8	250.0
FIRE	344.5	298.9	182.9
Total annual pension costs	$1,756.6	$1,566.8	$692.8

For fiscal year 2002, the City's actual pension contributions for the five major actuarial pension systems, made on a statutory basis based on the actuarial valuations performed as of June 30, 2001, plus other pension expenditures, were approximately $1,491.1 million. These statutory pension contributions were less than the annual pension costs computed in accordance with Governmental Accounting Standards Board Statement No. 27 (GASB27).

The annual pension costs, computed in accordance with GASB27 and consistent with generally accepted actuarial principles, are greater than the actual statutory pension contributions primarily because (1) the City is only one of the participating employers in NYCERS, TRS, and BERS and (2) Chapter 125 of the Laws of 2000 (Chapter 125/00), which provides eligible retirees and eligible beneficiaries with automatic COLA benefits beginning September, 2000, also provides for a phase-in schedule for funding the additional liabilities created by the benefits provided by Chapter 125/00.

Specifically, the Actuary for the five major actuarial pension systems, in calculating the actual statutory contributions in each of the following fiscal years, includes the following percentage of the increase in actuarial liabilities attributable to the Chapter 125/00 COLA benefits:

Phase-In Percent	Fiscal Year
20%	2001
40	2002
60	2003
80	2004
100	2005 and later

Note: Chapter 278 of the Laws of 2002 (Chapter 278/02) revised this phase-in schedule for fiscal years 2003 and later (see Subsequent Event).

The City's actual statutory pension contributions for the fiscal years ended June 30, 2002, 2001, and 2000 were as follows:

	2002	2001 (in millions)	2000
NYCERS*	$ 50.6	$ 48.2	$ 35.6
TRS*	500.8	437.9	178.6
BERS*	54.5	38.0	9.2
POLICE	534.5	413.2	250.0
FIRE	302.3	241.3	182.9
OTHER**	48.4	38.3	39.1
Total actual contributions	$1,491.1	$1,216.9	$695.4

* NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems. The City's pension contributions as a percentage of the total actual statutory contributions (calculated on a statutory basis reflecting the phase-in of liabilities required under Chapter 125/00) for all employers participating in NYCERS, TRS, and BERS for fiscal years ended June 30, 2002, 2001, and 2000 were:

	2002	2001	2000
NYCERS	47.85%	48.18%	51.95%
TRS	98.21	98.42	98.27
BERS	96.44	96.81	96.93

In accordance with GASB27, the City's obligation for NYCERS, TRS, and BERS is fulfilled by paying its portion of the total actual statutory contributions determined.

** 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.

Net Pension Obligations

NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems and the City has no net pension obligations to these systems.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for fiscal year 2002 are as follows:

	POLICE	FIRE (in millions)	TOTAL
(1) Annual Required Contribution	$636.5	$346.2	$982.7
(2) Interest on Net Pension Obligation	10.5	4.6	15.1
(3) Adjustment to Annual Required Contribution	15.1	6.3	21.4
(4) Annual Pension Cost=(1)+(2)-(3)	631.9	344.5	976.4
(5) Actual Statutory Contribution	534.5	302.3	836.8
(6) Increase in Net Pension Obligation=(4)-(5)	97.4	42.2	139.6
(7) Net Pension Obligation Beginning of Year	130.6	57.6	188.2
(8) Net Pension Obligation End of Year=(6)+(7)	$228.0	$ 99.8	$327.8

The following is three-year trend information for the City's actuarially-funded, single-employer pension plans:

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
		(in millions)		
POLICE	6/30/02	$636.5	84%	$228.0
	6/30/01	543.8	76	130.6
	6/30/00	250.0	100	0
FIRE	6/30/02	346.2	87	99.8
	6/30/01	298.9	81	57.6
	6/30/00	182.9	100	0

Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of employer contributions to the actuarial pension systems for the fiscal years ending June 30, 2002 and 2001 are as follows:

	2002	2001
Valuation Date	*June 30, 2001.*	*June 30, 2000.*
Actuarial Cost Method(1)	*Frozen Initial Liability.*	*Frozen Initial Liability.*
Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)	*Increasing dollar for FIRE(2). Level dollar for UAAL attributable to NYCERS and TRS 1999 Early Retirement Incentive (ERI) and NYCERS 2000 ERI(3). All outstanding components of UAAL are being amortized over closed periods.*	*Increasing dollar for FIRE(2). Level dollar for UAAL attributable to NYCERS and TRS 1999 Early Retirement Incentive (ERI)(3). All outstanding components of UAAL are being amortized over closed periods.*
Remaining Amortization Period	*9 years for FIRE(2), 4 years for 1999 ERI, and 5 years for 2000 ERI.*	*10 years for FIRE(2) and 5 years for 1999 ERI.*
Actuarial Asset Valuation Method	*Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.*	*Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.*
Investment Rate of Return	*8.0% per annum(4) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*	*8.0% per annum(4) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*
Post-Retirement Mortality	*Tables based on recent experience.*	*Tables based on recent experience.*
Active Service Withdrawal, Death, Disability, Service Retirement	*Tables based on recent experience.*	*Tables based on recent experience.*
Salary Increases	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year(4).*	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year(4).*
Cost-of-Living Adjustments	*1.3% per annum(4).*	*1.3% per annum(4).*

(1) *Under the Frozen Initial Liability Actuarial Cost Method, the excess of the actuarial present value of projected benefits of the membership as of the valuation date, over the sum of the actuarial value of assets plus present value of UAAL, if any, and present value of future employee contributions is allocated on a level basis over the future earnings of members who are on the payroll as of the valuation date. The Initial Liability has been established by the Entry Age Actuarial Cost Method but with the UAAL not less than $0. Actuarial gains and losses are reflected in the employer normal contribution rate.*

