

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.

\$586,755,000

The City of New York

General Obligation Bonds, Fiscal 2005 Series A and B

\$550,605,000 Tax-Exempt Bonds

\$36,150,000 Taxable 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 Bonds will be payable on February 1 and August 1 beginning on February 1, 2005. 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 Tax-Exempt Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters. The Taxable Bonds are being sold by public letting on the basis of electronic, competitive bids in accordance with the Notice of Sale dated July 6, 2004, as supplemented. The issuance of the Bonds is 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 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 July 29, 2004.

Bear, Stearns & Co. Inc.	Citigroup Morgan Stanley	UBS Financial Services Inc.
M.R. Beal & Company JPMorgan Ramirez & Co., Inc.	First Albany Capital Inc. Lehman Brothers	Goldman, Sachs & Co. Merrill Lynch & Co. Roosevelt & Cross Incorporated
Advest/Lebenthal Commerce Capital Markets, Inc. Jackson Securities	Apex Pryor Securities RBC Dain Rauscher Inc. Janney Montgomery Scott LLC	CIBC World Markets A. G. Edwards & Sons, Inc. Legg Mason Wood Walker, Incorporated
Loop Capital Markets, LLC Raymond James & Associates, Inc.	Popular Securities	Prager, Sealy & Co., LLC Wachovia Bank, National Association

July 15, 2004

\$586,755,000 General Obligation Bonds, Fiscal 2005 Series A and B

\$39,720,000 Tax-Exempt General Obligation Bonds, Fiscal 2005 Series A

<u>February 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$9,215,000	6 %	1.30%
2006	8,300,000	2½	2.09
2007	8,070,000	3	2.52
2008	7,265,000	27⁄8	2.95
2009	6,870,000	3⅛	3.24

\$547,035,000 General Obligation Bonds, Fiscal 2005 Series B

<u>August 1</u>	<u>\$510,885,000 Tax-Exempt Bonds</u>			<u>\$36,150,000 Taxable Bonds</u>		
	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$16,080,000	3 %	1.62%	\$17,620,000	2½%	2.38%
2006	21,505,000	2½	2.14	12,355,000	3	3.02
2007	27,505,000	2½	2.57	6,175,000	3½	3.55
2008	11,570,000	27⁄8	3.05			
2008	21,645,000	5	3.05			
2009(1)	6,335,000	27⁄8	3.04			
2009	17,120,000	3.2	3.32			
2009(1)	10,000,000	5	3.04			
2010	13,510,000	3.4	3.60			
2010	31,435,000	5	3.60			
2011(1)	5,000,000	3¼	3.49			
2011	3,735,000	35⁄8	3.79			
2011	40,925,000	5¼	3.79			
2012(1)	6,480,000	3½	3.65			
2012	3,160,000	3.8	3.95			
2012	19,575,000	5¼	3.95			
2012(1)	20,445,000	5¼	3.65			
2013	12,745,000	4	4.11			
2013(1)	11,860,000	5¼	3.81			
2013	25,000,000	*	100			
2014	19,145,000	4⅛	4.22			
2014(1)	5,460,000	5¼	3.92			
2014	25,000,000	*	100			
2015	5,980,000	4.2	4.34			
2015(2)	43,620,000	5¼	4.34			
2016	2,115,000	4.3	4.43			
2016(2)	11,360,000	5¼	4.43			
2017	330,000	43⁄8	4.49			
2017(2)	15,395,000	5¼	4.49			
2018	495,000	4.4	4.50			
2018(1)(2)	7,435,000	5¼	4.20			
2019	8,025,000	4½	4.55			
2020	2,595,000	4½	4.60			
2020(1)(2)	9,260,000	5¼	4.30			
2021	425,000	4.6	4.65			
2021(2)	5,825,000	5¼	4.65			
2022	940,000	45⁄8	4.70			
2022(3)	8,360,000	5⅛	4.44			
2023	6,290,000	4.7	4.75			
2024	7,200,000	4¾	4.81			

(1) Insured by Financial Security Assurance Inc.

(2) Priced to first call on August 1, 2014.

(3) Priced to first call on February 1, 2009.

* These Bonds (CPI Bonds) bear interest at a variable rate based on changes in the Consumer Price Index as described in Appendix F.

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, its independent auditors 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 (except as required by law) 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
TABLE OF CONTENTS**

	<u>Page</u>		<u>Page</u>
INTRODUCTORY STATEMENT	1	Actions to Close the Remaining Gaps	31
SECTION I: RECENT FINANCIAL DEVELOPMENTS	2	Assumptions	31
2004-2008 Financial Plan	2	Certain Reports	40
World Trade Center Attack	4	Long-Term Capital Program	43
The State	5	Financing Program	44
SECTION II: THE BONDS	6	Seasonal Financing Requirements	45
General	6	SECTION VIII: INDEBTEDNESS	46
Payment Mechanism	6	Indebtedness of the City and Certain Other	
Enforceability of City Obligations	6	Entities	46
Certain Covenants and Agreements	7	Municipal Assistance Corporation Indebtedness	51
Use of Proceeds	7	Public Benefit Corporation Indebtedness	52
Optional Redemption	7	SECTION IX: OTHER INFORMATION	54
Bond Insurance	7	Pension Systems	54
Bond Certificates	8	Litigation	55
SECTION III: GOVERNMENT AND FINANCIAL		Tax Exemption	58
CONTROLS	9	Taxable Bonds	59
Structure of City Government	9	Ratings	59
City Financial Management, Budgeting and Controls	10	Legal Opinions	60
SECTION IV: SOURCES OF CITY REVENUES	14	Verification	60
Real Estate Tax	14	Underwriting	60
Other Taxes	18	Continuing Disclosure Undertaking	60
Miscellaneous Revenues	19	Financial Advisors	62
Unrestricted Intergovernmental Aid	19	Further Information	62
Federal and State Categorical Grants	20	APPENDIX A—ECONOMIC AND DEMOGRAPHIC	
SECTION V: CITY SERVICES AND EXPENDITURES	21	INFORMATION	A-1
Expenditures for City Services	21	APPENDIX B—FINANCIAL STATEMENTS	B-1
Employees and Labor Relations	22	APPENDIX C—BONDS TO BE REDEEMED	C-1
Capital Expenditures	23	APPENDIX D—BOND INSURER	D-1
SECTION VI: FINANCIAL OPERATIONS	24	APPENDIX E—SPECIMEN INSURANCE POLICY	E-1
1999-2003 Summary of Operations	25	APPENDIX F—CPI BONDS	F-1
Forecast of 2004 Results	27	APPENDIX G—FORM OF LEGAL OPINION	G-1
SECTION VII: FINANCIAL PLAN	29		

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 \$586,755,000 aggregate principal amount of the City’s General Obligation Bonds, Fiscal 2005 Series A and B (the “Bonds”). The Bonds consist of \$550,605,000 tax-exempt bonds (the “Tax-Exempt Bonds”) and \$36,150,000 taxable bonds (the “Taxable Bonds”). The Taxable Bonds are to be issued to the original purchaser thereof in accordance with the City’s Notice of Sale, dated July 6, 2004, as supplemented. Reference is made to the Notice of Sale for the terms and conditions of sale and delivery of the Taxable Bonds to be issued to the original purchaser thereof.

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 2003 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—1999-2003 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 2004 and 2005 fiscal years and budget gaps for each of the 2006 through 2008 fiscal years. A pattern of current year balance and projected subsequent year budget gaps has been consistent through the entire period since 1982, during which the City has achieved an excess of revenues over expenditures, before discretionary transfers, for each fiscal year. For information regarding the current financial plan, 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 delays or 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 Mayor is responsible for preparing the City's financial plan, including the financial plan for the 2003 through 2007 fiscal years submitted to the Control Board on June 30, 2003 (the "June 2003 Financial Plan") and Modification No. 04-4 to the June 2003 Financial Plan and the financial plan for the 2005 through 2008 fiscal years submitted to the Control Board on June 29, 2004 (together, the "2004-2008 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. 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, the impact on City revenues and expenditures of any future federal or State policies affecting the City and the cost of future labor settlements. 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 other financing entities, including 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." 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 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 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

2004-2008 Financial Plan

For the 2003 fiscal year, the City's General Fund had an excess of revenues over expenditures of \$1.422 billion, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, after discretionary and other transfers. The 2003 fiscal year is the twenty-third consecutive year that the City has achieved an excess of revenues over expenditures, before discretionary and other transfers, and balanced operating results, after discretionary and other transfers.

The City's expense and capital budgets for the 2004 fiscal year were adopted on June 27, 2003. The June 2003 Financial Plan, which was based on the City's expense and capital budgets for the 2004 fiscal year, projected revenues and expenditures for the 2004 fiscal year balanced in accordance with GAAP, and projected gaps of \$2.0 billion, \$3.2 billion, and \$3.3 billion for fiscal years 2005, 2006, and 2007, respectively. See "SECTION VI: FINANCIAL OPERATIONS—Forecast of 2004 Results." The June 2003 Financial Plan reflected reductions made during fiscal year 2003 in projected revenues for fiscal year 2004 and subsequent fiscal years of greater than \$2 billion annually and annual increases in projected net expenditures of greater than \$1 billion. The reduction in projected revenues was primarily due to a decline in projected tax revenues reflecting the September 11 attack and a continued weak economy, which had resulted in lower wage earnings, lower corporate earnings, local job losses, a disruption in tourism and related spending and a decline in financial services sector profits and employee income. The June 2003 Financial Plan contained a gap-closing program which included expenditure reductions and an 18.49% property tax increase, a temporary increase in personal income tax rates for City residents with taxable income above specified amounts and a temporary increase in the City portion of the sales tax.

On June 29, 2004, the City submitted to the Control Board the Financial Plan for the 2004 through 2008 fiscal years, which relates to the City and certain entities which receive funds from the City and which

reflects changes as a result of the City's expense and capital budgets for the 2005 fiscal year which were adopted on June 25, 2004. The Financial Plan is a modification to the June 2003 Financial Plan, as subsequently modified by financial plans submitted to the Control Board on November 18, 2003, January 23, 2004 and April 29, 2004 (the "April Financial Plan"). The Financial Plan projects revenues and expenditures for the 2004 and 2005 fiscal years balanced in accordance with GAAP, and projects gaps of \$3.7 billion, \$4.5 billion and \$3.7 billion for fiscal years 2006 through 2008, respectively, after implementation of a gap-closing program, a pay-as-you-go expenditure program for capital costs and a proposed tax program which requires State and City legislative approval and consists of a property tax rebate and an earned income tax credit (the "Tax Program").

Increases in projected revenues since the June 2003 Financial Plan total \$2.4 billion, \$1.6 billion, \$926 million and \$907 million in fiscal years 2004 through 2007, respectively, including an increase in projected tax revenues of \$1.9 billion, \$1.0 billion, \$792 million and \$770 million in fiscal years 2004 through 2007, respectively. The projected increase in tax revenues primarily reflects increases in projected personal income and business tax revenues, primarily due to improved securities industry profits and the improving local and national economy, and increases in mortgage recording, real property transfer and sales tax revenues. In addition, projected net expenditures have increased since the June 2003 Financial Plan by \$755 million, \$2.1 billion, \$1.7 billion and \$2.2 billion in fiscal years 2004 through 2007, respectively. Increases in projected expenditures since the June 2003 Financial Plan include: (i) \$333 million, \$652 million, \$580 million and \$574 million in fiscal years 2004 through 2007 to provide for wage increases pursuant to the settlement with the District Council 37 of the American Federation of State, County and Municipal Employees ("DC 37") and assumed increases for other City employees consistent with the DC 37 settlement for the 2002-2005 round of collective bargaining; (ii) increased spending for Medicaid totaling \$448 million, \$388 million, \$475 million and \$668 million for fiscal years 2004 through 2007, respectively; (iii) increased public assistance spending of \$59 million in fiscal year 2004 and \$69 million annually in each of fiscal years 2005 through 2007; (iv) an increase in the City subsidy for the New York City Health and Hospitals Corporation ("HHC") of \$200 million in fiscal year 2005 and \$150 million in each of fiscal years 2006 and 2007; (v) the restoration of \$75 million of City private bus subsidies in fiscal year 2004 and payment to the Metropolitan Transportation Authority ("MTA") of approximately \$160 million annually commencing in fiscal year 2005 for the continuation by the MTA of formerly franchised local bus service; and (vi) new agency spending totaling \$313 million in fiscal year 2004, \$1.1 billion in fiscal year 2005 and approximately \$700 million in each of fiscal years 2006 and 2007, which includes \$215 million of increased spending in fiscal year 2005 as a result of the budget adoption process. Decreases in projected expenditures since the June 2003 Financial Plan total \$473 million, \$409 million, \$466 million and \$84 million in fiscal years 2004 through 2007, respectively, and include lower than anticipated pension contributions and debt service savings. In addition, prior years' expenses have been reduced by \$300 million in fiscal year 2004 and the General Reserve has been reduced in fiscal year 2004 by \$260 million to \$40 million. The Financial Plan includes proposed discretionary transfers and prepayments in fiscal year 2004 of \$1.9 billion, reflecting discretionary transfers and prepayments in fiscal year 2004 of \$1.5 billion in debt service, subsidies and lease debt service due in fiscal year 2005 and a miscellaneous budget grant of \$400 million to the the New York City Transitional Financial Authority (the "TFA") in fiscal year 2004, which increases tax revenue in fiscal year 2005 by \$400 million. The Financial Plan also includes proposed discretionary transfers and prepayments in fiscal year 2005 of \$220 million, reflecting prepayments of debt service due in fiscal year 2006.

In addition, the Financial Plan sets forth gap-closing actions to eliminate the previously projected gap for the 2005 fiscal year and to reduce previously projected gaps for fiscal years 2006 and 2007. The gap-closing actions include: (i) reduced agency expenditures or increased revenues totaling \$312 million and \$389 million in fiscal years 2004 and 2005, respectively, and approximately \$190 million in each of fiscal years 2006 and 2007; and (ii) assumed additional federal assistance totaling \$50 million in fiscal year 2005 and State assistance totaling \$400 million in each of fiscal years 2005 through 2007, which require the approval of the federal and State governments. The additional federal actions assumed in the Financial Plan could include increased education, homeland security and other federal assistance. Additional State actions could include Medicaid cost containment, the State takeover of the City's funding of Medicaid long-term care and Family Health Plus or other State assistance. The gap-closing actions set forth in the

Financial Plan are partially offset by a proposed property tax rebate for homeowners totaling \$250 million in each of fiscal years 2005 through 2007, a proposed earned income tax credit for parents with annual earnings below a specified amount totalling between \$50 million and \$60 million in each of fiscal years 2005 through 2007 and debt prepayments and a pay-as-you-go expenditure program for capital costs reflecting increased spending of \$100 million in fiscal year 2004, for a total of \$200 million in fiscal year 2004 for debt prepayment and increased spending of \$200 million for pay-as-you-go capital costs in each of fiscal years 2005 through 2007.

The Financial Plan also reflects legislation enacted by the State Legislature, over the Governor's veto, pursuant to which the Local Government Assistance Corporation ("LGAC") is to make available to the City or its assignee \$170 million annually. The City intends to assign the \$170 million annual payment to the Sales Tax Asset Receivable Corporation ("STAR Corp."), a local development corporation created to issue bonds to finance the cost of debt service on bonds of the Municipal Assistance Corporation for the City of New York ("MAC") otherwise payable from City sales tax revenues. The STAR Corp. financing would make available to the City approximately \$1.0 billion in fiscal year 2005 and \$500 million annually in fiscal years 2006 through 2008 by reducing the amount of City revenues retained by MAC for its debt service or reimbursing the City for revenues already retained in the 2004 fiscal year. On August 6, 2003, the LGAC directors adopted a resolution stating that LGAC would not make the \$170 million annual payment to the City, expressing legal and policy concerns with the legislation. On August 13, 2003, LGAC, its Chairperson, the State Division of the Budget and its Director sued the City and the STAR Corp. challenging the constitutionality of the obligations of LGAC to make the \$170 million annual payment and seeking to prevent the issuance of bonds by STAR Corp. The State Supreme Court granted the City's and STAR Corp.'s motion for summary judgment. Plaintiffs appealed that decision to the State Appellate Division which, on March 4, 2004, upheld the obligations of LGAC to make the \$170 million annual payment. Plaintiffs appealed that decision to the State Court of Appeals, which, on May 13, 2004, also upheld the obligation of LGAC to make such payments. On May 13, 2004, LGAC stated that it hopes the City and State will agree on an alternative plan that will allow the City to receive the full support it needs. The outcome of this dispute cannot be predicted with certainty.

The Financial Plan also reflects other proposed State assistance which requires the approval of the State government. The Governor has released the 2004-2005 Executive Budget, which will be considered for adoption by the State Legislature. The City estimates that the 2004-2005 Executive Budget, if adopted by the State Legislature, would provide the City with substantially less assistance than assumed in the City's gap-closing program set forth in the Financial Plan. In addition, as a result of recent court rulings, the City could face increased school funding costs, which could be determined during the State budget process. The nature and extent of the impact on the City of the federal and State budgets, when adopted, are uncertain, and no assurance can be given that federal or State actions included in the federal and State adopted budgets may not have a significant adverse impact on the City's budget and its Financial Plan. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—6. Federal and State Categorical Grants" and "*—Expenditure Assumptions*—2. OTHER THAN PERSONAL SERVICE COSTS—*Department of Education*." For additional information concerning school funding costs as a result of recent court rulings, see "SECTION VII: FINANCIAL PLAN—Certain Reports."

The Financial Plan makes provision for wage increases for all City employees for the 2002-2005 round of bargaining consistent with the recent DC 37 settlement. For information regarding recent labor settlements, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs." The City Comptroller and others have issued reports identifying various risks. See "SECTION VII: FINANCIAL PLAN—Certain Reports." In addition, the economic and financial condition of the City may be affected by various financial, social, economic, geo-political and other factors which could have a material effect on the City.

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 have resulted in substantial expenditures. The City has been largely reimbursed by the federal government for all of its direct costs for response and remediation of the World Trade Center site. 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”), of which the TFA currently has outstanding approximately \$2 billion. 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.

The State

The State ended its 2002-2003 fiscal year in balance on a cash basis, with a reported closing balance in the General Fund of \$815 million.