(2) *In conjunction with Chapter 85 of the Laws of 2000 (Chapter 85/00), there is an amortization method. However, the initial UAAL of NYCERS, TRS, BERS, and POLICE equal $0 and no amortization periods are required.*

(3) *Laws established UAAL for Early Retirement Incentive Programs to be amortized on a level dollar basis over periods of 5 years.*

(4) *Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.*

Pursuant to Section 96 of the New York City Charter, a study of the actuarial assumptions used to value liabilities of the five actuarially-funded New York City Retirement Systems (NYCRS) is conducted by an independent actuarial firm every two years. The most recent such study was completed in October, 1999 and, based upon the results and recommendations of that study, the Actuary for NYCRS proposed changes in actuarial assumptions and methods to be used for fiscal years beginning on and after July 1, 1999 (i.e., fiscal year 2000). Where required, the Boards of Trustees of NYCRS adopted those changes to the actuarial assumptions and methods that required Board approval and the New York State Legislature and Governor enacted Chapter 85/00 to provide for those changes to the actuarial assumptions and methods that required legislation, including the investment rate of return assumption of 8.0% per annum.

The Actuarial Asset Valuation Method (AAVM) was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under this AAVM, the Actuarial Asset Value (AAV) was reset to Market Value (i.e., Market Value Restart as of June 30, 1999). Prior to June 30, 1999, this AAVM recognized expected investment returns immediately and phased in investment returns greater or less than expected, (i.e., Unexpected Investment Returns (UIR) over five years at a rate of 10%, 15%, 20%, 25%, and 30% per year or at a cumulative rate of 10%, 25%, 45%, 70%, and 100% over five years).

Under the AAVM, any UIR for fiscal year 2000 or later will be phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25%, and 30% per year (or at a cumulative rate of 10%, 25%, 45%, 70%, and 100% over five years).

Chapter 85/00 reestablished a UAAL and eliminated Balance Sheet Liability (BSL) for actuarial purposes as of June 30, 1999. The schedule of payment toward the reestablished UAAL provides that the UAAL, if any, be amortized over a period of 11 years beginning fiscal year 2000, where each annual payment after the first equals 103% of its preceding annual payment.

Chapter 70 of the Laws of 1999 established a UAAL as of June 30, 2000 for an Early Retirement Incentive Program to be amortized on a level basis over a period of 5 years beginning in fiscal year 2001.

Chapter 86 of the Laws of 2000 establishes a UAAL as of June 30, 2001 for an Early Retirement Incentive Program to be amortized on a level basis over a period of 5 years beginning in fiscal year 2002.

Subsequent Events

Chapter 278/02 requires the Actuary to revise the methodology and timing for determining the actual statutory contributions on account of the additional liabilities created by the benefits provided under Chapter 125/00 by extending the phase-in period for funding these liabilities from five to ten years.

Chapter 278/02 provides that, for the June 30, 2000 actuarial valuation, the Actuary is required to recognize, on a theoretical basis, only 10% of the additional liabilities created by the benefits provided under Chapter 125/00 for determining fiscal year 2001 employer contributions.

For each of the next eight June 30 actuarial valuations (i.e., June 30, 2001 to June 30, 2008), the Actuary is required to recognize progressively increasing percentages (i.e., 20% to 90%) of the additional Actuarial Present Value of Benefits (APVB) attributable to Chapter 125/00 for determining the fiscal year 2002 to fiscal year 2009 employer contributions.

For the June 30, 2009 and later actuarial valuations, the Actuary is required to recognize the full amount of the additional APVB attributable to Chapter 125/00 for determining fiscal year 2010 and later employer contributions.

The impact of the ten year phase-in of Chapter 278/02 is to postpone funding of the additional liabilities attributable to Chapter 125/00 resulting in greater employer contributions in later years.

Because the fiscal years 2001 and 2002 accounting periods are closed and Chapter 278/02 has a retroactive effect, the interest-adjusted difference between employer contributions actually paid for fiscal years 2001 and 2002 under current law and the amounts that would be payable under the ten-year phase-in schedule for such fiscal years is to be deducted from the otherwise required employer contributions for fiscal year 2003.

Other Employee Benefit Trust Funds

Fund Descriptions

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

Under current law, VSFs are not to be construed as constituting pension or retirement system funds. Instead, they provide scheduled supplemental payments, other than pension or retirement system allowances, in accordance with applicable statutory provisions. While a portion of 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 retire for service (with 20 or more years) as police officers of the New York City Police Department, Subchapter One or Subchapter Two Pension Fund and who retired on or after October 1, 1968.

2. PSOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) holding the rank of sergeant or higher, or detective, of the New York City Police Department, Subchapter One or Subchapter Two, Pension Fund 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 (or wipers) of the New York City Fire Department, Subchapter One or Subchapter Two Pension Fund 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, Subchapter One or Subchapter Two Pension Fund and who retired on or after October 1, 1968.

The New York City Employees' Retirement System 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), the Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF) and the Correction Officers' Variable Supplements Fund (COVSF). 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. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of calculations performed by the Actuary during November, 1993. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to the TPOVSF whenever the assets of TPOVSF are not sufficient to pay benefits.

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. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000, became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to the TPSOVSF whenever the assets of TPSOVSF are not sufficient to pay benefits.

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. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of Chapter 719 of the Laws of 1994. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to the HPOVSF whenever the assets of HPOVSF are not sufficient to pay 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. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000, became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to the HPSOVSF whenever the assets of HPSOVSF are not sufficient to pay benefits.

9. COVSF provides supplemental benefits to retirees who retire for service (with 20 or 25 years of service, depending upon the plan) as members of the Uniformed Correction Force on or after July 1, 1999. However, prior to calendar year 2019, when this plan provides for a guaranteed schedule of defined supplemental benefits, total supplemental benefits paid are limited to the assets of the fund.

Funding Policy and Contributions

The Administrative Code of The City of New York provides that POLICE, FIRE, and NYCERS pay to their respective VSFs amounts equal to certain excess earnings on equity investments, generally limited to the unfunded accumulated benefit obligation 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 years 2002 and 2001, no excess earnings on equity investments are estimated to be transferable to the VSFs.

Benefit Enhancements

During the Spring, 2000 session, the New York State Legislature approved and the Governor signed laws which provide a COLA for retirees (Chapter 125 of the Laws of 2000), additional service credits for certain Tier I and Tier II members, and reduced member contributions for certain Tier III and Tier IV members (Chapter 126 of the Laws of 2000) and several other changes in benefits for various groups. These benefit enhancements are reflected in the actuarial valuations as of June 30, 2000 and June 30, 2001.

Required Supplementary Information (Unaudited)

		(1)	(2)	(3)	(4)	(5)	(6)
	Valuation Date	Actuarial Value of Assets (AAV)	Actuarial Accrued Liability (AAL)*	Unfunded AAL (UAAL)(C)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(A)	(A) & (B)	(2) - (1) (in millions)	(1) ÷ (2)		(3) ÷ (5)
NYCERS	6/30/01	$43,015.4	$43,087.6	$ 72.2	99.8%	$8,515.3	.8%
	6/30/00	42,393.6	42,418.7	25.1	99.9	7,871.0	0.3
	6/30/99	40,936.0	40,936.0	0.0	100.0	7,593.2	0.0
TRS	6/30/01	35,410.2	35,414.5	4.3	100.0	5,015.4	0.1
	6/30/00	36,142.4	36,147.5	5.1	100.0	4,721.5	0.1
	6/30/99	34,626.1	34,626.1	0.0	100.0	4,217.6	0.0
BERS	6/30/01	1,781.7	1,781.7	0.0	100.0	694.2	0.0
	6/30/00	1,749.4	1,749.4	0.0	100.0	666.0	0.0
	6/30/99	1,705.4	1,705.4	0.0	100.0	592.2	0.0
POLICE	6/30/01	18,141.7	18,141.7	0.0	100.0	2,500.1	0.0
	6/30/00	17,601.9	17,601.9	0.0	100.0	2,465.7	0.0
	6/30/99	16,877.8	16,877.8	0.0	100.0	2,332.0	0.0
FIRE	6/30/01	6,525.7	6,660.7	135.0	98.0	799.2	16.9
	6/30/00	6,388.1	6,530.6	142.5	97.8	741.5	19.2
	6/30/99	6,179.8	6,328.7	148.9	97.6	729.7	20.4

* Frozen Initial Liability

(A) Revised economic and noneconomic assumptions due to experience review as of June 30, 1999. The Actuarial Asset Valuation Method (AAVM) was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under the AAVM, any UIR for fiscal year 2000 or later will be phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25%, and 30% per year (or at a cumulative rate of 10%, 25%, 45%, 70%, and 100% over five years).

(B) To effectively assess the funding progress of a Plan, it is necessary to compare the AAV and the AAL calculated in a manner consistent with the Plan's funding method over a period of time. The AAL is the portion of the actuarial present value of pension plan benefits and expenses which is not provided for by future employer normal costs and future member contributions.

(C) The UAAL is the excess of the AAL over the AAV. This is the same as unfunded frozen actuarial accrued liability which is not adjusted from one actuarial valuation to the next to reflect actuarial gains and losses.

6. World Trade Center Attack

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center, and damage to other buildings in the vicinity. Trading on the major New York stock exchanges was suspended until September 17, 2001, and business in the financial district was interrupted. Recovery, clean up, and repair efforts will result in substantial expenditures. The Federal government has committed over $21 billion for disaster assistance in New York, including disaster recovery and related activities, increased security, and reconstruction of infrastructure and public facilities. This amount includes approximately $15.5 billion of appropriations for costs such as cleanup, economic development, job training, transit improvements, road reconstruction, and grants to residents and businesses in lower Manhattan. It also includes approximately $5.5 billion for economic stimulus programs directed primarily at businesses located in the Liberty Zone, the area surrounding the World Trade Center site. These programs include expanding tax credits, increasing depreciation deductions, authorizing the issuance of tax-exempt private activity bonds, and expanding authority to advance refund some bonds issued to finance facilities in the City. The City is seeking to be reimbursed by the Federal government for all of its direct costs for response and remediation of the World Trade Center site. These costs are now expected to be substantially below previous estimates. The City also expects to receive Federal funds for costs of economic revitalization and other needs, not directly payable through the City budget, relating to the September 11 attack. In addition, the State authorized TFA to have outstanding $2.5 billion of bonds (Recovery Bonds) and notes (Recovery Notes) to pay costs (Recovery Costs) related to or arising from the September 11 attack.

It is not possible to quantify at present with any certainty the long-term impact of the September 11 attack on the City and its economy, any economic benefits which may result from recovery and rebuilding activities, and the amount of additional resources from Federal, State, City and other sources which will be required.

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APPENDIX C

INTEREST ON SERIES F TAXABLE BONDS

Accrual of interest

The Series F Taxable Bonds (the "LIBOR Bonds") bear interest from their date of delivery, payable quarterly beginning on April 15, 2003 and on each July 15th, October 15th, January 15th and April 15th thereafter (each an "Interest Payment Date"). If any Interest Payment Date would otherwise fall on a day that is not a Business Day, such Interest Payment Date will be postponed to the next Business Day. Each period beginning on (and including) the date of delivery of the LIBOR Bonds or any Interest Payment Date and ending on, (but excluding) the next Interest Payment Date is herein called an "Interest Period". The term "Business Day" means a day other than (i) a Saturday and Sunday or (ii) a day on which the City, the New York Stock Exchange, the Fiscal Agent, the Calculation Agent or banks and trust companies in New York, New York, are authorized or required to remain closed.