The State has released its third quarterly update to its Annual Information Statement, dated January 26, 2004 (the “January Update”), which reflects the Governor’s Executive Budget for the 2004-2005 fiscal year and other changes to its financial plan projections. The State financial plan, as updated in the January Update, projects balance on a cash basis for the 2003-2004 fiscal year, with a closing balance in the General Fund of \$1.0 billion, which was subsequently revised in a report issued on April 29, 2004 (the “April Report”) to \$1.1 billion. The Governor’s Executive Budget projects balance on a cash basis for the 2004-2005 fiscal year, with a closing balance in the General Fund of \$964 million. The State financial plan also contains projections of a potential imbalance in the 2005-2006 fiscal year of \$2.9 billion and in the 2006-2007 fiscal year of \$4.3 billion, assuming implementation of the 2004-2005 Executive Budget recommendations and no funding for possible collective bargaining salary increases or productivity savings. In the April Report, the State noted that it had reached tentative collective bargaining agreements with several of the State’s employee unions, and that the State’s largest union had recently ratified the first of these agreements. In the April Report, the State projected that, if all of the State’s employee unions approved comparable agreements, it would result in General Fund costs of roughly \$350 million in the 2004-05 fiscal year growing to \$1.4 billion by the end of the contract period in the 2006-07 fiscal year. The April Report further noted that, while the current State financial plan has no dedicated reserves for the costs of new labor agreements, additional 2004-05 revenues of between \$150 million and \$500 million above the Governor’s Executive Budget projections, which had been identified in the consensus revenue agreement reached by the Legislature and the Governor in March 2004, could help to cover these costs.

The January Update identifies a number of risks, including costs that could materialize as a result of adverse rulings in pending litigation, increased school aid funding related to recent court rulings, future collective bargaining agreements with State employee unions and federal disallowances or other federal actions that could produce adverse effects on the State’s projections of receipts and disbursements, as well as risks relating to the national and local economies, including unpredictable events such as a terror attack, the possibility of monetary tightening by the Federal Reserve Board or a decline in consumption growth or the dollar.

The Governor’s Executive Budget contains a number of proposals, including Medicaid and health care cost containment, the State takeover of Medicaid long-term care costs, increased school aid funding from the proceeds of video lottery terminals in response to recent court rulings, and extending the suspension of the exemption for sales tax on clothing and footwear which could, if adopted by the State Legislature, decrease City expenditures or increase City revenues.

The Legislature and the State Comptroller will review the Governor’s Executive Budget and are expected to comment on it. There can be no assurance that the Legislature will enact the Executive Budget into law, or that the State’s adopted budget projections will not differ materially and adversely from the projections set forth in the Executive Budget. Depending on the amount of State aid provided to localities, the City might be required to make changes in its Financial Plan.

The State Legislature has not enacted the annual budget for fiscal year 2004-2005, which began on April 1, 2004. However, as in prior years, the State has enacted interim budget legislation that extends certain revenue raising authority and makes interim appropriations for certain State personal service costs, grants to local governments and other items for the period from April 1 through August 1, 2004.

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 Bonds will mature and bear interest as described on the cover and inside cover page of this Official Statement. 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, calculated on a 30/360 day basis, will be payable to the registered owners thereof as shown on the registration books of the City on the Record Date (the fifteenth day of the calendar month immediately preceding the applicable interest payment date). 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 and interest on the Bonds.

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 not earlier than 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 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 further covenant in the 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 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 and the State Pledge and Agreement 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 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, together with funds to be provided by the City, will be used to redeem, at or prior to maturity, the bonds identified in Appendix C hereto by providing for the principal of and interest and redemption premium, if any, on such bonds to the extent and to the payment dates shown and for expenses of the City in connection with the issuance and sale of the Bonds.

Optional Redemption

The Bonds (except for the 5 $\frac{1}{8}$ % Bonds due in 2022) maturing after August 1, 2014 will be subject to redemption at the option of the City, on or after August 1, 2014, in whole or in part, by lot within each maturity and coupon, on any date, upon 30 days' notice to Bondholders, at par, plus accrued interest to the date of redemption. The 5 $\frac{1}{8}$ % Bonds due in 2022 will be subject to redemption at the option of the City, on or after February 1, 2009, in whole or in part, by lot, 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.

Bond Insurance

The principal of and interest on the Bonds maturing in 2009 (2 $\frac{7}{8}$ % and 5% coupons), 2011 (3 $\frac{1}{4}$ % coupon), 2012 (3 $\frac{1}{2}$ % coupon and 5 $\frac{1}{4}$ % coupon, 3.65% yield), 2013 (5 $\frac{1}{4}$ % coupon), 2014 (5 $\frac{1}{4}$ % coupon), 2018 (5 $\frac{1}{4}$ % coupon) and 2020 (5 $\frac{1}{4}$ % coupon) are insured by Financial Security Assurance Inc. (the "Insured Bonds"). Information about Financial Security Assurance Inc. ("FSA") is set forth in Appendix D. A specimen FSA insurance policy is set forth in Appendix E.

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 LLC, 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 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 DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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, The Bank of New York, 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.

The services of DTC as securities depository with respect to the Bonds may be discontinued at any time. Under such circumstances, in the event that a successor securities depository is not obtained, 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.

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 \$83.95 billion as of March 31, 2004, 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

The City's 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 (the "CAFR") of the Comptroller for the 2002 fiscal year, which includes, among other things, the City's financial statements for the 2002 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 CAFR of the Comptroller has won such award. The CAFR for fiscal year 2003 was issued on October 31, 2003.

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-three consecutive fiscal years with a General Fund surplus when reported in accordance with then applicable GAAP.

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, the presentation of "government-wide" financial statements that use the accrual method of accounting and are prepared on a different measurement focus than the City's fund financial statements, including the City's General Fund. The General Fund uses the modified accrual basis of accounting and the current financial resources measurement focus. A summary reconciliation of the differences between "government-wide" and fund financial statements is presented in the City's financial statements. 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" statements results in an excess of liabilities over assets and a decline in net assets in each of the fiscal years 2001, 2002 and 2003.

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 March 31, 2004 aggregate pension assets were allocated approximately as follows: 52% U.S. equities; 28% U.S. fixed income; 17% international equities; 2% private equity and real estate; and 1% cash.

Financial Emergency Act

The Financial Emergency Act requires that the City submit to the Control Board, at least 50 days prior to the beginning of each fiscal year (or on such other date as the Control Board may approve), a financial plan for the City and certain State governmental agencies, public authorities or public benefit corporations ("PBCs") which receive or may receive monies from the City directly, indirectly or contingently (the "Covered Organizations") covering the four-year period beginning with such fiscal year. 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"), 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 not earlier than 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, 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 2003, while unrestricted federal aid has been sharply reduced. The City projects that local revenues will provide approximately 69.9% of total revenues in the 2005 fiscal year while federal aid, including categorical grants, will provide 10.1%, and State aid, including unrestricted aid and categorical grants, will provide 20.0%. Adjusting the data for comparability, local revenues provided approximately 60.6% of total revenues in 1980, while federal and State aid each provided approximately 19.7%. A discussion of the City's principal revenue sources follows. For 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 42.7% of its total tax revenues and 24.5% of its total revenues for the 2005 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—1999-2003 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	Rate Per \$100 of Full Valuation(3)	Average Tax Rate Per \$100 of Assessed Valuation(4)
(Dollars in Millions, except for Tax Rates)								
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	10,688.8	8,694.6	1,982.3	18.5	8,925.2	97.4	2.52	12.28
2004	12,250.7	9,387.4	2,821.2	23.0	9,893.5	94.9	2.50	12.28
2005	12,720.0	9,615.0	2,485.6	19.5	10,675.8	90.1	2.46	12.28

- (1) As approved by the City Council.
- (2) The debt service levy includes a portion of the total reserve for uncollected real estate taxes.
- (3) Full valuation is based on the special equalization ratios (discussed below) and the billable assessed valuation. Special equalization ratios and full valuations are revised periodically as a result of surveys by the State Board of Real Property Services (as defined below).
- (4) The increase in the rate between fiscal year 2002 and fiscal year 2003 reflects the 18.49% property tax increase effective January 1, 2003 which resulted in approximately \$837 million and \$1.7 billion in increased collections in the 2003 and the 2004 fiscal years, respectively.

Assessment

The City has traditionally assessed real property at less than market 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 2005 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 2003 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)
2001	\$ 84,319,741,571		0.2340		\$360,340,775,944
2002	89,539,563,218		0.2283		392,201,328,156
2003	94,506,250,871		0.2230		423,794,846,955
2004	99,854,097,559		0.2161		462,073,565,752
2005	103,676,971,611		0.2004		517,350,157,740
			Average:		\$431,152,134,909

- (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 2004 fiscal year, the billable assessed value of real estate categorized by the City as exempt is \$67.8 billion, or 38.8% of the \$174.7 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 2005 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 2005, 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. Maximum class increases below 5% must be, and typically are, approved by the State legislature. Fiscal year 2005 tax rates were set on June 24, 2004, and reflect a 5% limitation on the market value adjustment for 2005 and an average tax rate held at \$12.283 per \$100 of assessed value, though individual class tax rates were changed from the prior year level.

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. For further information regarding the City’s proceedings, 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 fiscal year 2000, billable assessed valuation rose by \$2.4 billion to \$80.1 billion. The billable assessed valuation rose to \$83.3 billion, \$88.3 billion, \$93.3 billion, and \$98.6 billion for fiscal years 2001 through 2004 respectively. The Department of Finance released the assessment roll for fiscal year 2005 on May 25, 2004. The billable assessed value rose by \$3.7 billion to \$102.4 billion over the 2004 final assessment roll. Billable assessed valuations are forecast to grow by 4.6% in fiscal year 2006 and 4.5% and 4.4% in fiscal years 2007 and 2008, respectively.

Collection of the Real Estate Tax

Real estate tax payments are due each July 1 and January 1. Owners of class one and class two properties assessed at \$80,000 or less and cooperatives whose individual units on average are valued at \$80,000 or less are eligible to make tax payments in quarterly installments on July 1, October 1, January 1 and April 1. 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. 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 2000, 2001, 2002, 2003 and 2004, the City sold to separate business trusts real property tax liens for which the City received net proceeds of approximately \$73 million, \$211 million, \$44.5 million, \$22.6 million and \$89.3 million, respectively. The City currently expects to receive \$118.3 million in fiscal year 2005 from tax lien sales.

REAL ESTATE TAX COLLECTIONS AND DELINQUENCIES

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)
(Dollars In Millions)									
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	10,688.8	9,943.5	93.0	126.3	(149.1)	(457.2)	(288.1)	2.70	22.6
2004(6) . . .	12,250.6	11,377.5	92.9	134.0	(204.0)	(560.8)	(312.3)	2.55	89.3
2005(6) . . .	12,720.0	11,493.4	90.4	132.0	(194.0)	(844.4)	(382.2)	3.00	118.3

- (1) As approved by the City Council through fiscal year 2005.
- (2) Quarterly collections on current year levy.
- (3) Includes repurchases of defective tax liens amounting to \$10.8 million, \$15.1 million, \$3.9 million and \$11.1 million in the 2000, 2001, 2002 and 2003 fiscal years, respectively.
- (4) These figures include taxes due on certain publicly owned property and exclude delinquency on shelter rent and exempt property.
- (5) Net of reserve for defective liens.
- (6) Forecast.

Other Taxes

The City expects to derive 57.3% of its total tax revenues for the 2005 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4⅛% sales and compensating use tax, in addition to the 4½% 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 2.5% 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 2.5% 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 2003 fiscal year increased by \$337 million, an increase of approximately 2.6% from the 2002 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real property tax, for each of the City's 1999 through 2003 fiscal years.

	<u>1999</u>	<u>2000</u>	<u>2001</u> (In Millions)	<u>2002</u>	<u>2003</u>
Personal Income(1)	\$ 5,379	\$ 5,353	\$ 5,746	\$ 4,538	\$ 4,460
General Corporation	1,423	1,779	1,735	1,330	1,237
Banking Corporation	388	347	424	320	213
Unincorporated Business Income	657	805	820	791	832
Sales	3,192	3,509	3,662	3,360	3,535
Commercial Rent(2)	333	344	377	380	397
Real Property Transfer	424	483	473	425	513
Mortgage Recording	408	403	407	477	526
Utility	222	247	300	258	295
Cigarette	32	31	28	27	159
Hotel	197	219	241	184	192
All Other(3)	469	473	351	381	367
Audits	536	416	401	485	571
Total	<u>\$13,660</u>	<u>\$14,409</u>	<u>\$14,965</u>	<u>\$12,957</u>	<u>\$13,297</u>

Note: Totals may not add due to rounding.

- (1) Personal Income excludes \$144 million, \$247 million, \$407 million, \$451 million and \$537 million retained by the TFA in fiscal years 1999, 2000, 2001, 2002 and 2003, respectively. In fiscal years 1999, 2000, 2001, 2002 and 2003, Personal Income also includes \$85 million, \$200 million, \$415 million, \$520 million and \$540 million, respectively, which was provided to the City by the State as a reimbursement for the reduced personal income tax revenues resulting from the School 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, \$1.406 billion in fiscal year 2002 and \$1.061 billion in fiscal year 2003. 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, beer and liquor taxes, and the automobile use tax, but excludes the State's STAR Program aid of \$117 million, \$260 million, \$504 million, \$632 million and \$660 million in fiscal years 1999, 2000, 2001, 2002 and 2003, 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 with respect to airports, and the collection of fines. The following table sets forth amounts of miscellaneous revenues for each of the City’s 1999 through 2003 fiscal years.

	<u>1999</u>	<u>2000</u>	<u>2001</u> (In Millions)	<u>2002</u>	<u>2003</u>
Licenses, Permits and Franchises	\$ 291	\$ 329	\$ 338	\$ 356	\$ 357
Interest Income	182	195	245	81	43
Charges for Services	440	439	439	461	501
Water and Sewer Payments	778	801	843	858	846
Rental Income	114	139	154	115	109
Fines and Forfeitures	479	468	495	485	548
Other	408	718	1,109	1,383	2,244
Total.	<u>\$2,692</u>	<u>\$3,089</u>	<u>\$3,623</u>	<u>\$3,739</u>	<u>\$4,648</u>

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 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, 2002 and 2003 include \$247 million, \$154 million, \$211 million and \$150 million, respectively, of tobacco settlement receivables (“TSRs”) from the settlement of litigation with certain cigarette manufacturers, that are not retained by TSASC, Inc. (“TSASC”) for debt service and operating expenses. Other miscellaneous revenues for fiscal years 2001, 2002 and 2003 do not include tobacco settlement revenues retained by TSASC for debt service and operating expenses totaling \$50 million, \$45 million and \$103 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. Other miscellaneous revenues for fiscal year 2003 include \$50 million in recovery of prior expenditures, \$106 million in reimbursement for landfill closure costs and \$1.5 billion of TFA Recovery Bond proceeds to reimburse 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 1999 through 2003 fiscal years.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(In Millions)				
State Per Capita Aid.....	\$328	\$405	\$327	\$328	\$ 400
Other(1)	<u>324</u>	<u>226</u>	<u>307</u>	<u>338</u>	<u>1,043</u>
Total.....	<u>\$652</u>	<u>\$631</u>	<u>\$634</u>	<u>\$666</u>	<u>\$1,443</u>

(1) Included in the 1999, 2000, 2001, 2002 and 2003 fiscal years are \$158 million, \$147 million, \$158 million, \$201 million and \$180 million, respectively, of aid associated with the partial State takeover of long-term care Medicaid costs. A total of approximately \$762 million in non-recurring Federal Emergency Management Agency (“FEMA”) reimbursement for costs related to the September 11 attack is included in fiscal year 2003.

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—6. Federal and State Categorical Grants.”

The following table sets forth amounts of federal and State categorical grants received by the City for each of the City’s 1999 through 2003 fiscal years.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(In Millions)				
Federal					
Community Development(1).....	\$ 239	\$ 264	\$ 250	\$ 281	\$ 226
Welfare(2).....	2,183	2,335	2,339	2,541	2,550
Education(2).....	1,053	1,127	1,227	1,364	1,595
Other(2)	<u>787</u>	<u>691</u>	<u>734</u>	<u>1,911</u>	<u>1,247</u>
Total.....	<u>\$4,262</u>	<u>\$4,417</u>	<u>\$4,550</u>	<u>\$6,097</u>	<u>\$5,618</u>
State					
Welfare	\$1,442	\$1,382	\$1,581	\$1,585	\$1,576
Education	4,413	4,829	5,388	5,592	5,834
Higher Education	128	124	129	129	133
Health and Mental Health.....	323	348	349	434	416
Other	<u>333</u>	<u>379</u>	<u>321</u>	<u>290</u>	<u>358</u>
Total.....	<u>\$6,639</u>	<u>\$7,062</u>	<u>\$7,768</u>	<u>\$8,030</u>	<u>\$8,317</u>

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

(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—1999-2003 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 108th Congress. The federal block grant expired September 30, 2002, and was recently extended through September 30, 2004. 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 the Family Assistance Program 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*—6. 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 Department of Education ("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 appoints one member. The number of pupils in the school system is estimated to be approximately 1.1 million for the 2005 fiscal year, and approximately 1 million for the 2006 through 2008 fiscal years. Actual enrollment in fiscal years 2000 through 2004 has been 1,071,442, 1,072,677, 1,068,839, 1,064,382 and 1,060,127, respectively. 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 37.3% of the costs of the Community Colleges in the 2005 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 all other clients. The federal government pays 52.95% of Medicaid costs for federally eligible recipients.

The City's Expense Budget increased during the five-year period ended June 30, 2003, due to, among other factors, the costs of labor settlements 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 DOE and CUNY, at the end of each of the City's 1999 through 2003 fiscal years.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Education.....	96,930	100,748	102,583	102,320	100,694
Police	48,092	49,269	48,004	46,003	45,144
Social Services, Homeless and Children's Services.....	22,224	21,972	21,309	21,388	19,457
City University Community Colleges and Hunter Campus Schools	3,781	3,756	3,763	3,795	3,789
Environmental Protection and Sanitation	15,024	15,542	15,580	15,464	14,507
Fire	15,937	15,987	15,642	15,724	15,137
All Other	44,648	43,538	42,943	42,987	40,888
Total	<u>246,636</u>	<u>250,812</u>	<u>249,824</u>	<u>247,681</u>	<u>239,616</u>

The following table presents the number of full-time employees of certain Covered Organizations, as reported by such Organizations, at the end of each of the City's 1999 through 2003 fiscal years.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Transit Authority.....	44,634	46,082	47,689	47,954	47,694
Housing Authority.....	14,780	14,867	14,704	14,694	14,673
HHC	<u>35,747</u>	<u>35,509</u>	<u>34,968</u>	<u>35,377</u>	<u>35,956</u>
Total(1)	<u>95,161</u>	<u>96,458</u>	<u>97,361</u>	<u>98,025</u>	<u>98,323</u>

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

The foregoing tables include persons whose salaries or wages are paid by certain public employment programs, 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.