Rate of interest

The rates of interest applicable to the LIBOR Bonds (the "Rates of Interest") for each Interest Period will be determined by reference to the London interbank offered rate for deposits in U.S. dollars for a period equal to the relevant Interest Period ("Three-Month LIBOR Rate") plus a spread based on maturity as shown below, provided that the Rates of Interest shall not at any time exceed 25% per annum.

Maturity	Spread	Maturity	Spread	Maturity	Spread
2005	0.38%	2010	0.50%	2015	0.68%
2006	0.40%	2011	0.53%	2016	0.70%
2007	0.40%	2012	0.57%	2017	0.73%
2008	0.43%	2013	0.60%		
2009	0.45%	2014	0.64%		

Determination of Interest Rate On the second Business Day before the first day of the relevant Interest Period (the "Interest Determination Date"), the Calculation Agent (as defined below) will determine the "Three-Month LIBOR Rate" as follows:

(a) The Three-Month LIBOR Rate shall be the rate which appears, at 11:00 a.m. (London Time), on the Bloomberg Page BBAM1 for deposits in U.S. Dollars having a three-month maturity;

(b) If the rate referred to in (a) above does not so appear, then the Three-Month LIBOR Rate will be the rate that appears, at 11:00 a.m. (London Time), on Reuters ISDA page for deposits in U.S. Dollars having a three-month maturity;

(c) If the rate referred to in (b) above does not so appear, then the Calculation Agent will request the principal London offices of five leading banks in the London interbank market selected by the Calculation Agent (with the approval of the City) to provide the offered quotations from such banks to prime banks in the London interbank market for deposits of no less than $1,000,000 in U.S. Dollars having a three-month maturity as of 11:00 a.m. (London Time) on the Interest Determination Date. If at least three quotations are provided, then the Three-Month LIBOR Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are obtained, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest);

(d) If fewer than three quotations are so provided, then the Calculation Agent will request five major banks in the City selected by the Calculation Agent (with the approval of the City) to provide the offered quotations from such banks to leading European banks for loans, commencing on the applicable Interest Payment Date, of no less than $1,000,000 in U.S. Dollars having a three-month maturity as of approximately 11:00 a.m. (London Time) on the Interest Determination Date. If at least three quotations are provided, then the Three-Month LIBOR Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are obtained, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(e) If the Calculation Agent is unable to determine the Three-Month LIBOR rate in accordance with the above provisions in relation to any Interest Period, the Three-Month LIBOR rate applicable to the LIBOR Bonds during such Interest Period will be the Three-Month LIBOR rate last determined in relation to the LIBOR Bonds in the immediately preceding Interest Period.

For purpose of the foregoing, the Calculation Agent shall be The Bank of New York, or its successor pursuant to the Calculation Agent Agreement.

Calculation of Interest Amount The Calculation Agent will, as soon as practicable after the Interest Determination Date in relation to each Interest Period, calculate the amount of interest (the "Interest Amount") payable in respect of each LIBOR Bond for such Interest Period. The Interest Amount will be calculated by multiplying the Rate of Interest for such Interest Period times the outstanding principal amount of such LIBOR Bond, multiplying the product by the actual number of days in such Interest Period divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

APPENDIX D

BONDS TO BE REDEEMED

The City expects to redeem City bonds, at or prior to maturity, by applying a portion of the proceeds of the Bonds, together with funds to be provided by the City, to provide for, at or prior to maturity, the payment of the principal of and interest and redemption premium, if any, on such bonds to the extent and to the payment dates set forth below. The refunding is contingent upon the delivery of the Bonds.

The bonds are being provided for in whole or in part as indicated in the notes.

Series	Dated Date	Maturities		Payment Date	Amount
1990F	February 23, 1990	August 1, 2011		August 1, 2003	$ 10,000(2)
1990G	February 1, 1990	August 1, 2004		August 1, 2003	40,000(1)
		August 1, 2009		August 1, 2003	100,000(2)
1991D	February 1, 1991	August 1, 2014		August 1, 2003	80,000(2)
		August 1, 2015		August 1, 2003	65,000(1)
1991F	May 15, 1991	November 15, 2004		May 15, 2003	235,000(1)
1992A	August 15, 1991	August 15, 2010		March 7, 2003	25,000(2)
1992C	January 7, 1992	August 1, 2011		March 7, 2003	400,000(2)
1992D	February 1, 1992	February 1, 2004	CAB	February 1, 2004	460,000(1)
		February 1, 2005		March 7, 2003	15,000(2)
		February 1, 2009		March 7, 2003	85,000(2)
1992E	February 1, 1992	February 1, 2005		March 7, 2003	35,000(2)
		February 1, 2008		March 7, 2003	30,000(2)
		February 1, 2010		March 7, 2003	10,000(1)
		February 1, 2011		March 7, 2003	55,000(2)
		February 1, 2015		March 7, 2003	20,000(1)
1992F	February 1, 1992	February 1, 2007		March 7, 2003	35,000(1)
		February 1, 2008		March 7, 2003	75,000(2)
		February 1, 2013		March 7, 2003	30,000(2)
		February 1, 2015		March 7, 2003	105,000(2)
1992G	February 1, 1992	February 1, 2005		March 7, 2003	10,000(2)
		February 1, 2010		March 7, 2003	10,000(1)
		February 1, 2011		March 7, 2003	35,000(2)
		February 1, 2012		March 7, 2003	10,000(2)
		February 1, 2013		March 7, 2003	45,000(2)
		February 1, 2014		March 7, 2003	75,000(2)
		February 1, 2015		March 7, 2003	75,000(2)
1993A	August 26, 1992	August 1, 2003		March 7, 2003	1,765,000(1)
		August 1, 2004		March 7, 2003	9,870,000(2)
		August 1, 2006		March 7, 2003	2,450,000(2)
		August 1, 2007		March 7, 2003	575,000(2)
		August 1, 2017		March 7, 2003	4,915,000(1)
		August 1, 2019		March 7, 2003	2,915,000(1)
1993C	December 22, 1992	August 1, 2003		March 7, 2003	13,440,000(1)
		August 1, 2006		March 7, 2003	875,000(1)
		August 1, 2009	(6%)	March 7, 2003	15,000(2)
1993D	April 13, 1993	August 1, 2004		August 1, 2003	23,970,000(1)
		August 1, 2005		August 1, 2003	6,450,000(1)
		August 1, 2006		August 1, 2003	10,510,000(1)
1993E	May 27, 1993	May 15, 2006	CAB	May 15, 2006	3,850,000(1)