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”).

For information regarding the City’s assumptions with respect to the current status of the City’s agreements with its labor unions, 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 15, 2003, the City published the Ten-Year Capital Strategy for fiscal years 2004 through 2013. The Ten-Year Capital Strategy totals \$49.3 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 includes: (i) \$9.8 billion to construct new schools and improve existing educational facilities; (ii) \$16.5 billion for improvements to the water and sewer system; (iii) \$3.8 billion for expanding and upgrading the City’s housing stock; (iv) \$2.8 billion for reconstruction or resurfacing of City streets; (v) \$743 million for continued City-funded investment in mass transit; (vi) \$4.5 billion for the continued reconstruction and rehabilitation of all four East River bridges and 186 other bridge structures; (vii) \$1.4 billion to expand current jail capacity; and (viii) \$1.2 billion for construction and improvement of court facilities.

Those programs in the Ten-Year Capital Strategy financed with City funds are currently expected to be funded primarily from the issuance of general obligation bonds issued by the City and bonds issued by the Water Authority. 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 \$27 billion during the 1999 through 2003 fiscal years. City-funded expenditures, which totaled \$23.9 billion during the 1999 through 2003 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 1999 through 2003 fiscal years.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Total</u>
	(In Millions)					
Education	\$1,559	\$1,296	\$1,708	\$1,765	\$1,315	\$ 7,634
Environmental Protection	788	797	830	1,037	1,301	4,753
Transportation	636	637	577	724	739	3,313
Transit Authority(1)	342	270	279	191	446	1,528
Housing	365	290	414	380	301	1,750
Hospitals	41	43	34	62	67	247
Sanitation	71	118	178	185	114	666
All Other(2)	<u>1,017</u>	<u>1,358</u>	<u>1,290</u>	<u>1,976</u>	<u>1,451</u>	<u>7,092</u>
Total Expenditures(3)	<u>\$4,819</u>	<u>\$4,809</u>	<u>\$5,310</u>	<u>\$6,320</u>	<u>\$5,734</u>	<u>\$26,992</u>
City-funded Expenditures(4)	<u>\$4,595</u>	<u>\$4,096</u>	<u>\$4,389</u>	<u>\$5,436</u>	<u>\$5,376</u>	<u>\$23,892</u>

- (1) Excludes the Transit Authority's non-City portion of the MTA's Capital Program.
- (2) All Other includes, among other things, parks, correction facilities, public structures and equipment.
- (3) Total expenditures for the 1999 through 2003 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures for the 1999 through 2003 fiscal years 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.

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, 2003, 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 "1999-2003 Summary of Operations" below.

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.

1999-2003 Summary of Operations

The following table sets forth the City's results of operations for its 1999 through 2003 fiscal years in accordance with GAAP.

The information regarding the 1999 through 2003 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 2002 and 2003 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 1999 through 2001 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				
	1999	2000	2001	2002	2003
	(In Millions)				
Revenues and Transfers					
Real Estate Tax(2)	\$ 7,631	\$ 7,850	\$ 8,246	\$ 8,761	\$10,063
Other Taxes(3)(4)	13,660	14,409	14,965	12,957	13,297
Miscellaneous Revenues(3)	2,692	3,089	3,623	3,799	4,648
Other Categorical Grants	367	432	492	615	1,006
Unrestricted Federal and State Aid(3)	652	631	634	666	1,443
Federal Categorical Grants	4,262	4,417	4,550	6,097	5,618
State Categorical Grants	6,639	7,062	7,768	8,030	8,317
Less: Disallowances Against Categorical Grants	(39)	(5)	(46)	0	(47)
Total Revenues and Transfers(5)	<u>\$35,864</u>	<u>\$37,885</u>	<u>\$40,232</u>	<u>\$40,865</u>	<u>\$44,345</u>
Expenditures and Transfers					
Social Services	\$ 7,892	\$ 8,330	\$ 8,717	\$ 9,098	\$ 9,321
Board of Education	9,478	10,674	11,545	11,718	12,673
City University	389	398	408	440	464
Public Safety and Judicial	5,318	5,649	5,875	6,434	6,197
Health Services	1,651	1,777	1,959	2,132	2,241
Pensions(6)	1,342	615	1,127	1,392	1,631
Debt Service(3)(7)	3,360	3,339	2,522	1,371	2,309
MAC Debt Service Funding(3)(7)	386	451	458	5	225
All Other(7)	6,042	6,647	7,616	8,270	9,279
Total Expenditures and Transfers(5)	<u>\$35,859</u>	<u>\$37,880</u>	<u>\$40,227</u>	<u>\$40,860</u>	<u>\$44,340</u>
Surplus(7)	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>

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

(2) In fiscal years 1999, 2000, 2001, 2002 and 2003 Real Estate Tax includes \$31.8 million, \$59.9 million, \$89.4 million, \$112.4 million and \$119.6 million, respectively, which was provided to the City by the State as a reimbursement for the reduced property tax revenues resulting from the State's 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. MAC Debt Service Funding is reduced by payments by the City of debt service on City obligations held by MAC. Personal income taxes exclude \$144 million, \$247 million, \$407 million, \$451 million

and \$537 million in fiscal years 1999, 2000, 2001, 2002 and 2003, 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 revenues exceeding expenditures of \$1.422 billion, \$686 million, \$2.949 billion, \$3.192 billion and \$2.625 billion before discretionary and other transfers and expenditures for the 2003, 2002, 2001, 2000 and 1999 fiscal years, respectively. Discretionary and other transfers are included in Debt Service, MAC Debt Service Funding and for transit and other subsidies in All Other.

Forecast of 2004 Results

The following table compares the forecast for fiscal year 2004 contained in the June 2003 Financial Plan submitted to the Control Board on June 30, 2003 (the "June 2003 Forecast") with the forecast for fiscal year 2004 contained in the Financial Plan submitted to the Control Board on June 29, 2004 (the "June 2004 Forecast"). Each forecast was prepared on a basis consistent with GAAP. For information regarding recent developments, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

	June 2003 Forecast	June 2004 Forecast	Increase (Decrease) from June 2003 Forecast
	(In Millions)		
REVENUES			
Taxes			
General Property Tax	\$11,317	\$11,397	\$ 80
Other Taxes	14,125	15,956	1,831 (1)
Tax Audit Revenue	525	567	42
Miscellaneous Revenues	4,287	4,568	281 (2)
Unrestricted Intergovernmental Aid	555	991	436 (3)
Less: Intra-City Revenues	(1,094)	(1,234)	(140)
Disallowances Against Categorical Grants	(15)	(15)	—
Subtotal – City Funds	<u>\$29,700</u>	<u>\$32,230</u>	<u>\$2,530</u>
Other Categorical Grants	842	926	84
Inter-Fund Revenues.....	321	350	29
Total – City Funds & Inter-Fund Revenues	<u>\$30,863</u>	<u>\$33,506</u>	<u>\$2,643</u>
Federal Categorical Grants	4,622	5,690	1,068 (4)
State Categorical Grants.....	8,173	8,641	468 (5)
Total Revenues	<u>\$43,658</u>	<u>\$47,837</u>	<u>\$4,179</u>
EXPENDITURES			
Personal Services			
Salaries and Wages	\$16,319	\$17,003	\$ 684 (6)
Pensions.....	2,615	2,454	(161)
Fringe Benefits	4,795	4,900	105
Total – Personal Services	<u>\$23,729</u>	<u>\$24,357</u>	<u>\$ 628</u>
Other Than Personal Services			
Medical Assistance.....	3,871	4,323	452
Public Assistance	2,054	2,544	490
Pay-As-You-Go Capital/Outstanding Debt			
Prepayment.....	100	200	100
All Other	11,902	12,688	786 (7)
Total – Other Than Personal Services	<u>\$17,927</u>	<u>\$19,755</u>	<u>\$1,828</u>
Debt Service	2,796	2,497	(299)(8)
MAC Debt Service	—	502	502 (9)
Budget Stabilization & Prepayments	—	1,920	1,920 (10)
General Reserve.....	300	40	(260)
Total Expenditures.....	<u>\$44,752</u>	<u>\$49,071</u>	<u>\$4,319</u>
Less: Intra-City Expenses.....	<u>(1,094)</u>	<u>(1,234)</u>	<u>(140)</u>
Net Total Expenditures.....	<u>\$43,658</u>	<u>\$47,837</u>	<u>\$4,179</u>

- (1) The increase in Other Taxes is due to increases in personal income taxes of \$409 million, sales and use taxes of \$104 million, general corporation tax of \$217 million, banking corporation tax of \$172 million, unincorporated business tax of \$64 million, mortgage recording tax of \$445 million, real property transfer tax of \$414 million, commercial rent tax of \$18 million, utility tax of \$20 million, cigarette tax of \$4 million and all other taxes of \$2 million and the State's STAR Program aid of \$27 million offset by decreases of \$61 million in payments in lieu of taxes from the Battery Park City Authority and \$3 million in hotel occupancy tax.
- (2) The increase in Miscellaneous Revenues is due to the receipt of \$71 million in proceeds from a financing by the New York City Industrial Development Agency, which reimbursed the City for costs incurred in connection with the New York Stock Exchange project, and increases of \$30 million from the sale of taxi medallions, approximately \$72 million from asset sales, \$14 million in license, permit and franchise fees, \$110 million in service charges, \$29 million in fines, \$140 million in intra-city revenues, and \$87 million in miscellaneous other receipts, offset by a net decrease in rental revenues of \$180 million primarily due to the delay until fiscal year 2005 of approximately \$200 million in airport lease revenues from the Port Authority, a

decrease of approximately \$51 million in TSASC revenues due to trapping events (described herein), and decreases of \$8 million in interest income and \$33 million in water and sewer charges.

- (3) The increase in Unrestricted Intergovernmental Aid reflects changes in long term mental disability relief of approximately \$78 million, \$161 million of federal reimbursement for costs related to the September 11 attack and approximately \$197 million of previously unpaid State education aid for prior years.
- (4) The increase in Federal Categorical Grants is due to increases in United Nations security funding of \$37.9 million, education grants of \$207.6 million, other revenues of \$33.9 million and \$840.3 million of budget modifications processed from July 2003 through May 2004 partially offset by decreases of \$51.7 million in social services funding.
- (5) The increase in State Categorical Grants is due to increases of \$22 million in Clean Water Clean Air grants, \$238.9 million in social services grants, \$46.3 million in education grants, \$6.6 million in other grants and \$154.2 million of budget modifications processed from July 2003 through May 2004.
- (6) The increase in Personal Services—Salaries and Wages is due to an increase of \$317 million to fund collective bargaining agreements (described herein), a net increase of \$183 million in uniform agencies overtime, \$121 million in budget modifications processed from July 2003 through May 2004 and a net increase of \$63 million in all other agency spending.
- (7) The increase in Other Than Personal Services—All Other is due to the restoration of \$75 million of City private bus subsidies, an increase of \$222 million in education expenditures, a net increase of \$24 million in agency spending and \$765 million in budget modifications processed from July 2003 through May 2004 offset by a reduction in prior year payables of \$300 million.
- (8) The decrease in Debt Service is primarily due to lower than anticipated short-term interest rates and additional transfers into the General Debt Service Fund in fiscal year 2003 for debt service due in fiscal year 2004.
- (9) The increase in MAC Debt Service is due to the delayed implementation from fiscal year 2004 to fiscal year 2005 of the proposed refinancing of outstanding MAC debt by STAR Corp. For further information see “SECTION I: RECENT FINANCIAL DEVELOPMENTS.”
- (10) Budget Stabilization and Prepayments in fiscal year 2004 totals \$1.92 billion, including prepayments of subsidies of \$480 million and lease debt service of \$71 million and transfers into the General Debt Service Fund of \$969 million for payments due in fiscal year 2005. In addition, a grant to the TFA in fiscal year 2004 increased fiscal year 2005 tax revenue by \$400 million.

SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 2004 through 2008 fiscal years as contained in the 2004-2008 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."

	2004-2008 Fiscal Years(1)(2)				
	2004	2005	2006	2007	2008
	(In Millions)				
REVENUES					
Taxes					
General Property Tax(3).....	\$11,397	\$11,800	\$12,263	\$12,807	\$13,374
Other Taxes(4)(5).....	15,956	15,053	14,895	15,329	16,154
Tax Audit Revenue.....	567	508	508	509	509
Tax Program (3)(5).....	—	(300)	(305)	(310)	(64)
Miscellaneous Revenues(6).....	4,568	5,784	4,279	4,231	4,264
Unrestricted Intergovernmental Aid.....	991	562	562	562	562
Anticipated State and Federal Actions(7).....	—	450	400	400	400
Less: Intra-City Revenues.....	(1,234)	(1,146)	(1,131)	(1,130)	(1,130)
Disallowances Against Categorical Grants.....	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds.....	\$32,230	\$32,696	\$31,456	\$32,383	\$34,054
Other Categorical Grants.....	926	807	830	840	839
Inter-Fund Revenues(8).....	350	348	335	331	331
Total City Funds and Inter-Fund Revenues....	\$33,506	\$33,851	\$32,621	\$33,554	\$35,224
Federal Categorical Grants.....	5,690	4,733	4,646	4,635	4,625
State Categorical Grants.....	8,641	8,626	8,560	8,635	8,706
Total Revenues.....	\$47,837	\$47,210	45,827	\$46,824	\$48,555
EXPENDITURES					
Personal Services					
Salaries and Wages.....	\$17,003	\$17,062	\$17,264	\$17,253	\$17,153
Pension.....	2,454	3,376	4,107	4,515	4,502
Fringe Benefits.....	4,900	5,152	5,431	5,722	6,068
Subtotal-Personal Services.....	\$24,357	\$25,590	\$26,802	\$27,490	\$27,723
Other Than Personal Services					
Medical Assistance.....	4,323	4,766	4,997	5,194	5,401
Public Assistance.....	2,544	2,293	2,302	2,303	2,303
Pay-As-You-Go Capital/Outstanding Debt Prepayment.....	200	200	200	200	200
All Other.....	12,688	13,168	12,784	12,962	13,140
Subtotal-Other Than Personal Services.....	\$19,755	\$20,427	\$20,283	\$20,659	\$21,044
Debt Service.....	2,497	3,339	3,467	4,027	4,299
MAC Debt Service(9).....	502	—	—	—	—
Budget Stabilization & Prepayments(10).....	1,920	(1,300)	(220)	—	—
General Reserve.....	40	300	300	300	300
	\$49,071	\$48,356	\$50,632	\$52,476	\$53,366
Less: Intra-City Expenses.....	(1,234)	(1,146)	(1,131)	(1,130)	(1,130)
Total Expenditures.....	\$47,837	\$47,210	\$49,501	\$51,346	\$52,236
GAP TO BE CLOSED.....	\$ —	\$ —	\$(3,674)	\$(4,522)	\$(3,681)

(1) The four year financial plan for the 2004 through 2007 fiscal years, as submitted to the Control Board on June 30, 2003, contained the following projections for the 2004-2007 fiscal years: (i) for 2004, total revenues of \$43.658 billion and total

expenditures of \$43.658 billion; (ii) for 2005, total revenues of \$43.737 billion and total expenditures of \$45.751 billion, with a gap to be closed of \$2.014 billion; (iii) for 2006, total revenues of \$44.134 billion and total expenditures of \$47.372 billion, with a gap to be closed of \$3.238 billion; and (iv) for 2007, total revenues of \$45.186 billion and total expenditures of \$48.471 billion, with a gap to be closed of \$3.285 billion.

The four-year financial plan for the 2003 through 2006 fiscal years, as submitted to the Control Board on June 26, 2002, contained the following projections for the 2003-2006 fiscal years: (i) for 2003, total revenues of \$42.343 billion and total expenditures of \$42.343 billion; (ii) for 2004, total revenues of \$40.938 billion and total expenditures of \$44.667 billion, with a gap to be closed of \$3.729 billion; (iii) for 2005, total revenues of \$41.861 billion and total expenditures of \$46.085 billion, with a gap to be closed of \$4.224 billion; and (iv) for 2006, total revenues of \$42.920 billion and total expenditures of \$47.510 billion, with a gap to be closed of \$4.590 billion.

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.

- (2) The Financial Plan combines the operating revenues and expenditures of the City, the DOE 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) For a description of the effects of the property tax increase effective January 1, 2003, the State's STAR Program, the property tax rebates to owner-occupants of houses, co-ops and condominiums proposed under the Tax Program which requires State and City legislative approval, and other property tax reductions and other assumptions, see "SECTION VII: FINANCIAL PLAN—Assumptions—Revenue Assumptions—2. REAL ESTATE TAX."
- (4) Other Taxes includes transfers of net OTB revenues. 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, reserves and operating expenses. Sales taxes will flow directly from the State to the TFA, after any 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 personal income tax and sales tax increases authorized by the State Legislature, and the earned income tax credit proposed under the Tax Program which requires State and City legislative approval, see "SECTION VII: FINANCIAL PLAN—Assumptions—Revenue Assumptions—3. Other Taxes."
- (6) Miscellaneous Revenues reflects the receipt by the City of TSRs, excluding amounts that have been or are expected to be retained by TSASC for debt service, trapping requirements and operating expenses totaling approximately \$473 million from fiscal years 2004 through 2008. Estimates of Debt Service do not include debt service on TSASC obligations.
- (7) The Financial Plan assumes additional federal assistance of \$50 million in fiscal year 2005 and additional State assistance of \$400 million in each of fiscal years 2005 through 2008 which require the approval of the federal and State governments. For further information see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."
- (8) 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.
- (9) The Financial Plan assumes the elimination of MAC debt service after fiscal year 2004 due to the proposed refinancing of outstanding MAC debt by STAR Corp. For further information see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."
- (10) Budget Stabilization and Prepayments in fiscal year 2004 totals \$1.92 billion, including prepayments of subsidies of \$480 million and lease debt service of \$71 million and transfers into the General Debt Service Fund of \$969 million for payments due in fiscal year 2005. In addition, a grant to the TFA in fiscal year 2004 increased fiscal year 2005 tax revenue by \$400 million bringing the total fiscal year 2004 prepayment benefit to \$1.92 billion in fiscal year 2005. In fiscal year 2005, \$220 million will be used to prepay debt service due in fiscal year 2006.

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-three fiscal years and is projected to achieve balanced operating results for the 2004 and 2005 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 2004 through 2008 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; and the ability of the City and other financing entities to market their securities successfully in the public credit markets. 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 although the City's economy remained weak in calendar year 2003, a mild economic recovery began in calendar year 2004. The economic projections contained therein assume that as business and consumer confidence gradually improve, employment growth will continue through calendar year 2004 and into calendar year 2005.