Series	Dated Date	Maturities		Payment Date	Amount
		May 15, 2012	(5¾%)	May 15, 2003	$ 3,305,000(1)
		May 15, 2013	(5¾%)	May 15, 2003	4,175,000(1)
		May 15, 2014	(5¾%)	May 15, 2003	2,500,000(1)
1993F	May 27, 1993	May 15, 2013		May 15, 2003	420,000(2)
		May 15, 2014		May 15, 2003	420,000(2)
1994B	August 18, 1993	August 15, 2010		August 15, 2003	2,685,000(2)
1994C	October 14, 1993	October 1, 2006		October 1, 2003	13,470,000(2)
		October 1, 2008		October 1, 2003	10,430,000(2)
		October 1, 2011		October 1, 2003	25,300,000(2)
		October 1, 2012		October 1, 2003	8,400,000(2)
		October 1, 2013	(5⅝%)	October 1, 2003	5,245,000(1)
1994D	November 30, 1993	August 15, 2004		August 15, 2003	11,860,000(1)
		August 15, 2005		August 15, 2003	5,000,000(1)
		August 15, 2006		August 15, 2003	3,550,000(2)
		August 15, 2009		August 15, 2003	21,875,000(1)
		August 15, 2010		August 15, 2003	18,670,000(2)
		August 15, 2011		August 15, 2003	735,000(2)
1994E	December 29, 1993	August 1, 2009	(5.70%)	August 1, 2004	3,300,000(2)
1994G	December 29, 1993	August 1, 2009		August 1, 2004	195,000(1)
		August 1, 2011		August 1, 2004	5,215,000(2)
1995A	July 28, 1994	August 1, 2007		August 1, 2004	28,990,000(1)
		August 1, 2008		August 1, 2004	18,735,000(1)
		August 1, 2009		August 1, 2004	6,795,000(1)
1995G	March 1, 1995	February 15, 2004		February 15, 2004	75,000(1)
1996B	August 14, 1995	August 15, 2010		August 15, 2005	15,570,000(1)
		August 15, 2012		August 15, 2005	995,000(2)
		August 15, 2013		August 15, 2005	100,000(2)
1996D	November 2, 1995	February 15, 2006		February 15, 2005	4,640,000(2)
		February 15, 2007		February 15, 2005	8,965,000(1)
		February 15, 2008		February 15, 2005	11,075,000(2)
		February 15, 2009		February 15, 2005	8,630,000(2)
		February 15, 2010		February 15, 2005	5,090,000(2)
		February 15, 2011		February 15, 2005	4,605,000(2)
		February 15, 2013		February 15, 2005	905,000(1)
		February 15, 2020		February 15, 2005	1,900,000(2)(3)
		February 15, 2025		February 15, 2005	30,375,000(1)(3)
1996E	November 2, 1995	February 15, 2004		February 15, 2004	29,380,000(1)
		February 15, 2007		February 15, 2005	30,000(1)
		February 15, 2009		February 15, 2005	3,860,000(1)
		February 15, 2010		February 15, 2005	1,150,000(1)
		February 15, 2011		February 15, 2005	2,100,000(1)
		February 15, 2012		February 15, 2005	4,170,000(1)
1996F	January 9, 1996	February 1, 2025		February 1, 2006	10,420,000(1)(3)
1996I	March 14, 1996	March 15, 2022		March 15, 2006	860,000(1)(3)
1996J	February 15, 1996	February 15, 2004		February 15, 2004	7,920,000(1)
1997B	August 15, 1996	August 15, 2026		August 15, 2006	8,815,000(1)(3)
1997C	August 15, 1996	February 1, 2022		August 1, 2006	8,930,000(1)(3)
1997E	November 21, 1996	August 1, 2026		August 1, 2006	2,865,000(1)(3)
1997I	April 24, 1997	April 15, 2004		April 15, 2004	1,180,000(1)
		April 15, 2027		April 15, 2007	12,565,000(1)(3)

Series	Dated Date	Maturities		Payment Date	Amount
1997M	June 10, 1997	June 1, 2004		June 1, 2004	$ 1,565,000(2)
		June 1, 2006		June 1, 2006	5,800,000(1)
1998C	November 18, 1997	November 15, 2020		November 15, 2007	20,270,000(1)(3)
1999H	March 18, 1999	March 15, 2004		March 15, 2004	3,850,000(1)
1999I	April 21, 1999	April 15, 2004		April 15, 2004	3,450,000(2)
1999J	June 15, 1999	May 15, 2004		May 15, 2004	650,000(2)
2001H	March 29, 2001	March 15, 2004	(3.40%)	March 15, 2004	6,445,000(2)
2002A	November 1, 2001	November 1, 2003		November 1, 2003	7,370,000(1)

(1) The amount shown is being defeased and is a portion of the bonds of this description.