The following table presents a forecast of the key economic indicators for the calendar years 2003 through 2008. This forecast is based upon information available in April 2004.

FORECAST OF KEY ECONOMIC INDICATORS

U.S. ECONOMY	Calendar Years					
	2003	2004	2005	2006	2007	2008
<i>Economic Activity and Income</i>						
Real GDP (billions of 2000 dollars)	10,397	10,898	11,307	11,717	12,152	12,466
Percent Change	3.1	4.8	3.8	3.6	3.7	2.6
Pre-tax Corporate Profits (\$ billions)	843	1,017	1,332	1,326	1,379	1,318
Percent Change	13.1	20.6	31.0	(0.5)	4.0	(4.4)
Personal Income (\$ billions)	9,187	9,604	10,126	10,720	11,382	12,011
Percent Change	3.1	4.5	5.4	5.9	6.2	5.5
Non-Agricultural Employment (millions)	129.9	131.3	134.4	136.6	138.9	140.3
Change From Prior Year	(0.4)	1.4	3.1	2.2	2.3	1.3
Unemployment Rate	6.0	5.6	5.3	5.3	5.2	5.3
CPI-All Urban (1982-84=100)	184.1	187.9	191.3	194.9	199.0	203.4
Percent Change	2.3	2.1	1.8	1.9	2.1	2.2
Wage Rate (\$ per year)	39,131	40,289	41,719	43,323	45,143	47,007
Percent Change	2.5	3.0	3.6	3.8	4.2	4.1
10-Year Treasury Bond Rate	4.0	4.4	5.3	5.4	5.5	6.0
Federal Funds Rate	1.1	1.1	2.4	3.0	3.2	4.1
NEW YORK CITY ECONOMY						
Personal Income (\$ billions)	316	332	348	366	387	407
Percent Change	2.1	5.4	4.7	5.3	5.5	5.3
Non-Agricultural Employment (thousands)	3,529	3,562	3,608	3,646	3,695	3,735
Change From Prior Year	(55.0)	33.8	45.3	37.9	49.1	40.5
Real Gross City Product (billions of 2000 dollars)	423	446	456	469	480	493
Percent Change	4.4	5.3	2.1	3.0	2.4	2.5
Wage Rate (\$ per year)	59,906	63,110	65,549	67,977	70,596	73,423
Percent Change	1.5	5.3	3.9	3.7	3.9	4.0
CPI-All Urban NY-NJ Area (1982-84=100)	197.8	203.1	207.4	212.2	217.5	222.9
Percent Change	3.1	2.7	2.1	2.3	2.5	2.5
NEW YORK CITY REAL ESTATE MARKET						
<i>Manhattan Primary Office Market</i>						
Asking Rental Rate (\$ per square foot)	48.35	47.72	48.54	49.83	52.27	54.98
Percent Change	(8.2)	(1.3)	1.7	2.7	4.9	5.2
Vacancy Rate – Percent	12.3	12.5	11.2	10.0	9.2	8.9

Source: OMB.

2. REAL ESTATE TAX

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

The increase in average tax rate to \$12.283 per \$100 of assessed value enacted November 25, 2002 for the second half of fiscal year 2003 and again for fiscal year 2004 is projected to remain in effect for the forecast period 2005 through 2008.

Projections of real estate tax revenues include \$89.3 million, \$118.3 million, \$62.3 million, \$60.3 million and \$59.3 million net revenue from the sale of real property tax liens in fiscal years 2004 through 2008, respectively. Projections of real estate tax revenues include the effects of the State's STAR Program which will reduce the property tax revenues by an estimated \$137.3 million, \$148.6 million, \$151.0 million, \$153.4 million and \$153.4 million in fiscal years 2004 through 2008, respectively. 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 \$253 million, \$266 million, \$278 million, \$290 million and \$303 million in fiscal years 2004 through 2008, respectively, and the cost of extending tax abatements through the Lower Manhattan Commercial Revitalization Program of \$11 million, \$9 million, \$7 million, \$3 million and \$3 million in fiscal years 2004 through 2008, respectively.

The delinquency rate was 3.3% for the 2002 fiscal year and 2.7% for fiscal year 2003. The Financial Plan projects delinquency rates of 2.6%, 3.0%, 3.0%, 3.1% and 3.1% in the 2004 through 2008 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.*"

The Financial Plan includes a proposed Tax Program to provide a property tax rebate of \$400 to owner-occupants of houses, co-ops and condominiums which has an estimated cost of \$250 million in each of fiscal years 2005 through 2007 and requires State and City legislative approval.

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 exclude the Criminal Justice Fund and audit revenues.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(In Millions)				
Personal Income(1)(2)	\$ 5,394	\$ 4,986	\$ 4,592	\$ 4,602	\$ 4,980
General Corporation	1,482	1,673	1,760	1,851	1,951
Banking Corporation	383	298	348	378	402
Unincorporated Business Income.	891	934	985	1,031	1,069
Sales(2)	3,975	3,984	4,029	4,177	4,353
Commercial Rent	425	439	451	465	478
Real Property Transfer.	808	476	488	511	535
Mortgage Recording.	824	514	481	516	542
Utility	294	283	278	284	284
Cigarette	138	136	132	129	126
Hotel	206	226	240	253	264
All Other(3)	1,137	1,105	1,110	1,133	1,170
Total	<u>\$15,956</u>	<u>\$15,053</u>	<u>\$14,895</u>	<u>\$15,329</u>	<u>\$16,154</u>

Note: Totals may not add due to rounding.

- (1) Personal Income does not include \$109 million, \$560 million, \$955 million, \$976 million and \$982 million of personal income tax revenues projected to be paid to the TFA for debt service in the 2004 through 2008 fiscal years, respectively. In addition, grants to the TFA of \$624 million and \$400 million in fiscal years 2003 and 2004, respectively, increased personal income tax revenue projections by \$624 million in fiscal year 2004 and \$400 million in fiscal year 2005. These projections include the effects of the State's STAR Program, which will reduce personal income tax revenues by an estimated \$540 million, \$560 million, \$564 million, \$610 million and \$646 million in the 2004 through 2008 fiscal years, respectively. The State will reimburse the City for such reduced revenues. These projections do not include the effects of the earned income tax credit proposed under the Tax Program which requires State and City legislative approval and would reduce personal income tax revenues by approximately \$50 million, \$55 million, \$60 million and \$64 million in fiscal years 2005 through 2008, respectively.
- (2) These projections include the effects of the enacted increase in the personal income tax rates for three years commencing January 1, 2003 which will generate \$681 million, \$538 million and \$308 million in fiscal years 2004 through 2006, respectively; the enacted one-eighth percent increase in the City portion of the sales tax for two years, commencing in June 2003, which will generate \$117 million and \$118 million in fiscal years 2004 and 2005, respectively; and the repeal, beginning June 1, 2003 of the sales tax exemption on the purchase of clothing and footwear under \$110 for one year which is expected to generate \$215 million in fiscal year 2004.
- (3) All Other includes, among others, OTB net revenues, beer and liquor taxes, and the automobile use tax. All Other also includes \$677 million, \$709 million, \$715 million, \$763 million and \$799 million in fiscal years 2004 through 2008, 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 State's 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 rebound in fiscal year 2004 reflecting an increase in bonus payouts reflecting strong Wall Street profitability in calendar year 2003 and growth in fiscal years 2005 through 2008 reflecting continued strength in the national and local economies; (ii) with respect to general corporation tax revenues, a rebound in fiscal year 2004 reflecting a sharp increase in Wall Street profitability in calendar year 2003 and continued growth in fiscal years 2005 through 2008 reflecting continued strength in securities industry earnings as the national recovery continues; (iii) with respect to banking corporation tax revenues, a rebound in fiscal year 2004 reflecting a sharp decline in refund payouts from the prior year and continued growth in fiscal years 2005 through 2008 reflecting continued strength in securities industry earnings as the national recovery continues; (iv) with respect to unincorporated business tax revenues, growth in fiscal years 2004 through 2008 reflecting continued strength in securities industry earnings as the national recovery continues; (v) with respect to sales tax revenues, moderate growth in fiscal year 2004 reflecting moderate wage earnings growth and continued recovery in the hotel and tourism industry and moderate growth in fiscal years 2005 through 2008 reflecting trend growth of City wages and employment; (vi) with respect to real property transfer tax revenues, robust growth in fiscal year 2004 reflecting continued decline in interest rates and the

attractiveness of real estate as commercial property investments, and a decline in fiscal year 2005 reflecting a retreat from peak transaction levels in the commercial and residential markets and moderate growth in fiscal years 2006 through 2008 as interest rates slowly rise and the national and local recoveries continue; (vii) with respect to mortgage recording tax revenues, an increase in fiscal year 2004 reflecting continued strength in refinancings, both commercial and residential, and a decline in fiscal year 2005 as interest rate increases are forecast and moderate growth in fiscal years 2007 and 2008 as the national and local recoveries continue; and (viii) with respect to the commercial rent tax revenues, moderate growth in fiscal years 2004 through 2008 reflecting slowly declining vacancy rates and moderate increases in asking rents as the local economy grows.

4. MISCELLANEOUS REVENUES

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(In Millions)				
Licenses, Permits and Franchises.....	\$ 366	\$ 358	\$ 354	\$ 352	\$ 352
Interest Income.....	28	35	56	61	74
Charges for Services.....	578	521	518	512	511
Water and Sewer Payments(1).....	878	933	930	946	967
Rental Income.....	107	861	173	176	176
Fines and Forfeitures.....	712	709	705	704	704
Other.....	665	1,221	412	350	350
Intra-City Revenues.....	<u>1,234</u>	<u>1,146</u>	<u>1,131</u>	<u>1,130</u>	<u>1,130</u>
Total.....	<u>\$4,568</u>	<u>\$5,784</u>	<u>\$4,279</u>	<u>\$4,231</u>	<u>\$4,264</u>

(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—Rental Income reflects \$783 million in fiscal year 2005, approximately \$96 million in fiscal year 2006 and \$99 million in fiscal years 2007 and 2008, respectively, for back rent and renegotiated future lease payments for the City’s airports, which was the subject of a settlement agreement between the City and the Port Authority that extends the current lease on John F. Kennedy International and LaGuardia airports through 2050. The initial payment, expected in fiscal year 2005, consists of an approximately \$500 million lump sum payment and the annual rent payments for fiscal years 2002, 2003 and 2004.

Miscellaneous Revenues—Other reflects \$65 million, \$175 million, \$118 million, \$122 million and \$121 million of projected resources in fiscal years 2004 through 2008, respectively, from the receipt by the City of TSRs. The downgrade of major tobacco companies below investment grade and an increase in the market share beyond 7% of the tobacco manufacturers that did not participate in the settlement have resulted in trapping events for TSASC pursuant to which it must retain a portion of the TSRs it receives in a reserve account for the benefit of its bondholders. TSASC and the City are considering alternatives for eliminating the requirement to trap TSRs. The Financial Plan assumes that the \$58 million trapped by TSASC in fiscal year 2004 will be released to the City in fiscal year 2005 and that the requirement to trap TSRs will be eliminated in fiscal years 2005 through 2008. If the requirement to trap TSRs were to continue, the City would not receive approximately \$117 million in fiscal year 2005 and approximately \$60 million in each of fiscal years 2006 through 2008 of the amounts currently assumed in the Financial Plan. In addition, economic and legal uncertainties relating to the tobacco industry and the settlement, including pending anti-trust litigation challenging a State statute implementing the settlement agreement, may significantly affect the receipt of TSRs by TSASC and the City. Miscellaneous Revenues—Other does not reflect a total of \$473 million that have been or are expected to be retained by TSASC during fiscal years 2004 through 2008 for debt service, trapping requirements and operating expenses.

Miscellaneous Revenues—Other includes, in fiscal year 2004, \$95 million from the sale of 300 taxi medallions and \$71 million from a financing by the New York City Industrial Development Agency which reimbursed the City for costs incurred in connection with the New York Stock Exchange project. Miscellaneous Revenues—Other includes \$502 million in fiscal year 2005 to reimburse the City for revenues retained by MAC in fiscal year 2004 due to the delayed implementation of the proposed refinancing of outstanding MAC debt by STAR Corp. For further information see “SECTION I: RECENT FINANCIAL DEVELOPMENTS.” Miscellaneous Revenues—Other includes, in fiscal year 2005, \$150 million from the sale of assets to the Battery Park City Authority.

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.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(In Millions)				
State Revenue Sharing	\$327	\$327	\$327	\$327	\$327
Other Aid	<u>664</u>	<u>235</u>	<u>235</u>	<u>235</u>	<u>235</u>
Total	<u>\$991</u>	<u>\$562</u>	<u>\$562</u>	<u>\$562</u>	<u>\$562</u>

The Other Aid category primarily consists of approximately \$271 million in fiscal year 2004 and approximately \$223 million annually in fiscal years 2005 through 2008 from aid associated with the State takeover of long-term care Medicaid costs; \$12 million in prior year claims settlements annually in fiscal years 2004 through 2008; \$23 million of other State actions in fiscal year 2004; \$197 million in fiscal year 2004 for unpaid prior year education aid, and \$151 million in fiscal year 2004 of federal reimbursement for costs related to the September 11 attack and \$9 million in fiscal year 2004 of federal reimbursement for snow removal costs.

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. 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.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(In Millions)				
Federal					
Community Development.....	\$ 312	\$ 258	\$ 241	\$ 241	\$ 241
Welfare.....	2,440	2,143	2,108	2,116	2,115
Education.....	1,773	1,733	1,733	1,733	1,733
Other	<u>1,165</u>	<u>599</u>	<u>564</u>	<u>545</u>	<u>536</u>
Total	<u>\$5,690</u>	<u>\$4,733</u>	<u>\$4,646</u>	<u>\$4,635</u>	<u>\$4,625</u>
State					
Welfare.....	\$1,835	\$1,753	\$1,734	\$1,730	\$1,730
Education.....	5,799	5,871	5,881	5,949	6,019
Higher Education.....	164	177	178	178	178
Health and Mental Hygiene.....	477	481	474	483	483
Other	<u>366</u>	<u>344</u>	<u>293</u>	<u>295</u>	<u>296</u>
Total	<u>\$8,641</u>	<u>\$8,626</u>	<u>\$8,560</u>	<u>\$8,635</u>	<u>\$8,706</u>

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 “INTRODUCTORY STATEMENT” and “SECTION I: RECENT FINANCIAL DEVELOPMENTS—The State.” In addition, the Financial Plan reflects the impact of additional State aid of approximately \$400 million in each of fiscal years 2005 through 2008 and additional federal aid of approximately \$50 million in fiscal year 2005 assumed in the City’s gap-closing program, which require the approval of the State and federal governments. See “SECTION I: RECENT FINANCIAL DEVELOPMENTS—2004-2008 Financial Plan.” As of May 31, 2004, approximately 15.02% of the City’s full-time and full-time equivalent employees (consisting of employees of the mayoral agencies and the DOE) 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 \$47 million in the 2003 fiscal year. This decrease reflects favorable experience with the level of disallowances in recent years, which may not continue. The federal government is auditing and reviewing claims by the City for Medicaid reimbursement for special education programs, which may form the basis for a recommendation of a disallowance of a substantial portion of such Medicaid reimbursements made to the City since 1990. The City has received approximately \$100 million annually for such Medicaid reimbursements. The federal audit of Medicaid claims could also result in reduced Medicaid payments in the future. As of June 30, 2003, the City had an accumulated reserve of \$250 million for all 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.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(In Millions)				
Wages and Salaries.....	\$16,686	\$16,591	\$16,790	\$16,779	\$16,679
Pensions.....	2,454	3,376	4,107	4,515	4,502
Other Fringe Benefits	4,900	5,152	5,431	5,722	6,068
Reserve for Collective Bargaining					
Department of Education ..	57	204	204	204	204
Other	<u>260</u>	<u>267</u>	<u>270</u>	<u>270</u>	<u>270</u>
Reserve Subtotal	<u>317</u>	<u>471</u>	<u>474</u>	<u>474</u>	<u>474</u>
Total	<u>\$24,357</u>	<u>\$25,590</u>	<u>\$26,802</u>	<u>\$27,490</u>	<u>\$27,723</u>

The Financial Plan projects that the authorized number of City-funded full-time and full-time equivalent employees whose salaries are paid directly from City funds, as opposed to federal or State funds or water and sewer funds, will increase slightly from an estimated level of 252,445 on June 30, 2004 to an estimated level of 254,048 by June 30, 2008.

The Financial Plan reflects the costs of collective bargaining increases in the 2002-2005 round of bargaining consistent with the recent settlement with DC 37. The DC 37 settlement provides for a \$1,000 lump sum payment at settlement and a 3% wage increase on the first day of the second year and provides

that any additional increases will be offset by negotiated productivity savings in subsequent fiscal years. In the case of DC 37, a 2% wage increase offset by productivity savings was negotiated for the third year with a possible additional 1% if the City and DC 37 can identify additional savings to offset the cost. Subsequent to the DC 37 settlement, the City reached settlements on terms identical to the DC 37 settlement with nine additional unions, which collectively represent approximately 16,000 employees.

The Reserve for Collective Bargaining contains funds for the cost of collective bargaining increases for the 2002-2005 round of bargaining for all uniformed unions and education employees, consistent with the recent DC 37 settlement, and small amounts for the remaining unsettled contracts from the 2000-2002 round consistent with the terms of the 2000-2002 settlement with DC 37. All of the contracts negotiated during the 2000-2002 round have expired.

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 further information on impasse procedures, see “SECTION V: CITY SERVICES AND EXPENDITURES—Employees and Labor Relations—*Labor Relations*.”

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.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
			(In Millions)		
Administrative OTPS	\$10,775	\$10,711	\$10,433	\$10,554	\$10,669
Public Assistance	2,544	2,293	2,302	2,303	2,303
Medical Assistance	4,323	4,766	4,997	5,194	5,401
HHC Support	375	194	282	279	273
Other	2,618	1,983	2,269	2,329	2,398
Total	<u>\$20,635</u>	<u>\$19,947</u>	<u>\$20,283</u>	<u>\$20,659</u>	<u>\$21,044</u>

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 2004 fiscal year. Thereafter, to account for inflation, selected OTPS expenditures are projected to rise by approximately 2.9% in fiscal years 2006 through 2008, respectively. Energy costs for each of the 2004 through 2008 fiscal years are assumed to vary slightly annually, with total energy expenditures projected at \$570 million in fiscal year 2004 and increasing to \$601 million by fiscal year 2008.

Public Assistance

The average number of persons receiving income benefits under public assistance programs was 432,747 per month in the 2004 fiscal year and is projected to increase to an average of 453,402 per month in the 2005 fiscal year. Of total public assistance expenditures in the City for the 2005 fiscal year, the City-funded portion is projected to be \$538.4 million and is projected to increase to \$542.3 million in fiscal year 2008.

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 \$4.139 billion for the 2004 fiscal year and is expected to increase to \$5.254 billion in fiscal year 2008. 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 \$891.1 million in fiscal year 2004 due to the State having assumed such costs, and projects such savings will increase to \$1.0 billion in fiscal year 2008.

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 \$974 million for the 2004 fiscal year, decreasing to \$938 million in fiscal year 2008. The City-funded expenditures in the 2004 fiscal year include \$53 million for the care of prisoners and uniformed personnel, \$8.6 million of general City support, \$95.6 million for HHC debt service, \$721 million for the City's share of HHC Medicaid payments, and a \$95.8 million unrestricted City subsidy.

HHC is projected to achieve balanced budgets in fiscal years 2004 through 2008 on a cash basis. Total receipts are projected to be \$4.297 billion in fiscal year 2004, increasing to \$4.184 billion in fiscal year 2008. Total disbursements are projected to be \$4.261 billion in fiscal year 2004, increasing to \$4.732 billion in fiscal year 2008. These projections assume: (i) increases in other than personal service costs and fringe benefits in fiscal years 2004 through 2008 and (ii) growth in Medicaid revenue between fiscal years 2004 and 2008. 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.

New York City Transit

In April 2004, the City prepared a financial plan for NYCT covering its 2004 through 2007 fiscal years (the "NYCT Financial Plan"). NYCT's fiscal year coincides with the calendar year. For 2004, the NYCT Financial Plan projects \$5.2 billion in revenues and \$6.4 billion in expenses, leaving a budget gap of \$1.2 billion. This gap will be offset by an \$895 million depreciation adjustment, approximately \$263 million in anticipated cash flow adjustments including reserve funds and additional receipts, and funds made available from a \$57 million cash basis surplus in 2003. NYCT's cash basis budget will be balanced for fiscal year 2004. City assistance in 2004 to NYCT's operating budget is \$247 million, in addition to \$155 million in real estate tax revenue dedicated for NYCT's use.

The NYCT Financial Plan forecasts budget gaps of \$1.748 billion, \$2.147 billion, and \$2.484 billion in 2005 through 2007, respectively, before the implementation of cash flow and depreciation 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 2005 through 2007 will be closed in part by increased user charges, productivity measures, reduced service levels, additional management actions, or some combination of these actions.

On June 5, 2003, the MTA board approved an amended five-year, \$17.9 billion capital plan for the MTA for 2000 through 2004 (the "2000-2004 Capital Program"), including approximately \$12.3 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 approximately \$475 million in City capital funds, as well as \$341 million in City capital funds exchanged for proceeds from the sale of the Coliseum. The amended 2000-2004 Capital Program was approved by the Capital Program Review Board ("CPRB") on July 7, 2003.

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 \$9.6 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.

Department of Education

State law requires the City 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.

In June 2003, the State Court of Appeals held that by July 30, 2004, the State must determine the actual cost of providing a sound basic education in the City and enact appropriate reforms, which could result in increased costs to the State and the City. Following the decision of the State Court of Appeals, the Governor of the State formed the New York State Commission on Education Reform which released its findings and recommendations to the Governor at the end of March 2004. Any actual cost increase to the State and City budgets, respectively, could be determined during the State budget process.

Judgments and Claims

In the fiscal year ended on June 30, 2003, the City expended \$626.9 million for judgments and claims, \$172.4 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of \$582.7 million, \$612.2 million, \$640.7 million, \$675.5 million and \$717.8 million for the 2004 through 2008 fiscal years, respectively. These projections incorporate a substantial amount of claims costs attributed to HHC for which HHC will reimburse the City. These amounts are estimated at \$184.8 million for fiscal year 2004 and \$189.9 million for each of fiscal years 2005 through 2008. 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, 2003 amounted to approximately \$4.5 billion. This estimate was made by categorizing the various claims and applying a statistical model, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and by supplementing the estimated liability with information supplied by the City's Corporation Counsel. For further information regarding certain of these claims, see "SECTION IX: OTHER INFORMATION—Litigation."

In addition to the above claims, numerous real estate tax *certiorari* proceedings involving allegations of inequality of assessment, illegality and overvaluation are currently pending against the City. The City's Financial Statements for the year ended June 30, 2003 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2003, could amount to approximately \$697 million. Provision has been made in the Financial Plan for estimated refunds of \$204 million, \$194 million, \$227 million, \$254 million and \$269 million for the 2004 through 2008 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 2004 through 2008 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 July 15, 2004, the City Comptroller released a report on the adopted budget for fiscal year 2005 and the Financial Plan. The report concluded that the City has adopted a fiscal year 2005 budget that is likely to end the year in balance, with reserves available to the City which appear to be sufficient to offset risks identified by the City Comptroller. However, the report noted that the subsequent years of the Financial Plan continue to contain multi-billion dollar deficits because the City's expenses continue to outpace the growth of its revenues.

In his report, the City Comptroller identified net risks of \$516 million, \$524 million, \$471 million and \$301 million in fiscal years 2005 through 2008, respectively, which, when added to the gaps in the Financial Plan, result in gaps of \$516 million, \$4.2 billion, \$5.0 billion and \$4.0 billion in fiscal years 2005 through 2008, respectively. The risks and possible resources set forth in the City Comptroller's report include: (i) the possibility that taxes could be less than projected in the Financial Plan by \$146 million, \$190 million and \$137 million in fiscal years 2005 through 2007, respectively, and greater than projected in the Financial Plan by \$33 million in fiscal year 2008; (ii) possible increased overtime expenditures of \$121 million in fiscal year 2005 and \$75 million in each of fiscal years 2006 through 2008; and (iii) a possible \$200 million annual shortfall in State gap-closing assistance assumed in the Financial Plan for fiscal years 2005 through 2008, which reflects shortfalls in assistance in the Governor's Executive Budget and which depends upon the results of the State budget negotiation process.

In addition to the risks identified in the report, the report noted that the Chief Actuary intends to recommend several changes in the actuarial methods and assumptions used in the computation of the City's pension contributions starting in fiscal year 2005, but that it is too early to assess the financial impact of these projected changes. With respect to the recent DC 37 labor settlement, the report noted that the productivity savings in the third year of the contract are not certain. In addition the report noted that the Financial Plan assumes that wage increases for all City employees will be patterned after DC 37 agreement, and that every percentage point over the DC 37 wage increase for teachers and uniformed employees will cost the City \$145 million in fiscal year 2005 and \$153 million by fiscal year 2008. With respect to education spending, the report noted that a key unresolved issue is the preparation of the State's plan to meet a court order which requires the State to develop a plan by July 30, 2004 to reform its education aid formulas that would provide more equitable education funding to high needs districts, such as the City. The report stated that the resolution of this issue will likely lead to a significant increase in education funding for both the State and the City. In addition, the report noted that HHC faces projected operating deficits of \$394 million in fiscal year 2005 and over \$500 million in each of the subsequent years, reflecting HHC's slow revenue growth and rising cost structure. Finally, with respect to the economy, the report noted that the risks to the economy continue to be a rise in oil prices, large trade and budget deficits and the war in Iraq.

On July 15, 2004, the staff of the OSDC issued a report on the Financial Plan. The report identified net risks of \$623 million, \$1.0 billion, \$1.2 billion and \$1.5 billion for fiscal years 2005 through 2008, respectively, which, when added to the gaps projected in the Financial Plan, would result in gaps of \$623 million, \$4.7 billion, \$5.8 billion and \$5.1 billion in fiscal years 2005 through 2008, respectively. The risks to the Financial Plan identified in the report include: (i) the uncertainty of the amount and form of federal gap-closing assistance totaling \$50 million in fiscal year 2005 and State gap-closing assistance totaling \$400 million in each of fiscal years 2005 through 2008; (ii) the possibility that the City will be required to reduce by \$116 million in fiscal year 2005, and approximately \$60 million annually in fiscal years 2006 through 2008, the projected tobacco settlement revenues with respect to outstanding TSASC bonds that would otherwise accrue to the City's budget; (iii) possible increased spending for uniform agency overtime of \$75 million in each of fiscal years 2005 through 2008; (iv) assumed productivity savings totaling \$95 million in fiscal year 2005 and approximately \$300 million annually in subsequent fiscal years if the City is unable to apply the terms of the DC 37 agreement to the unions that represent teachers and uniformed

employees; and (v) possible increased spending for education totaling \$83 million, \$265 million, \$493 million and \$791 million in fiscal years 2005 through 2008, respectively, if the City were required to increase its funding for education in order to comply with the Governor's proposal to change the State education distribution formula to address the Court of Appeals ruling that the current distribution formula provided insufficient funding to the City. With respect to increased spending for education, the report noted that the Speaker of the State Assembly and the Senate Majority Leader have also made separate proposals to change the State education aid distribution formula to comply with the Court of Appeals ruling, which would require the City to increase its funding for education over five years by \$1.2 billion and \$554 million, respectively, and stated that, while the Governor and State legislative leaders have yet to reach agreement on a new funding formula, it seems likely that the City will be required to increase its funding. In its report, the staff noted that tax revenues could exceed Financial Plan projections by \$200 million in fiscal year 2005, and that required pension contributions could be less than assumed in the Financial Plan by \$30 million, \$75 million, \$135 million and \$210 million in fiscal years 2005 through 2008, respectively, as a result of the rate of return on pension investments exceeding the assumed rate of return in fiscal year 2004.

The report noted that while these risks should not interfere with the City's ability to maintain budget balance during fiscal year 2005 because of the availability of reserves and other resources, the City should begin the process of identifying recurring actions to close the fiscal year 2006 budget gap and narrow the large gaps projected for subsequent years. The report also expressed concern that rising interest rates and large federal deficits will slow future economic activity.

In addition to the risks identified in the report, the report noted that wage increases at the projected inflation rate, without productivity savings, would increase costs by \$220 million, \$700 million and \$1.2 billion in fiscal years 2006 through 2008, respectively. In addition, the report noted that an actuarial consultant hired by the City has completed a biennial review of the methodologies and assumptions used to calculate pension contributions, and has proposed changes in a number of assumptions, such as overtime, that could increase City pension contributions by approximately \$250 million annually. However, the report noted that the City's Actuary has not yet made his recommendations to the boards of trustees, and is considering the consultant's recommendations and other changes, including those that could slow down the projected growth in pension contributions. Finally, the report noted that the MTA, OTB, HHC and the New York City Housing Authority face serious fiscal challenges.

On July 12, 2004, the staff of the Control Board issued a report reviewing the Financial Plan. In its report, the staff noted that the City has adopted a fiscal year 2005 budget that is likely to end the year in balance, and that those risks identified in the report for fiscal year 2005 which materialize could be offset by available resources, such as the \$300 million general reserve and the write-off of prior year payables. In its report, the staff identified net risks of \$660 million, \$478 million, \$643 million and \$734 million for fiscal years 2005 through 2008, respectively, which, when combined with the gaps projected in the Financial Plan, result in estimated gaps of \$660 million, \$4.2 billion, \$5.2 billion and \$4.4 billion for fiscal years 2005 through 2008, respectively. These risks include: (i) the assumed receipt of \$50 million of federal aid in fiscal year 2005 and \$400 million of State aid in each of fiscal years 2005 through 2008; (ii) the possibility that overtime could be greater than expected by \$260 million, \$253 million, \$343 million and \$434 million in fiscal years 2005 through 2008, respectively; and (iii) the proposed sale of land to the Battery Park City Authority for \$150 million in fiscal year 2005. The report further noted that these risks could be partially offset by greater than projected non-property tax revenues of \$150 million and \$100 million in fiscal years 2005 and 2006, respectively, and by increased miscellaneous revenues of \$50 million in fiscal year 2005, \$75 million in fiscal year 2006 and \$100 million in each of fiscal years 2007 and 2008.

In addition to the risks identified in the report, the report noted that there are other uncertainties that cannot yet be quantified. The report noted that the recent labor settlements reached by the City, as well as any anticipated settlements with the uniformed services and the teacher's union, will have expired by fiscal year 2006 and that there is no money set aside in the Financial Plan for future contracts. In addition, the report noted that the State has not yet finalized a plan for education resources required by the New York State Court of Appeals to be implemented by July 30, 2004, which could impact the City's budget. The report also noted that the City has increased its capital program to reflect new priorities, which will increase debt service.

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 fiscal year 1979, are projected to reach \$4.5 billion in fiscal year 2004. City-funded expenditures are forecast at \$4.7 billion in fiscal year 2004; total expenditures are forecast at \$5.4 billion in fiscal year 2004. For fiscal year 2005, the Financial Plan assumes City-funded commitments of \$7.2 billion, City-funded expenditures of \$5.2 billion and total expenditures of \$6 billion. For additional information concerning the City’s capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2004 through 2013, see “SECTION V: CITY SERVICES AND EXPENDITURES—Capital Expenditures.”

The following table sets forth the major areas of capital commitment projected for the 2004 through 2008 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.*”

2004-2008 CAPITAL COMMITMENT PLAN

	2004		2005		2006		2007		2008		Total	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
(In Millions)												
Mass Transit(1)	\$ 118	\$ 118	\$ 72	\$ 72	\$ 68	\$ 68	\$ 68	\$ 68	\$ 66	\$ 66	\$ 392	\$ 392
Roadway, Bridges	665	927	850	1,017	585	618	728	1,012	531	666	3,359	4,240
Environmental												
Protection(2)	2,319	2,469	2,248	2,392	1,823	1,850	1,866	1,893	1,246	1,273	9,501	9,876
Education	643	661	1,319	2,632	1,313	2,625	1,313	2,625	1,313	2,625	5,900	11,169
Housing	285	361	285	443	295	427	293	351	286	433	1,444	2,015
Sanitation	138	151	631	631	140	140	204	204	212	212	1,326	1,339
City Operations/Facilities . .	2,186	2,472	3,099	3,475	1,601	1,670	955	1,012	1,045	1,071	8,886	9,700
Economic and Port												
Development	415	541	232	332	194	194	140	140	85	85	1,067	1,293
Reserve for Unattained												
Commitments	(2,299)	(2,299)	(1,551)	(1,551)	395	395	297	297	378	378	(2,780)	(2,780)
Total Commitments(3) . .	<u>\$ 4,469</u>	<u>\$ 5,401</u>	<u>\$ 7,186</u>	<u>\$ 9,444</u>	<u>\$ 6,415</u>	<u>\$ 7,989</u>	<u>\$ 5,863</u>	<u>\$ 7,603</u>	<u>\$ 5,161</u>	<u>\$ 6,808</u>	<u>\$ 29,094</u>	<u>\$ 37,245</u>
Total Expenditures(4) . .	<u>\$ 4,711</u>	<u>\$ 5,426</u>	<u>\$ 5,160</u>	<u>\$ 6,011</u>	<u>\$ 5,727</u>	<u>\$ 6,974</u>	<u>\$ 5,966</u>	<u>\$ 7,477</u>	<u>\$ 5,838</u>	<u>\$ 7,496</u>	<u>\$ 27,402</u>	<u>\$ 33,384</u>

Note: Totals may not add due to rounding.

- (1) Excludes NYCT’s non-City portion of the MTA’s five-year Capital Program.
- (2) Includes water supply, water mains, water pollution control, sewer projects and related equipment.
- (3) Commitments represent contracts registered with the City Comptroller, except for certain projects which are undertaken jointly by the City and State.
- (4) Expenditures represent cash payments and appropriations planned to be expended for capital costs, excluding amounts for original issue discount.

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 2003, 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 \$4.36 billion in capital investment was needed for fiscal years 2005 through 2008 to bring the assets to a state of good repair. The report also estimated that \$320 million, \$188 million, \$245 million and \$261 million should be spent on maintenance in fiscal years 2005 through 2008, 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 2004, concluded that the capital investment in the Four-Year Capital Plan for the specifically identified inventoried assets funds 49% of the total investment recommended in the preceding AIMS Report issued in October 2003. Capital investment allocated in the Ten-Year Capital Strategy published in April 2003 will fund an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 37% 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 2005 through 2008 fiscal years to implement the Four-Year Capital Program. See “SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities.”

2005-2008 FINANCING PROGRAM

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
	(In Millions)				
City General Obligation Bonds.....	\$3,400	\$3,800	\$4,150	\$4,020	\$15,370
TSASC (1)	49	—	—	—	49
Water Authority (2)	1,652	1,926	1,812	1,786	7,176
Conduit Debt (3).....	86	—	86	—	172
Total.....	<u>\$5,187</u>	<u>\$5,726</u>	<u>\$6,048</u>	<u>\$5,806</u>	<u>\$22,767</u>

Note: Figures exclude refunding bonds and, with respect to the Water Authority, includes commercial paper and excludes bonds that defease commercial paper. Totals may not add due to rounding.

- (1) TSASC does not intend to issue any additional bonds under its current indenture other than continuing to draw down a \$150 million loan by issuing additional bonds to the U.S. Department of Transportation pursuant to the Transportation Infrastructure Finance and Innovation Act (“TIFIA”).
- (2) Water Authority includes a total allocation for reserve funds of \$636 million.
- (3) Conduit Debt includes the Jay Street Development Corp. financing of the 330 Jay Street project, and other projects. The amounts reflected in fiscal years 2005 through 2007 include a total allocation for reserve funds of \$22 million.

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, which 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 capital improvement program applicable to the City's water and sewer system covering fiscal years 2004 through 2013, projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately \$16.9 billion. The City's capital commitment plan for fiscal years 2004 through 2008 reflects total anticipated City-funded water and sewer commitments of \$9.5 billion which are expected to be financed with the proceeds of Water Authority debt. Since 1993, the United States Environmental Protection Agency has issued filtration avoidance determinations ("FADs") pursuant to which the City is not required to filter water from the Catskill and Delaware Systems. The current FAD extends this determination until a further determination is made, now scheduled for April 2007. 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 their securities successfully in the public credit markets which 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. 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 2004 through 2013 totals \$49.3 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.*"

In an effort to reduce its borrowing costs over the life of its bonds, the City began entering into interest rate exchange agreements commencing in fiscal year 2003. For a description of such agreements as of June 30, 2003, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note 14." Since June 30, 2003, the City has entered into four additional interest rate exchange agreements with a total notional amount of \$1.2 billion. Each of these agreements is with one of the following counterparties: Wachovia Bank, National Association; Citigroup Financial Products, Inc.; Bear Stearns Financial Products Inc., and Lehman Brothers Derivative Products. In addition, the City expects to enter into two interest rate exchange agreements with Morgan Stanley Capital Services, Inc. with an aggregate notional amount of \$50,000,000 in connection with the issuance of the CPI Bonds.