(2) The amount being shown is being defeased and is all of the bonds of this description except those, if any, that have been previously defeased.

(3) The defeased bonds will be credited against the following redemption dates.

1996 D
2020 Term Bond

February 15	Amount
2018	$960,000
2019	940,000

1997 C
2022 Term Bond

August 15	Amount
2021	$8,930,000

1996 D
2025 Term Bond

February 15	Amount
2022	$ 9,850,000
2023	10,120,000
2024	10,405,000

1997 E
2026 Term Bond

August 1	Amount
2026	$2,865,000

1996 F
2025 Term Bond

February 1	Amount
2025	$10,420,000

1997 I
2027 Term Bond

April 15	Amount
2019	$4,070,000
2025	290,000
2026	8,205,000

1996 I
2022 Term Bond

March 15	Amount
2019	$860,000

1998 C
2020 Taxable Term Bond

November 15	Amount
2014	$5,015,000
2015	5,515,000
2016	5,885,000
2019	3,855,000

1997 B
2026 Term Bond

August 15	Amount
2026	$8,815,000

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BOND INSURERS

The following information pertaining to the Bond Insurers has been supplied by the Bond Insurers. 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 date indicated. Summaries of or references to the insurance policy to be issued by each Bond Insurer 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 F—SPECIMEN INSURANCE POLICIES."

CDC IXIS Financial Guaranty North America, Inc.

Concurrently with the issuance of the Bonds, CDC IXIS Financial Guaranty North America, Inc. ("CIFGNA") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series F Bonds maturing in 2011 and $11,950,000 of the Series G Bonds maturing in 2011 (3.85% coupon) (collectively, the "CIFGNA Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the CIFGNA Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

CIFGNA is a monoline financial guaranty insurance company incorporated in 2002 under the laws of the State of New York, with its principal place of business in New York City. CIFGNA is a wholly-owned subsidiary of CDC IXIS Financial Guaranty Services Inc., a Delaware corporation, which, in turn, is a wholly-owned subsidiary of CDC IXIS Financial Guaranty, a French reinsurance corporation ("CIFG"). CIFG is a wholly owned subsidiary of CIFG Holding ("Holding"), a French corporation, which is a wholly owned subsidiary of CDC IXIS, a French financial institution which is regulated by the French Banking Commission. Neither of Holding nor CDC IXIS is obligated to pay the debts of or claims against CIFGNA.

CIFGNA received its license to write financial guaranty insurance in the State of New York on May 24, 2002. As of the date of this Official Statement, it is not authorized to transact insurance business in any jurisdiction other than the State of New York.

CIFGNA's "claims-paying ability" (also referred to as its "financial strength") is rated "Aaa" by Moody's, "AAA" by Standard & Poor's and "AAA" by Fitch, the highest rating assigned by each such rating agency. These ratings are an essential part of CIFGNA's ability to provide credit enhancement.

Insurance Regulatory Matters

CIFGNA is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is subject to regulation by the New York State Insurance Department (the "NYSID"). As a financial guaranty insurance corporation licensed to do business in the State of New York, CIFGNA is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that each such insurer maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for each such insurer, and limits the size of individual transactions ("single risks") and the volume of transactions ("aggregate risks") that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as CIFGNA regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings. CIFGNA is required to file quarterly and annual statutory financial statements with the NYSID, and is subject to statutory restrictions concerning the types and quality of its investments and the filing and use of policy forms and premium rates. Additionally, CIFGNA's accounts and operations are subject to periodic examination by the NYSID.

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

CIFGNA will prepare audited annual financial statements in accordance with accounting principles applicable to insurance companies, as specified by applicable law. Copies of such financial statements may be obtained by writing to CIFGNA at 825 Third Avenue, 6th Floor, New York, 10022 Attention: Finance Department. The toll-free telephone number of CIFGNA is (866) CIFG-212. For further information about CIFGNA, see the selected financial and statistical information for CDC IXIS Financial Guaranty North America, Inc. at http://www.cifg.com.

Capitalization

After CIFGNA's incorporation in the State of New York in 2002, it was capitalized with $100 million of equity capital by its sole shareholder. CIFGNA is also supported by a net worth maintenance agreement, which provides that CIFG will maintain CIFGNA's U.S. statutory capital and surplus at no less than $80 million. In addition, through a facultative reinsurance agreement, CIFGNA will cede up to 75% of its exposure on each transaction to CIFG.

CIFG was initially capitalized with EUR 300 million and, at December 31, 2001, had capital of EUR 298.8 million. CIFG's "claims-paying ability" is rated "Aaa" by Moody's, "AAA" by Standard & Poor's and "AAA" by Fitch, the highest rating assigned by each such rating agency. CIFG is further supported by a $220 million capital commitment from CDC IXIS. The capital commitment is a multi-year, annually renewable subordinated loan agreement that can be drawn down for growth or, if necessary, to maintain CIFG's "AAA" rating. Draws under the facility can be converted to equity at CIFG's option.

As a result of its recent formation, CIFGNA has not yet issued an audited statement of its financial condition. The following table sets forth the pro-forma capitalization of CIFGNA as of September 30, 2002, on the basis of accounting principles prescribed or permitted by the NYSID (in thousands):

Common capital stock	$15,000
Gross paid in and contributed surplus	85,000
Unassigned funds (retained deficit)	(4,720)
Surplus as regards policyholders	$95,280

There has been no material adverse change in the capitalization of CIFGNA from September 30, 2002 to the date of this Official Statement.