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 it will issue \$1.5 billion of short-term obligations during fiscal year 2005 to satisfy its seasonal financing needs for its 2005 fiscal year. To finance its projected cash flow needs, the City issued \$1.5 billion of short-term obligations in fiscal years 2004, 2003 and 2002, and \$750 million of short-term obligations in fiscal years 2001 and 2000. 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 March 31, 2004.

(In Thousands)	
Gross City Long-Term Indebtedness(1)	\$30,380,955
Less: Assets Held for Debt Service(1)	<u>(55,156)</u>
Net City Long-Term Indebtedness	\$30,325,799
Gross MAC Long-Term Indebtedness(2)	2,151,320
Less: Assets Held for Debt Service(2)	<u>(198,097)</u>
Net MAC Long-Term Indebtedness	1,953,223
PBC Indebtedness(3)	
Bonds Payable	481,098
Capital Lease Obligations	<u>1,746,450</u>
Gross PBC Indebtedness	2,227,548
Less: Assets Held for Debt Service	<u>(274,365)</u>
Net PBC Indebtedness	<u>1,953,183</u>
Combined Net City, MAC and PBC Indebtedness	<u><u>\$34,232,205</u></u>

-
- (1) With respect to City long-term indebtedness, "Assets Held for Debt Service" consists of General Debt Service Fund assets, and \$51.5 million principal amount of City serial bonds held by MAC. Amounts include general obligation bonds only, and do not include the indebtedness of the TFA and TSASC, which were \$13.395 billion (including \$2 billion of Recovery Bonds) and \$1.9 billion, respectively, as of March 31, 2004.
 - (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 (excluding PBCs which are discretely presented component units in the City's financial statements). 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 long-term and short-term debt of the City and MAC and in PBC indebtedness as of June 30 of each of the fiscal years 1994 through 2003 and as of March 31, 2004.

	City(1)		MAC(2)		PBC Bonds and Capital Leases(3)	Total
	Long-Term Debt(3)	Short-Term Debt	Long-Term Net Debt(4)	Short-Term Debt		
	(In Millions)					
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
2003	29,043	—	2,122	—	2,059	33,224
March 31, 2004.....	30,326	—	1,953	—	1,953	34,232

- (1) Amounts do not include debt of the City held by MAC. See “Outstanding City, MAC and PBC Indebtedness—note 2.” Amounts include general obligation bonds only, and do not include indebtedness of the TFA and TSASC, which were \$13.395 billion (including \$2 billion of Recovery Bonds and Notes) and \$1.9 billion, respectively, as of March 31, 2004.
- (2) MAC reported outstanding long-term indebtedness without reduction for reserves, as follows: \$4,891 million, \$4,694 million, \$4,563 million, \$4,267 million, \$3,895 million, \$3,532 million, \$3,217 million, \$3,217 million, \$2,880 million and \$2,151 million as of June 30 of each of the years 1994 through 2003.
- (3) Net of reserves. See “Outstanding City, MAC and PBC Indebtedness.” PBCs indebtedness excludes indebtedness of PBCs which are discretely presented component units 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 March 31, 2004, 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	20.52%
10 years	45.82
15 years	67.79
20 years	85.48
25 years	95.63
30 years	99.75

City, MAC and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of March 31, 2004, on City and MAC term and serial bonds outstanding and City obligations to certain PBCs.

<u>Fiscal Years</u>	<u>City Long-Term Debt</u>		<u>MAC Debt Service(2)</u>	<u>PBC Bonds and Capital Leases(4)</u>	<u>Total</u>
	<u>Principal of Bonds(1)</u>	<u>Interest(1)</u>			
2004	\$ 52,455	\$ 280,800	\$ 476,426	\$ 44,049	\$ 853,730
2005	1,512,455	1,407,204	495,536	188,294	3,603,489
2006	1,528,818	1,362,538	497,098	193,873	3,582,327
2007	1,607,940	1,285,930	492,496	191,333	3,577,659
2008 through 2147	25,624,131	11,582,253	494,461(3)	1,503,121	39,203,966
Total	<u>\$30,325,799</u>	<u>\$15,918,725</u>	<u>\$2,456,017</u>	<u>\$2,120,670</u>	<u>\$50,821,211</u>

- (1) Includes debt service on general obligation bonds only.
- (2) It is expected that substantially all of MAC's outstanding debt will be paid with the proceeds of bonds expected to be issued by the Sales Tax Asset Receivable Corporation. Such bonds will be secured by a \$170 million annual payment from LGAC. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."
- (3) Amount shown is for fiscal year 2008.
- (4) City obligations to certain PBCs exclude PBCs which are discretely presented component units included in the City's financial statements. For additional information concerning these PBCs, see "Public Benefit Corporation Indebtedness" below.

Certain Debt Ratios

The following table sets forth information for each of the fiscal years 1994 through 2003, with respect to the approximate ratio of debt to certain economic factors. As used in this table, debt includes net City general obligation bond and capital lease debt, MAC, TFA and TSASC debt and PBC indebtedness.

<u>Fiscal Year</u>	<u>Debt Per Capita</u>	<u>Debt as % of Total Taxable Real Property By</u>	
		<u>Assessed Valuation</u>	<u>Estimated Full Valuation(1)</u>
1994	\$4,830	46.2%	3.9
1995	4,606	43.7	4.6
1996	4,504	42.8	7.5
1997	4,275	40.7	8.9
1998	4,075	38.3	9.8
1999	5,127	46.4	11.5
2000	4,976	46.5	11.8
2001	5,071	45.1	11.3
2002	5,348	44.3	10.6
2003	5,916	46.6	11.1

Source: CAFR for the fiscal year ended June 30, 2003.

- (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 1994 through 2001, debt per capita as a percentage of personal income per capita in current dollars. As used in this table, debt includes net City general obligation bond and capital lease debt. MAC, TFA and TSASC debt and PBC indebtedness.

<u>Fiscal Year</u>	<u>Debt per Capita</u>	<u>Personal Income per Capita(1)</u>	<u>Debt per Capita as % of Personal Income per Capita</u>
1994.....	\$4,830	\$28,416	17.00%
1995.....	4,606	30,192	15.26
1996.....	4,504	32,147	14.01
1997.....	4,275	33,228	12.87
1998.....	4,075	35,607	11.44
1999.....	5,127	37,255	13.76
2000.....	4,976	37,715	13.19
2001.....	5,071	38,643	13.12

Source: CAFR for the fiscal year ended June 30, 2003.

(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 March 31, 2004, 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 March 31, 2004, 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 currently 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.

The TFA and TSASC were created to provide financing for the City's capital program. Debt of the TFA and TSASC is not subject to the general debt limit of the City. TFA bonds 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. TSASC has issued approximately \$1.3 billion of bonds which are payable from TSRs. 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 TFA has issued its statutory maximum of \$11.5 billion of bonds and notes for City capital purposes. The TFA is also authorized to have outstanding \$2.5 billion of Recovery Notes and Bonds of which approximately \$2 billion is outstanding. The City used \$1.5 billion of proceeds of Recovery Bonds and Notes in fiscal year 2003 to compensate for revenue losses that are Recovery Costs. The City is seeking legislation authorizing the TFA to issue additional bonds for capital purposes, which would be limited by reference to the City's constitutional debt limitation. TSASC does not intend to issue any additional bonds to the public under its current indenture other than continuing to draw down a \$150 million loan by issuing additional bonds to the U.S. Department of Transportation pursuant to TIFIA. 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 and TSASC as of May 31, 2004.

(In Thousands)		
Total City Debt-Incurring Power under General Debt Limit		\$39,990,801
Gross Debt-Funded	\$31,019,245	
Less: Excluded Debt	<u>(523,873)</u>	
	30,495,371	
Less: Fiscal Year 2004 Appropriations for Principal of Debt . . .	<u>(8,425)</u>	
	30,486,946	
Contracts and Other Liabilities, Net of Prior TSASC and TFA		
Financings and Restricted Cash	<u>4,791,415</u>	
Total Indebtedness	35,278,362	
Less: Anticipated TSASC Debt-Incurring Power	<u>(44,139)</u>	<u>35,234,223</u>
City and TSASC Debt-Incurring Power(1)		<u>\$ 4,756,578</u>

Note: Numbers may not add due to rounding.

(1) Without the creation of the TFA and TSASC, the debt-incurring capacity of the City under the general debt limit, as of May 31, 2004, would have been exceeded by \$7.8 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 March 31, 2004, MAC had outstanding an aggregate of approximately \$2.151 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. *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.

2. *Executed Leases*—These are leases pursuant to which the City is legally obligated to make the required rental payments.

3. *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 March 31, 2004, approximately \$112.4 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 State Housing Finance Agency

As of March 31, 2004, \$155.1 million principal amount of New York State Housing Finance Agency (“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 March 31, 2004, \$642.7 million principal amount and \$884.9 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities and health facilities, respectively, in the City were outstanding. The court facilities and health facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on DASNY bonds and certain fees and expenses of DASNY.

City University Construction Fund

As of March 31, 2004, approximately \$599.0 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 the DASNY’s bonds issued to finance the leased projects plus related overhead and administrative expenses of the DASNY.

New York State Urban Development Corporation

As of March 31, 2004, \$44.2 million principal amount of New York State Urban Development Corporation (“UDC”) bonds subject to executed or proposed lease arrangements was outstanding. 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, 2003 consisted of approximately 340,000 current employees, of whom approximately 83,000 were employees of certain independent agencies whose pension costs in some cases are provided by City appropriations. In addition, there were approximately 262,000 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 2003, 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, 2002, plus the other pension expenditures were approximately \$1.751 billion. Expense projections for fiscal years 2004 through 2008 are estimated at \$2.454 billion, \$3.376 billion, \$4.107 billion, \$4.515 billion and \$4.502 billion, respectively. These figures are developed from projections prepared for the Financial Plan by the Chief Actuary and reflect certain adjustments, primarily for collective bargaining increases. 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 eligible 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. These projections also reflect the costs associated with the pension funds' investment losses that occurred in 2001 and 2002, and lower than expected earnings in 2003. The costs of annual investment losses are phased-in over five year periods.

An independent actuarial firm has recently concluded a statutory audit of the actuarial assumptions and methods governing City pension contributions. The Chief Actuary of the City is currently reviewing their report and may recommend revised funding assumptions to the trustees of the City's pension funds.

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 2003 fiscal year, the City's total annual pension costs, including the City's pension costs not associated with the five major actuarial systems, plus Federal Social Security tax payments by the City for the year, were approximately 18% 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 Teachers' Retirement System of The City of New York (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 increases in supplementation as of September 2000 and with automatic COLA benefits beginning September 2001, also provides for a phase-in schedule, subsequently extended from five to ten years by Chapter 278 of the Laws of 2002, 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, Net Pension Obligations of approximately \$506.4 million and approximately \$201.6 million, respectively, were recorded as of June 30, 2003.

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, 2003. 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, 2001, 2002 and 2003) the amounts shown include zero for these retirement systems.

<u>June 30</u>	<u>Unfunded Pension Liability Amount(1) (In Billions)</u>
1995	\$4.03
1996	4.29
1997	4.28
1998	4.64
199915
200017
200121
200219
200333

(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. 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, 2003 amounted to approximately \$4.5 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 \$697 million at June 30, 2003. 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 two pending actions, plaintiffs seek broad injunctive relief directed toward the City's lead paint poisoning prevention activities.

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. A lawsuit was filed against the City challenging the new local law as having been passed in violation of State and City environmental laws. On July 1, 2003, the New York Court of Appeals ruled that Local Law 38 was null and void because the City Council had failed to conduct a proper environmental assessment. The decision revives Local Law 1, but the Court essentially urged the parties to agree to an appropriate stay of enforcement of certain provisions of Local Law 1 as well as court orders interpreting those provisions (as the parties had in the past) while the City pursues appropriate legislative remedies. On February 4, 2004, the City Council overrode a Mayoral veto and enacted new legislation governing lead paint in residential buildings. This legislation also repealed Local Law 1 of 1982. The legislation will become effective six months after enactment. However, on April 9, 2004, two lawsuits were filed that alleged that the new legislation was null and void based on the City Council's purported failure to conduct a proper environmental assessment; one of the lawsuits also has additional claims that challenge certain provisions which create a presumption that lead paint exists in a multiple dwelling built before 1960 where a child under the age of six resides. 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. In another State action, plaintiffs challenge the City's enforcement activities with regard to

lead paint in day care centers, nursery schools and kindergartens. In June 2004, the Appellate Division, First Department, ruled that the one remaining named plaintiff's claim was barred. The time for plaintiff to seek leave to appeal this decision to the New York Court of Appeals has not expired. Adverse determinations on these issues could result in substantial additional costs to the City.

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. Plaintiff alleges that the trustees of the System illegally maintained the Variable B Fund as a fixed-income fund and ignored a requirement that a substantial amount of the Variable B Fund's assets be invested in equity securities. The defendants are the System and its individual trustees. Plaintiff seeks damages on behalf of all Variable B 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. The discovery previously directed by the Appellate Division has now been completed and defendants have moved for summary judgment. If the plaintiff were to prevail in this action, it could result in substantial costs to the City.

3. There are currently 93 plaintiffs alleging respiratory or other injuries from alleged toxic exposures to World Trade Center dust and debris. The actions, which seek approximately \$500 million in damages, were either commenced in or have been removed to federal court pursuant to the Air Transportation and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (2001) (the "Air Transportation Act"), which grants exclusive federal jurisdiction for all claims related to or resulting from the September 11 attack. These consist mainly of Department of Sanitation employees who worked hauling WTC debris at the Fresh Kills Landfill, but also include several police officers and construction workers injured either at Ground Zero or Fresh Kills. On March 10, 2004, the Southern District dismissed a case filed on behalf of 12 firefighters alleging wrongful death. Plaintiffs have filed a notice of appeal. On June 20, 2003, the Southern District ordered that actions alleging injuries resulting from exposure to World Trade Center debris on or before September 29, 2001 would remain in federal court, while those alleging injuries based on exposure after that date would be remanded to state court. It is unclear what effect the decision will have on cases arising from the September 11 attack and on the application of the Air Transportation Act's limitation on the City's liability for actions arising from the September 11 attack. The City has appealed this decision.

One property damage claim relating to the September 11 attack alleges significant damages. The claim, which relates to 7 World Trade Center ("7 WTC"), alleges damages to Con Edison and its insurers, which claim \$314 million for the loss of the electrical substation over which 7 WTC was built. The claim alleges that a diesel fuel tank, which stored fuel for emergency back-up power to the City's Office of Emergency Management facility on the 23rd floor, contributed to the building's collapse. Con Edison and its insurers filed suit based on the allegations in their claim.

4. On August 13, 2003, LGAC, its Chairperson, the State Division of the Budget and its Director sued the City and STAR Corp. seeking to prevent the issuance of bonds by STAR Corp., the local development corporation expected to finance the cost of debt service on MAC debt otherwise payable from City sales tax revenues. STAR Corp. debt is expected to be paid from the annual payment of \$170 million from LGAC which the City would assign to STAR Corp. The State Supreme Court granted the City's and STAR Corp.'s motion for summary judgment. Plaintiffs appealed that decision to the Appellate Division, Third Department (the "Appellate Division") which, on March 4, 2004, upheld the obligation of LGAC to make the \$170 million annual payment. Plaintiffs appealed that decision to the State Court of Appeals which, on May 13, 2004, also upheld the obligation of LGAC to make such payments. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS—2004-2008 Financial Plan."

5. One hundred ninety-one notices of claim have been filed and 177 actions in federal court commenced against the City in connection with the Staten Island Ferry accident on October 15, 2003. The notices and actions seek damages exceeding \$3 billion for various claims including personal injury,

wrongful death and emotional distress. On December 1, 2003 the City filed a limitation complaint in federal court pursuant to federal maritime law seeking to limit its potential liability to approximately \$14 million, the value of the ferry involved in the accident.

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 Bond 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 substantially identical 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 Tax-Exempt 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 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 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 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 Tax-Exempt 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, other than the Insured Bonds, have been rated “A2” by Moody’s Investors Service (“Moody’s”), “A” by Standard & Poor’s Ratings Services (“Standard & Poor’s”) and “A+” by Fitch, Inc. (“Fitch”). The ratings on the Insured Bonds will be based on the insurance policy to be issued by Financial Security Assurance Inc. The City expects that the Insured Bonds will be rated “Aaa”, “AAA”, and “AAA”, by Moody’s, Standard & Poor’s and Fitch, respectively. 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 November 26, 2002, Standard & Poor’s issued a negative outlook on City bonds and on May 27, 2003 changed the outlook to stable. On November 15, 2001, Moody’s issued a negative outlook on City bonds and on January 28, 2004 revised the outlook to stable. On December 23, 2002, Fitch issued a negative outlook on City bonds and on December 8, 2003 changed the outlook to stable.

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 G 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 C 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 are being purchased for reoffering by the Underwriters for whom Citigroup Global Markets Inc., Bear, Stearns & Co. Inc., Morgan Stanley & Co. Incorporated and UBS Financial Services Inc. are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Tax-Exempt Bonds shall be \$3,027,911.44.

The Taxable Bonds will be purchased for reoffering by Wachovia Bank, National Association. The compensation for services rendered in connection with the Taxable Bonds shall be \$68,685.00.

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 "1999-2003 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 Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; and FT Interactive Data, 100 William Street, New York, New York 10038, Attn: NRMSIR.

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 Advisors

The City has retained Public Resources Advisory Group and A.C. Advisory, Inc. to act as financial advisors with respect to the City's financing program and 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, Attn: Director of Investor Relations, 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 missions to the United Nations and the 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 slowdown that began in 2001 as a result of the September 11 attack, a national economic recession, and a downturn in the securities industry has largely ended. With the job market outlook remaining sluggish, the Financial Plan assumes a moderate recovery of the City's economy in calendar year 2004, gaining momentum in 2005.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1992 to 2002 (the most recent year for which City personal income data are available). From 1992 to 2001, personal income in the City averaged 4.8% growth compared to 5.5% for the nation. After falling 0.2% in 2002, total personal income is projected by OMB to increase in 2003 and 2004. The following table sets forth information regarding personal income in the City from 1992 to 2002.

PERSONAL INCOME IN NEW YORK CITY(1)

<u>Year</u>	<u>Total NYC Personal Income (\$ billions)</u>	<u>Per Capita Personal Income NYC</u>	<u>Per Capita Personal Income U.S.</u>	<u>NYC as a Percent of U.S.</u>
1992.....	\$197.9	\$26,644	\$20,870	127.7%
1993.....	201.9	26,898	21,356	126.0
1994.....	207.5	27,403	22,176	123.6
1995.....	221.2	28,981	23,078	125.6
1996.....	234.0	30,407	24,176	125.8
1997.....	245.5	31,579	25,334	124.7
1998.....	262.0	33,341	26,880	124.0
1999.....	275.4	34,658	27,933	124.1
2000.....	295.9	36,916	29,848	123.7
2001.....	303.1	37,631	30,534	123.2
2002.....	302.5	37,476	30,913	121.2

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census. Data as of June 24, 2004.
 (1) In current dollars. Personal Income is based on the place of residence and is measured from income which includes wages and salaries, supplements to wages and salaries, 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 423,000 new private sector jobs (an average annual growth rate of approximately 2.0%). In 2002 and 2003, average annual employment in the City fell by 108,600 and 55,000 jobs, respectively. In 2004, average annual employment in the City is projected by OMB to increase. As of May 2004, total employment in the City was approximately 3,555,800 compared to approximately 3,541,200 in May 2003, an increase of approximately 0.41%.

The table below shows the distribution of employment from 1993 to 2003.

NEW YORK CITY EMPLOYMENT DISTRIBUTION

	<u>Average Annual Employment (in thousands)</u>										
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Goods Producing Sectors											
Construction	85	88	90	91	93	101	112	120	122	116	112
Manufacturing	219	212	208	200	201	196	187	177	156	139	126
Service Producing Sectors											
Trade Transportation and Utilities .	528	526	533	533	538	542	556	570	557	537	533
Information	152	152	154	159	163	166	173	187	200	177	164
Financial Activities	465	472	467	464	468	477	481	489	474	445	434
Professional and Business Services .	425	437	445	468	494	525	553	587	582	550	536
Education and Health Services	516	536	552	565	576	589	606	620	627	646	659
Leisure and Hospitality	194	201	208	217	228	236	244	257	260	255	258
Other Services	120	121	123	125	129	134	142	147	149	150	149
Total Private	2,704	2,744	2,779	2,823	2,890	2,966	3,053	3,154	3,127	3,015	2,972
Government	588	578	560	546	552	561	567	569	565	569	557
Total	3,291	3,322	3,339	3,369	3,442	3,528	3,621	3,723	3,692	3,584	3,529

Note: Totals may not add due to rounding.
 Source: U.S. Department of Labor, Bureau of Labor Statistics. Data are presented using the North American Industry Classification System ("NAICS").

Sectoral Distribution of Employment and Income

In 2002, the City's service producing sectors provided approximately 2.8 million jobs and accounted for approximately 77% of total employment. Figures on the sectoral distribution of employment in the City from 1980 to 2000 reflect a significant shift to the service producing sectors and a shrinking manufacturing base relative to the nation.

The structural shift to the service producing sectors affects the total earnings as well as the average wage per employee because employee compensation in certain of those sectors, such as financial activities and professional and business services, tends to be considerably higher than in most other sectors. Moreover, average wage rates in these sectors are significantly higher in the City than in the nation. In the City in 2002, the employment share for the financial activities and professional and business services sectors was approximately 28% while the earnings share for that same sector was approximately 50%. In the nation, those same service producing sectors accounted for only approximately 18% of employment and 25% of earnings in 2002. Due to the earnings distribution in the City, 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 sector for 2002 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2002(1)

	<u>Employment</u>		<u>Earnings(2)</u>	
	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>
Goods Producing Sectors				
Mining	0.0%	0.4%	0.3%	0.8%
Construction	3.2	5.2	3.1	6.2
Manufacturing	<u>3.9</u>	<u>11.7</u>	<u>2.8</u>	<u>13.3</u>
Total Goods Producing	7.1	17.3	6.3	20.3
Service Producing Sectors				
Trade, Transportation and Utilities	15.0	19.6	9.2	16.6
Information	4.9	2.6	6.8	3.8
Financial Activities	12.4	6.0	28.8	10.0
Professional and Business Services	15.4	12.3	20.0	15.1
Education and Health Services	18.0	12.4	10.3	10.6
Leisure & Hospitality	7.1	9.2	3.6	3.8
Other Services	<u>4.2</u>	<u>4.1</u>	<u>2.3</u>	<u>3.1</u>
Total Service Producing	77.0	66.2	81.2	63.0
Total Private Sector	84.1	83.5	88.9	83.7
Government(3)	15.9	16.5	11.1	16.3

Note: Data may not add due to rounding or restrictions on reporting earnings data. Data are presented using NAICS.
Sources: The two primary sources are the U.S. Department of Labor, Bureau of Labor Statistics and the 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 proprietor's income. The latest information available is 2002 data.
- (3) Excludes military establishments.

The comparison of employment and earnings in 1980 and 2000 set forth below is presented using the industry classification system which was in use until the adoption of NAICS in the late 1990's. Though NAICS has been implemented for most government industry statistical reporting, most historical earnings data have not been converted. Furthermore, it is not possible to compare data from the two classification

systems except in the general categorization of government, private and total employment. The table below reflects the overall increase in the service producing sectors and the declining manufacturing base in the City from 1980 to 2000.

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)

	<u>Employment</u>				<u>Earnings(2)</u>			
	<u>1980</u>		<u>2000</u>		<u>1980</u>		<u>2000</u>	
	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>	<u>NYC</u>	<u>U.S.</u>
Private Sector:								
Non-Manufacturing:								
Services	27.0%	19.8%	39.1%	30.7%	26.0%	18.4%	30.2%	28.7%
Wholesale and Retail Trade	18.6	22.5	16.8	23.0	15.1	16.6	9.3	14.9
Finance, Insurance and Real Estate	13.6	5.7	13.2	5.7	17.6	5.9	35.5	10.0
Transportation and Public Utilities	7.8	5.7	5.7	5.3	10.1	7.6	5.2	6.8
Contract Construction	2.3	4.8	3.3	5.1	2.6	6.3	2.9	5.9
Mining	<u>0.0</u>	<u>1.1</u>	<u>0.0</u>	<u>0.4</u>	<u>0.4</u>	<u>2.1</u>	<u>0.1</u>	<u>1.0</u>
Total Non-Manufacturing	69.3	59.6	78.1	70.3	71.8	56.9	83.2	67.3
Manufacturing:								
Durable	4.4	13.4	1.6	8.4	3.7	15.9	1.3	10.5
Non-Durable	<u>10.6</u>	<u>9.0</u>	<u>4.9</u>	<u>5.6</u>	<u>9.5</u>	<u>8.9</u>	<u>4.8</u>	<u>6.1</u>
Total Manufacturing	<u>15.0</u>	<u>22.4</u>	<u>6.5</u>	<u>14.0</u>	<u>13.2</u>	<u>24.8</u>	<u>6.1</u>	<u>16.6</u>
Total Private Sector	84.3	82.0	84.7	84.3	85.2	82.1	89.8	84.6
Government(3)	15.7	18.0	15.3	15.7	14.8	17.9	10.3	15.4

Note: Totals may not add due to rounding. Data are presented using the Standard Industrial Classification System.
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 annual unemployment rate of the City's resident labor force is shown in the following table. As of May 2004, the total unemployment rate in the City was 6.6% compared to 7.9% in May 2003.

ANNUAL UNEMPLOYMENT RATE(1)(2)

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
New York City	10.4%	8.7%	8.2%	8.8%	9.4%	8.0%	6.7%	5.7%	6.0%	7.9%	8.4%
United States	6.9%	6.1%	5.6%	5.4%	5.0%	4.5%	4.2%	4.0%	4.8%	5.8%	6.0%

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 May 2004, the number of persons receiving public assistance in the City was 439,033 compared to 423,221 in May 2003.

PUBLIC ASSISTANCE(1)

(Annual Averages in Thousands)

<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
1,085.8	1,140.7	1,109.5	1,003.3	873.6	760.1	668.2	573.0	492.8	434.0	424.7

- (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 increase in 2003 after having increased in 2000 and 2001, and decreased in 2002. 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)**

<u>Year(1)</u>	<u>Retail(2)</u>	<u>Utility & Communication Sales(3)</u>	<u>Services(4)</u>	<u>Manufacturing</u>	<u>Other(5)</u>	<u>All Total</u>
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)

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- (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 1790. 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

<u>Year</u>	<u>Total Population</u>
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

<u>Age</u>	<u>1990</u>		<u>2000</u>	
		<u>% of Total</u>		<u>% of Total</u>
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 (“Housing Units”). 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. In 2002, the housing stock in the City consisted of approximately 3,209,000 Housing Units. Due to the difference in the inventory basis for the draft 2002 Housing and Vacancy Survey and previous Housing and Vacancy Surveys, it is not possible to accurately compare 2002 results to the results of earlier Surveys until such time as the data is reweighted. The following table presents trends in the housing inventory in the City.

**HOUSING INVENTORY IN NEW YORK CITY
(In Thousands)**

<u>Ownership/Occupancy Status</u>	<u>1981</u>	<u>1984</u>	<u>1987</u>	<u>1991</u>	<u>1993</u>	<u>1996</u>	<u>1999</u>	<u>2002</u>
Total Housing Units	2,792	2,803	2,840	2,981	2,977	2,995	3,039	3,209
Owner Units	755	807	837	858	825	858	932	997
Owner-Occupied	746	795	817	829	805	834	915	982
Vacant for Sale	9	12	19	29	20	24	17	15
Rental Units	1,976	1,940	1,932	2,028	2,040	2,027	2,018	2,085
Renter-Occupied	1,934	1,901	1,884	1,952	1,970	1,946	1,953	2,024
Vacant for Rent	42	40	47	77	70	81	64	61
Vacant Not Available for Sale or Rent(1)	62	56	72	94	111	110	89	127

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

Sources: U.S. Bureau of the Census, 1981, 1984, 1987, 1991, 1993, 1996, 1999 and draft 2002 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 2005 fiscal year, the billable assessed valuation of real estate of utility corporations is \$9.0 billion. The following table presents the 40 non-utility properties having the greatest assessed valuation in the 2005 fiscal year as indicated in the tax rolls.

<u>Property</u>	<u>2005 Fiscal Year Assessed Valuation</u>	<u>Property</u>	<u>2005 Fiscal Year Assessed Valuation</u>
Met Life Building	\$248,720,000	Equitable Tower	\$147,150,000
General Motors Building	244,605,000	Morgan Guaranty	145,650,000
International Building	223,289,467	Chase World Headquarters	145,030,000
Stuyvesant Town	218,680,000	Bear Stearns Bldg (Madison Ave.) ..	144,810,000
Sperry Rand Building	215,100,000	Time Warner Center	138,208,674
McGraw-Hill Building	208,730,000	Waldorf-Astoria	138,000,000
Time & Life Building	202,390,000	Simon & Schuster Building	133,722,000
Empire State Building	197,470,000	1335 Sixth Avenue	132,525,000
Credit Lyonnais Building	197,069,998	617-35 Lexington Avenue	129,876,120
Alliance Capital Building	195,690,000	One Liberty Plaza	129,356,644
Solow Building	194,580,000	595 Lexington Avenue	129,100,000
Bear Stearns Building (Park Ave.) ..	189,044,742	One Astor Plaza	129,060,000
Celanese Building	183,000,000	1 Chase Manhattan Plaza	128,475,000
Bristol Meyers Building	181,890,000	Kalikow Building	125,330,000
One Penn Plaza	181,710,000	Park Avenue Plaza	124,380,000
UBS Financial Services Bldg	176,339,993	Carpet Center	121,510,000
Worldwide Plaza	174,270,000	IBM Tower	115,740,000
Paramount Plaza	157,880,000	Park Avenue Atrium	115,200,000
Morgan Stanley Building	151,883,500	Continental Illinois	114,300,000
666 Fifth Avenue	147,767,400	7 Times Square	109,305,000

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

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BASIC
FINANCIAL STATEMENTS
OF
THE CITY OF NEW YORK

June 30, 2003 and 2002

INDEX

	<u>Page</u>
Independent Auditors' Report	B-3
Management's Discussion and Analysis	B-4
Government-wide Financial Statements:	
Statement of Net Assets—June 30, 2003	B-26
Statement of Net Assets—June 30, 2002	B-27
Statement of Activities—for the year ended June 30, 2003	B-28
Statement of Activities—for the year ended June 30, 2002	B-29
Fund Financial Statements:	
Governmental Funds—Balance Sheet—June 30, 2003	B-30
Governmental Funds—Balance Sheet—June 30, 2002	B-31
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets— June 30, 2003	B-32
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets— June 30, 2002	B-33
Governmental Funds—Statement of Revenues, Expenditures and Changes in Fund Balances— for the year ended June 30, 2003	B-34
Governmental Funds—Statement of Revenues, Expenditures and Changes in Fund Balances— for the year ended June 30, 2002	B-35
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, 2003	B-36
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	B-37
General Fund—Statement of Revenues, Expenditures and Changes in Fund Balance—Budget and Actual—for the year ended June 30, 2003	B-38
General Fund—Statement of Revenues, Expenditures and Changes in Fund Balance—Budget and Actual—for the year ended June 30, 2002	B-39
Fiduciary Funds—Statement of Fiduciary Net Assets—June 30, 2003	B-40
Fiduciary Funds—Statement of Fiduciary Net Assets—June 30, 2002	B-41
Fiduciary Funds—Statement of Changes in Fiduciary Net Assets—for the year ended June 30, 2003	B-42
Fiduciary Funds—Statement of Changes in Fiduciary Net Assets—for the year ended June 30, 2002	B-43
Component Units—Statement of Net Assets—June 30, 2003	B-44
Component Units—Statement of Net Assets—June 30, 2002	B-45
Component Units—Statement of Activities—for the year ended June 30, 2003	B-46
Component Units—Statement of Activities—for the year ended June 30, 2002	B-47
Notes to Financial Statements	
A. Summary of Significant Accounting Policies	B-48
B. Reconciliation of Government-wide and Fund Financial Statements	B-61
C. Stewardship, Compliance, and Accountability	B-62
D. Detailed Notes on All Funds	B-62
E. Other Information	B-75

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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, 2003, 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 38 percent and 20 percent, respectively, of the assets and revenues of the government-wide financial statements and 26 percent and 19 percent, respectively, of the assets and revenues of the fund financial statements 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, is based on the report of other auditors.

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, 2003, 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.

As discussed in Note 2 to the financial statements, in 2003 the City adopted Governmental Accounting Standards Board ("GASB") Statement No. 39, Determining Whether Certain Organizations are Component Units an amendment of GASB Statement No. 14, GASB Statement No. 40, Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3, GASB Statement No. 41, Budgetary Comparison Schedules – Perspective Differences, an amendment of GASB Statement No. 34, and GASB Technical Bulletin No. 2003-1, Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets.

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 2003 supplementary information. However, we did not audit the information and express no opinion on it.



October 27, 2003

**Deloitte
Touche
Tohmatsu**

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003 and 2002. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) 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 Funds.

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 Department 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 \$3.026 billion during fiscal year 2003, by \$3.852 billion during fiscal year 2002, and by \$1.148 billion during fiscal year 2001.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2003 governmental funds statement of revenues, expenditures, and changes in fund balances which reports an increase of \$0.6 billion in fund balances and the reported increase in the excess of liabilities over assets reported in the government-wide statement of activities \$3.0 billion, a difference of \$3.6 billion. A similar reconciliation is provided for fiscal year 2002 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,		
	2003	2002	2001
	(in thousands)		
Revenues:			
Program revenues:			
Charges for services	\$ 2,790,609	\$ 3,001,330	\$ 2,868,605
Operating grants and contributions . . .	14,604,095	14,651,155	12,773,015
Capital grants and contributions	455,520	493,798	572,514
General revenues:			
Taxes	23,412,848	21,939,595	23,712,065
Investment income	126,037	190,041	391,902
Other Federal and State aid	1,743,466	975,281	928,184
Other	446,818	435,149	633,579
Total revenues	43,579,393	41,686,349	41,879,864
Expenses:			
General government	1,985,943	2,070,573	1,881,812
Public safety and judicial	8,762,321	9,524,318	8,661,411
Education	14,499,037	13,249,344	12,248,775
City University	533,096	807,960	668,954
Social services	9,785,682	9,567,970	9,166,149
Environmental protection	2,055,835	2,205,704	2,350,867
Transportation services	2,083,259	1,329,314	1,654,344
Parks, recreation and cultural activities . .	607,787	719,867	488,865
Housing	787,584	905,461	1,000,300
Health (including payments to HHC) . . .	2,709,563	2,816,360	2,329,191
Libraries	377,647	161,250	362,034
Debt service interest	2,417,993	2,180,711	2,214,717
Total expenses	46,605,747	45,538,832	43,027,419
Change in net assets	(3,026,354)	(3,852,483)	(1,147,555)
Net Deficit—Beginning	(23,699,642)	(19,847,159)	(18,699,604)
Net Deficit—Ending	\$(26,725,996)	\$(23,699,642)	\$(19,847,159)

In fiscal year 2003, the government-wide revenues increased from fiscal year 2002 levels by approximately \$1.9 billion, while government-wide expenses grew by approximately \$1.1 billion.

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

- An increase in real estate tax, resulting from a real estate tax rate increase of 18.5% for the second half of the fiscal year and the continuing increase in real property valuation.
- An increase in non-property taxes, resulting from the increase in sales taxes driven by rebounding tourism, a cigarette tax rate increase, and real property transaction taxes driven by a boom in real estate sales and refinancing. These were partially offset by declines in income taxes, which reflect the continued weakness of other sectors of the economy.
- An increase in other Federal and State aid, resulting from the funding by FEMA of additional costs previously incurred by the City as a result of the WTC disaster.
- Changes in operating grants composed primarily of decreases in Federal FEMA reimbursements for costs of the September 11, 2001 World Trade Center (WTC) disaster and off-set in part by increases from:
 - State and Federal aid for the City’s Department of Education;
 - receipt from HHC to reimburse the City for a portion of the judgments and settlement payments made by the City for HHC related claims;
 - Medicaid reimbursements for the Department of Health and Mental Hygiene services that were increased to reflect the expansion of the early intervention program, and a one-time retroactive claim.

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

- an increase in education spending primarily as a result of collectively bargained salary increases;
- an increase in transportation spending due to the acceleration of payments (discretionary transfers) to the NYC Transit Authority in City fiscal year 2001 (which reduced fiscal year 2002 payments) and fiscal year 2003;
- an increase in social service spending reflecting increased Medicaid costs and larger numbers of homeless families and individuals seeking shelter; and
- the fiscal year 2002 results included significant spending in general government, public safety, environmental protection, and health functions related to the recovery and clean-up efforts following the September 11, 2001 attack on the WTC. Hence, decreased spending is seen in these areas in fiscal year 2003.