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. CIFGNA makes no representation regarding the Bonds or the advisability of investing in the Bonds. CIFGNA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that CIFGNA has provided to the City the information presented under this caption for inclusion in the Official Statement.

Financial Security Assurance Inc.

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series F Bonds maturing in 2012 and 2013 (collectively, the "FSA Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the FSA Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2002, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,728,433,000 and its total unearned premium reserve was approximately $972,390,000 in accordance with statutory accounting principles. At September 30, 2002, Financial Security's total shareholders' equity was approximately $1,928,564,000 and its total net unearned premium reserve was approximately $814,684,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

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SPECIMEN INSURANCE POLICIES

CDC IXIS Financial Guaranty North America, Inc.
825 Third Avenue, 6th Floor
New York, NY 10022
For information, contact:
(212) 909-3939
Toll-free: (866) 243-4212

BOND INSURANCE POLICY

Policy Number: **Effective Date:**
Issuer:
Bonds:

CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC., a New York stock insurance company (the "Insurer"), in consideration of the payment of the premium and subject to the terms and conditions contained in this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as designated in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of any Owner, or, at the election of the Insurer, directly to such Owner, that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

The Insurer will make such payments to or for the benefit of each Owner on the later of the day on which such principal or interest becomes Due for Payment or the Business Day next following the Business Day on which the Insurer shall have received Notice of Nonpayment. The Insurer will disburse to or for the benefit of the Owner the face amount of principal of and interest on the Bond which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Insurer, in form reasonably satisfactory to it, of (i) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Owner's rights to payment of such principal or interest then Due for Payment shall thereupon vest in the Insurer. Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. Eastern prevailing time on such Business Day; otherwise, it will be deemed received on the next Business Day. Upon disbursement in respect of a Bond, the Insurer shall become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal of or interest on such Bond and shall be fully subrogated to all of the Owner's rights thereunder, including the Owner's right to payment thereof to the extent of any payment by the Insurer hereunder. Payment by the Insurer to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of the Insurer under this Policy.

This Policy is non-cancelable for any reason and the premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity.

The following terms shall have the meanings specified for all purposes of this Policy. The term "Owner" means, as to a particular Bond, the person other than the Issuer or any party whose direct or indirect obligation constitutes the underlying security for the Bonds, who at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means (a) when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless the Insurer shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a bond, the stated date for payment of interest. "Nonpayment" with respect to a

Bond means the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Bond. “Nonpayment” shall also include any payment of principal or interest made to an Owner by or on behalf of the Issuer of such Bond which has been recovered from such Owner pursuant to a final, non-appealable order of a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law. “Notice” means telephonic or electronic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to the Insurer, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. “Business Day” means any day other than a Saturday, Sunday or a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent are authorized or required by law to remain closed.

The Insurer may appoint a fiscal agent (the “Insurer’s Fiscal Agent”) for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer’s Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent (a) copies of all notices required to be delivered to the Insurer pursuant to this Policy shall be simultaneously delivered to the Insurer’s Fiscal Agent and to the Insurer and shall not be deemed received until received by both and (b) all payments required to be made by the Insurer under this Policy may be made directly by the Insurer or by the Insurer’s Fiscal Agent on behalf of the Insurer. The Insurer’s Fiscal Agent is the agent of the Insurer only and the Insurer’s Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer’s Fiscal Agent or any failure of the Insurer to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

There shall be no acceleration payment due under this Policy except at the sole option of the Insurer. This Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

IN WITNESS WHEREOF, CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC. has caused this Policy to be affixed with its corporate seal and to be executed on its behalf by its duly authorized representative.

CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC.

[SEAL]

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Authorized Representative

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

By ______________________

FINANCIAL SECURITY ASSURANCE INC.

By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

CLEARSTREAM AND EUROCLEAR

Clearstream

Clearstream was incorporated in 1970 as Cedel S.A., a Luxembourg limited liability company, which subsequently changed its name to "Cedelbank." On January 10, 2000, Cedelbank's parent company, Cedel International, société anonyme ("CI") merged its clearing, settlement and custody business with that of Deutsche Börse Clearing AG ("DBC"). The merger involved the transfer by CI of substantially all of its assets and liabilities (including its shares in Cedelbank) to a new Luxembourg company now named "Clearstream International, société anonyme," which is fully owned (as of July 11, 2002) by DBC's parent company, Deutsche Börse AG. The shareholders of CI and DBC are banks, securities dealers and financial institutions. CI currently has 92 shareholders, including U.S. financial institutions or their subsidiaries. In connection with the merger, Cedelbank was renamed "Clearstream Banking, société anonyme" ("Clearstream").

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream in any of 36 currencies, including United States Dollars. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, which supervises Luxembourg banks. Clearstream's customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream's U.S. customers are limited to securities brokers and dealers, and banks. Currently, Clearstream has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada and the United States. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with a customer of Clearstream. Clearstream has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream and Euroclear.

Euroclear

Euroclear was created in 1968 to hold securities for participants of the Euroclear System ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System ("Euroclear") is owned by Euroclear Clearance System Public Limited Company and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the "Euroclear Operator"). The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium. Effective September 2002, Euroclear and CrestCo Limited merged and have begun to integrate their respective systems with the goal of creating a Single Settlement Engine ("SSE") in 2005. SSE is expected to result in a 90% reduction in cross-border tariffs for Belgian, Dutch, French, Irish and UK securities.

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Non-Participants of Euroclear may hold and transfer Book-Entry bonds through accounts with a Euroclear Participant or any other securities intermediary that holds Book-Entry bonds through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

Although the Euroclear Operator utilizes the procedures described herein in order to facilitate transfers of Book-Entry Bonds among Euroclear Participants, and between Euroclear Participants and participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Investors electing to acquire Book-Entry Bonds through a Euroclear Participant or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. Investors electing to acquire, hold or transfer Book-Entry Bonds through a Euroclear Participant or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities. Investors who are Euroclear Participants may acquire, hold or transfer interests in the securities by book-entry to accounts with the Euroclear Operator. Investors who are not Euroclear Participants may acquire, hold or transfer interests in the securities by book-entry to accounts with a securities intermediary who holds a book-entry interest in the securities through a Euroclear Participant. Investors that acquire, hold or transfer interests in the securities by book-entry through Euroclear Participants or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary and each other intermediary, if any, standing between themselves and the individual securities.

All the Series F Taxable Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers securities accounts in Clearstream’s and Euroclear’s names on the books of their respective U.S. Depositary which in turn holds such positions in customers’ securities accounts in its U.S. Depositary’s name on the books of DTC. Citibank, N.A. acts as depositary for Clearstream and the Euroclear Operator acts as depositary for Euroclear (in such capacities, individually, the “U.S. Depositary” and, collectively, the “U.S. Depositaries”).

Holders of the Series F Taxable Bonds may hold their Series F Taxable Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

Distributions with respect to the Book-Entry Bonds held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants in accordance with the relevant system’s rules and procedures, to the extent received by its depositary. Such distribution will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a Bondholder on behalf of a Clearstream Participant or Euroclear Participant only in accordance with its relevant rules and procedures and subject to its depositary’s ability to effect such actions on its behalf through DTC.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream or Euroclear Participants, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to the depositaries.

Because of time-zone differences, credits of securities received in Clearstream or Euroclear as a result of a transaction with a DTC Participant will be made during subsequent settlement processing and dated the business day following the DTC settlement date. Such credits or any transaction in such securities settled during such processing will be reported to the relevant Euroclear or Clearstream Participant on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or a Euroclear Participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Book-Entry Bonds among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

The information contained in this Appendix concerning DTC, Clearstream and Euroclear and their book-entry systems has been obtained from sources believed to be reliable, but neither the City nor the Underwriters take any responsibility for the accuracy or completeness thereof.

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TOKYO

January 22, 2003

HONORABLE WILLIAM C. THOMPSON, JR.
COMPTROLLER
The City of New York
Municipal Building
New York, New York 10007

Dear Comptroller Thompson:

We have acted as counsel to The City of New York (the "City"), a municipal corporation of the State of New York (the "State"), in the issuance of its General Obligation Bonds, Fiscal 2003 Series F, G and H (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 Public 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 fixed-rate Series F Bonds, including the Convertible Capital Appreciation Bonds, the Series G Bonds, the 3½% Series H Bonds due in 2003, the 4½% Series H Bonds, due in 2004, the Series H Bonds due after 2004, including the Capital Appreciation Bonds, and the Multi-Modal Bonds (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 Bond proceedings upon the approval of counsel other than ourselves.

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 Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

5. The excess, if any, of the amount payable at maturity of any maturity of the Tax-Exempt Bonds over 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,

TABLE OF HYPOTHETICAL ACCRETED VALUES FOR CAPITAL APPRECIATION BONDS

(Expressed per $5,000 maturity amount)

The Underwriters have prepared the following table to illustrate the accretion to the Capital Appreciation Bonds, on the basis of semiannual compounding, of the difference between the initial public offering amount ("Initial Offering Amount" on the inside cover page) and the amount payable at maturity. Prior to January 15, 2013, the City is not obligated to pay, or to provide for the payment of, any amounts on the Series F Capital Appreciation Bonds; thereafter, the Series F Capital Appreciation Bonds will bear interest payable semiannually each January 15 and July 15, commencing July 15, 2013. The Series F Capital Appreciation Bonds accrete to par on January 15, 2013, and are payable at maturity or optional redemption. The Series H Capital Appreciation Bonds accrete to par on August 1, 2011, and the City is not obligated to pay, or provide for the payment of, any interest thereon prior to that date. *No representation is made that the hypothetical accreted values presented below bear or will bear any relationship to the market prices of the Capital Appreciation Bonds. The market prices of the Capital Appreciation Bonds are expected to be more volatile than those of the Bonds bearing current interest.*

Series F Bonds Due January 15, 2028

Date	Amount
January 22, 2003	$2,960.65
July 15, 2003	3,036.30
January 15, 2004	3,117.05
July 15, 2004	3,199.95
January 15, 2005	3,285.10
July 15, 2005	3,372.45
January 15, 2006	3,462.20
July 15, 2006	3,554.25
January 15, 2007	3,648.80
July 15, 2007	3,745.85
January 15, 2008	3,845.50
July 15, 2008	3,947.80
January 15, 2009	4,052.80
July 15, 2009	4,160.65
January 15, 2010	4,271.30
July 15, 2010	4,384.90
January 15, 2011	4,501.55
July 15, 2011	4,621.30
January 15, 2012	4,744.20
July 15, 2012	4,870.40
January 15, 2013	5,000.00

Series H Bonds Due August 1, 2011

Date	Amount
January 22, 2003	$3,493.55
August 1, 2003	3,571.55
February 1, 2004	3,647.40
August 1, 2004	3,724.95
February 1, 2005	3,804.10
August 1, 2005	3,884.90
February 1, 2006	3,967.50
August 1, 2006	4,051.80
February 1, 2007	4,137.90
August 1, 2007	4,225.80
February 1, 2008	4,315.60
August 1, 2008	4,407.35
February 1, 2009	4,501.00
August 1, 2009	4,596.65
February 1, 2010	4,694.30
August 1, 2010	4,794.05
February 1, 2011	4,895.95
August 1, 2011	5,000.00

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