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 revenues remained fairly consistent, there were major fluctuations within:

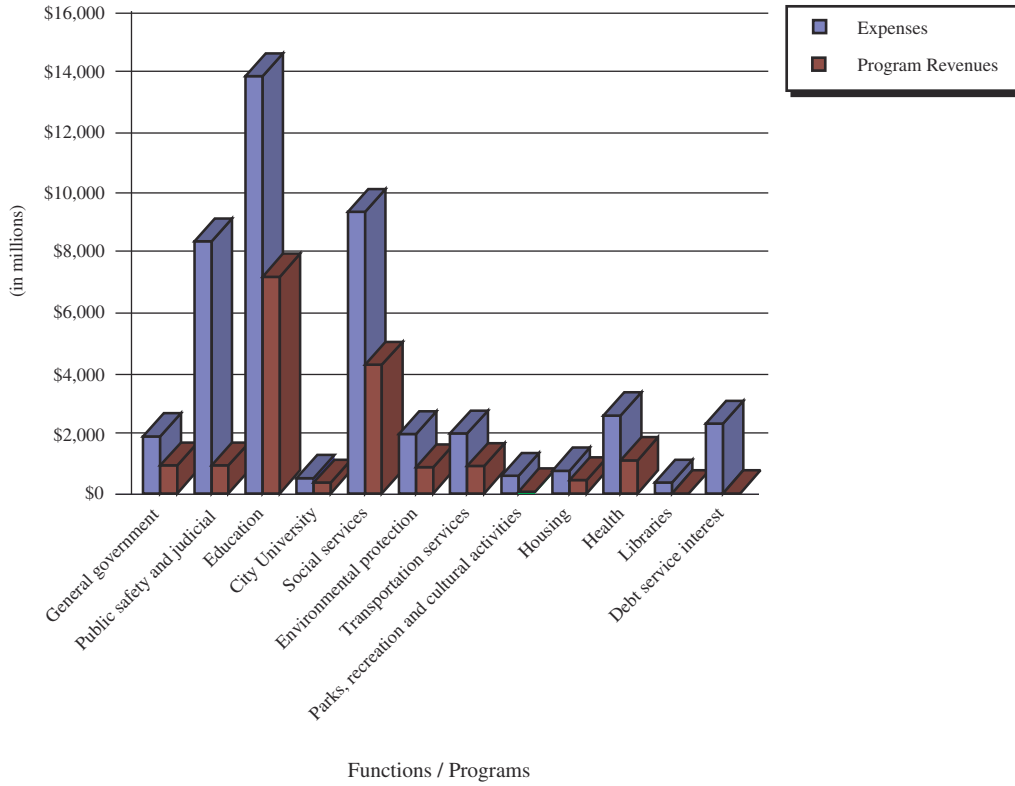
- A decrease in personal income tax resulting largely from the after effects of September 11th and the overall job market weakness throughout the fiscal year;
- An increase in real estate tax, resulting from a continuing increase in real property valuations;
- A decrease in investment income, resulting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

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

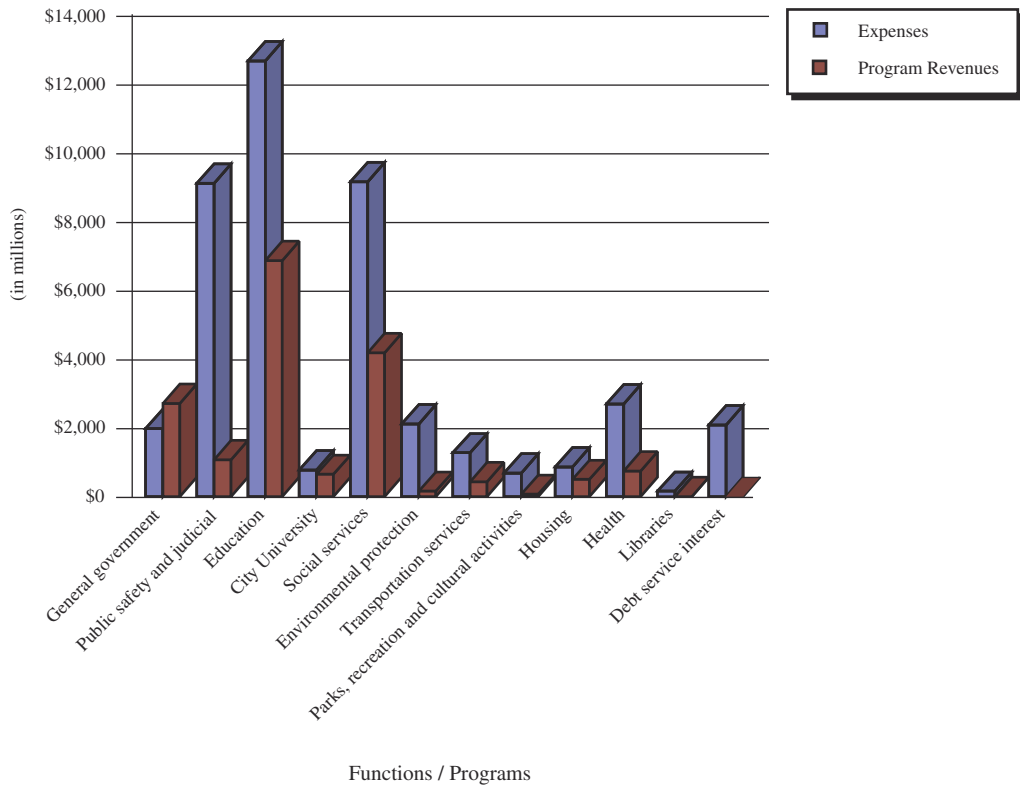
- Significant expenses relating to the recovery and clean-up effort of the September 11th attack on the WTC;
- Increases in health and social service spending, resulting in large part from the September 11th aftermath and an increased spending on medicaid;
- Wage and salary increases for City employees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

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 2003 and 2002. The excess of program expenses over revenues represents the net cost of each program that must be financed from the City's general revenues.

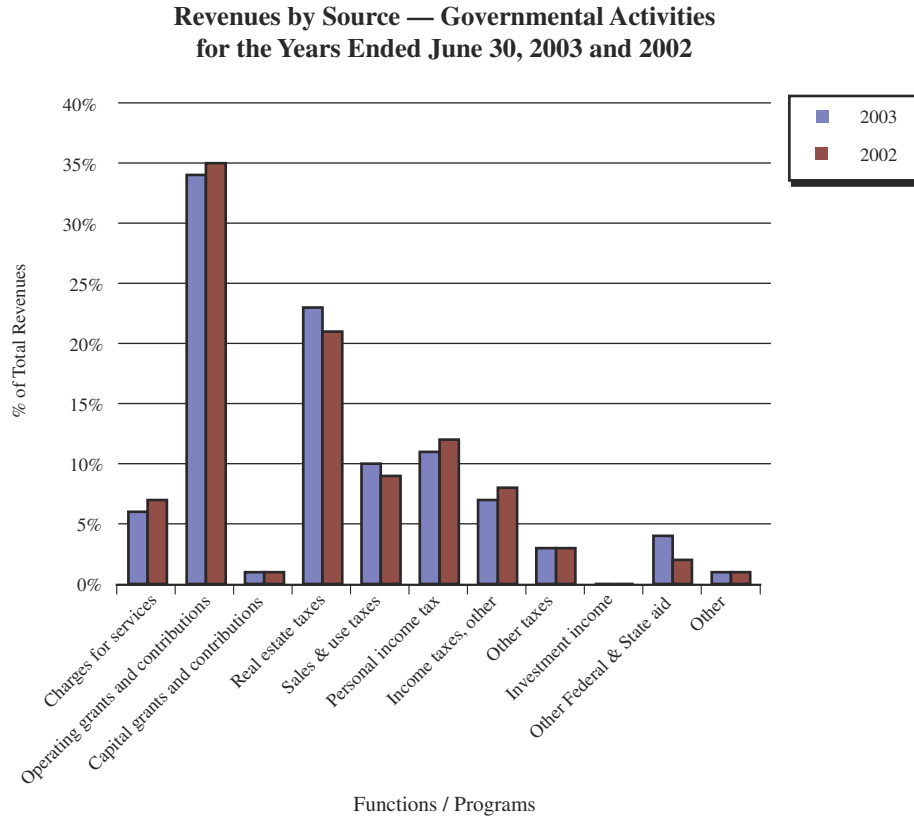
**Expenses and Program Revenues — Governmental Activities
June 30, 2003**



**Expenses and Program Revenues — Governmental Activities
June 30, 2002**



The following chart compares the amounts of program and general revenues for fiscal years 2003 and 2002:



As noted earlier, increases and decreases of net assets may over time serve as a useful indicator of changes in a government's financial position. In the case of the City, liabilities exceeded assets by \$26.7 billion at the close of the most recent fiscal year, an increase of \$3.026 billion from June 30, 2002, which had increased \$3.852 billion from June 30, 2001.

	Governmental Activities		
	2003	2002	2001
		(in thousands)	
Current and other assets	\$ 17,950,774	\$ 17,794,681	\$ 17,876,159
Capital assets	28,894,866	26,659,071	24,497,361
Total assets	46,845,640	44,453,752	42,373,520
Long-term liabilities outstanding	59,844,699	55,080,090	50,065,513
Other liabilities	13,726,937	13,073,304	12,155,166
Total liabilities	73,571,636	68,153,394	62,220,679
Net assets:			
Invested in capital assets,			
net of related debt	(4,770,629)	(3,968,442)	(2,415,545)
Restricted	1,919,520	2,755,754	3,814,045
Unrestricted	(23,874,887)	(22,486,954)	(21,245,659)
Total deficit	\$(26,725,996)	\$(23,699,642)	\$(19,847,159)

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, 2003 and 2002:

<u>Components of Net Asset Deficit</u>	<u>2003</u>	<u>2002</u>
	(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	\$ (4.7)	\$ (4.0)
Net Assets Restricted for:		
Debt Service	1.2	1.9
Capital Projects	<u>.7</u>	<u>.8</u>
Total Net Assets Restricted	<u>1.9</u>	<u>2.7</u>
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	(2.2)	(2.9)
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	(2.1)	(0.5)
The City has issued debt for the acquisition 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	(9.1)	(9.6)
Certain long-term obligations do not require current funding:		
Judgments and claims	(4.5)	(4.3)
Vacation and sick leave	(2.6)	(2.2)
Pension liability	(0.6)	(0.3)
Landfill closure and postclosure costs	(1.3)	(1.3)
All other liabilities exceed the total of the City's unrestricted non-capital assets by approximately:	<u>(1.5)</u>	<u>(1.3)</u>
Total Unrestricted Net Assets	<u>(23.9)</u>	<u>(22.4)</u>
Total Governmental Net Assets	<u>\$ (26.7)</u>	<u>\$ (23.7)</u>

**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					Total Governmental Funds
	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustment/ Eliminations	
	(in thousands)					
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	<u>403,140</u>	<u>(1,466,231)</u>	<u>697,419</u>	<u>(294,389)</u>	<u>(41,561)</u>	<u>(701,622)</u>
Revenues	42,641,200	1,639,094	75,581	2,862,202	(1,339,793)	45,878,284
Expenditures	(41,816,381)	(5,733,809)	(2,390,629)	(3,342,281)	1,392,122	(51,890,978)
Other financing sources (uses)	(819,881)	4,156,303	2,117,058	1,165,320	(8,120)	6,610,680
Fund Balances (deficit), June 30, 2003	<u>\$ 408,078</u>	<u>\$(1,404,643)</u>	<u>\$ 499,429</u>	<u>\$ 390,852</u>	<u>\$ 2,648</u>	<u>\$ (103,636)</u>

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 \$1.422 billion and \$686 million before certain expenditures and transfers (discretionary and other) for fiscal years 2003 and 2002, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of \$5 million in both fiscal years 2003 and 2002, which resulted in an increase in fund balance by this amount.

The General Debt Service Fund receives transfers (discretionary and other) from the General Fund from which it pays the City's debt service requirements. Its fund balance at June 30, 2003 can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling \$407 million in fiscal year 2003. Similar transfers in fiscal year 2002 of \$667 million also primarily account for the General Debt Service Fund fund balance at June 30, 2002.

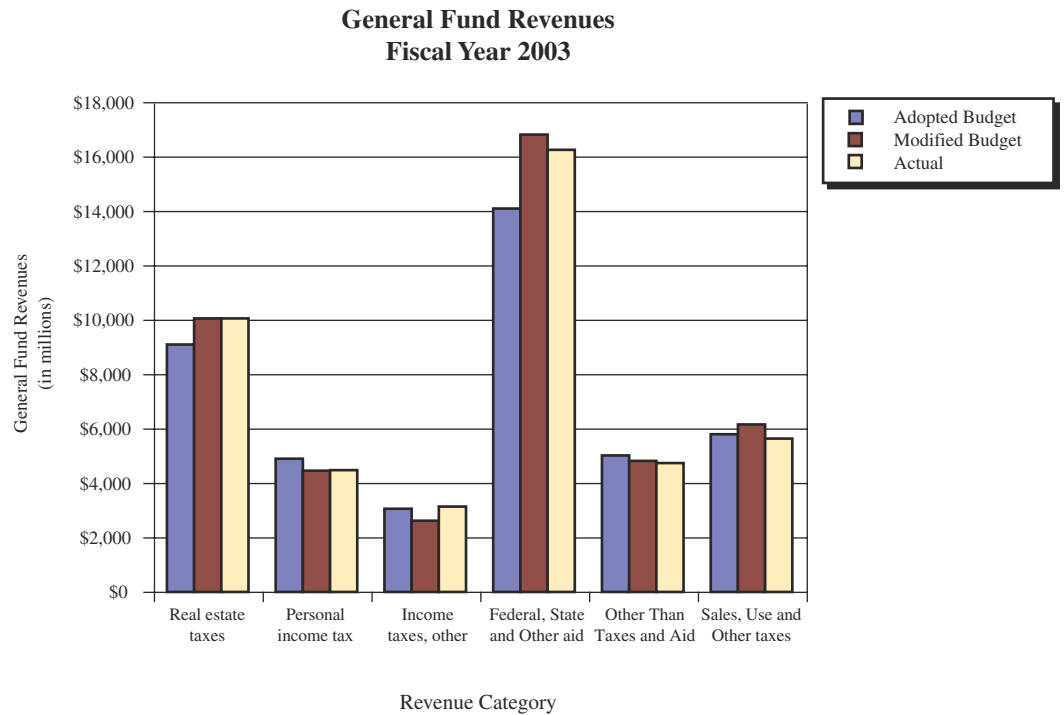
The New York City Capital Projects Fund accounts for the financing of the City's capital program. The primary resources are obtained from the issuance of City debt as well as transfers from TFA and TSASC. Capital-related expenditures are first paid from the General Fund, which is reimbursed for these 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, the Capital Projects Fund will have a deficit. The deficit fund balances at June 30, 2003 and 2002 are primarily attributed to amounts that are owed to the General Fund to repay it for advances related to 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 the 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 2003 and 2002 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.



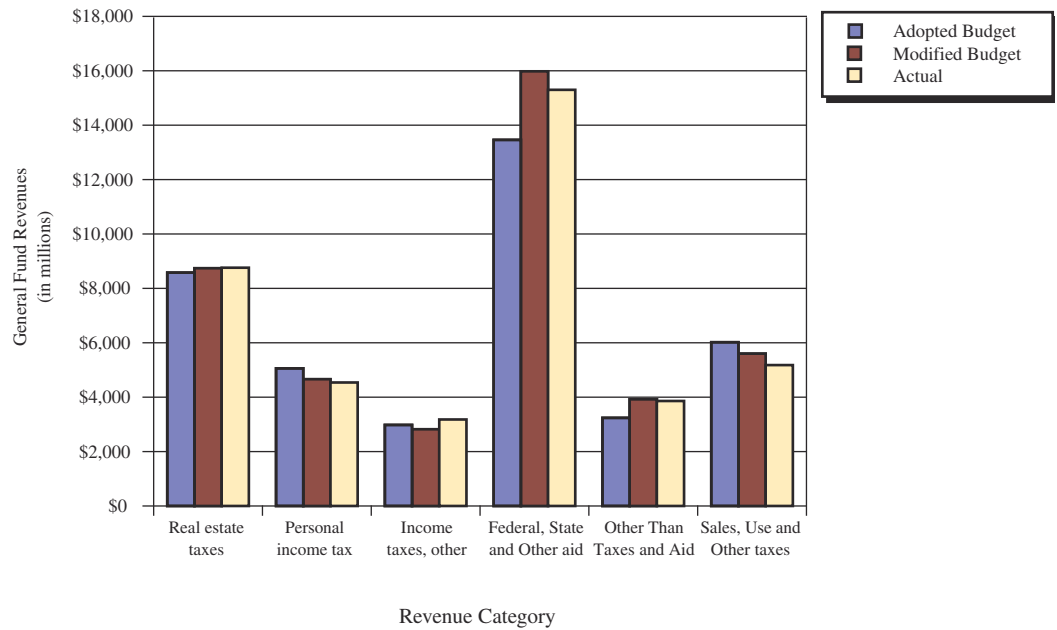
General Fund Revenues

Fiscal Year 2003

(in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
Taxes (net of refunds):			
Real estate taxes	\$ 9,109	\$10,061	\$10,063
Sales and use taxes	4,209	4,298	4,321
Personal income tax	4,898	4,476	4,493
Income taxes, other	3,073	2,631	3,138
Other taxes	<u>1,595</u>	<u>1,871</u>	<u>1,325</u>
Taxes (net of refunds)	<u>22,884</u>	<u>23,337</u>	<u>23,340</u>
Federal, State and Other aid:			
Categorical	13,323	15,150	14,816
Unrestricted	<u>790</u>	<u>1,675</u>	<u>1,443</u>
Federal, State and Other aid	<u>14,113</u>	<u>16,825</u>	<u>16,259</u>
Other Than Taxes and Aid:			
Charges for services	1,589	1,436	1,481
Other revenues	1,774	1,748	1,561
OTB Transfers	31	22	20
Non-Major Governmental Funds Transfers	<u>1,625</u>	<u>1,612</u>	<u>1,684</u>
Other Than Taxes and Aid	<u>5,019</u>	<u>4,818</u>	<u>4,746</u>
Total Revenues	<u>\$42,016</u>	<u>\$44,980</u>	<u>\$44,345</u>

**General Fund Revenues
Fiscal Year 2002**



General Fund Revenues

Fiscal Year 2002

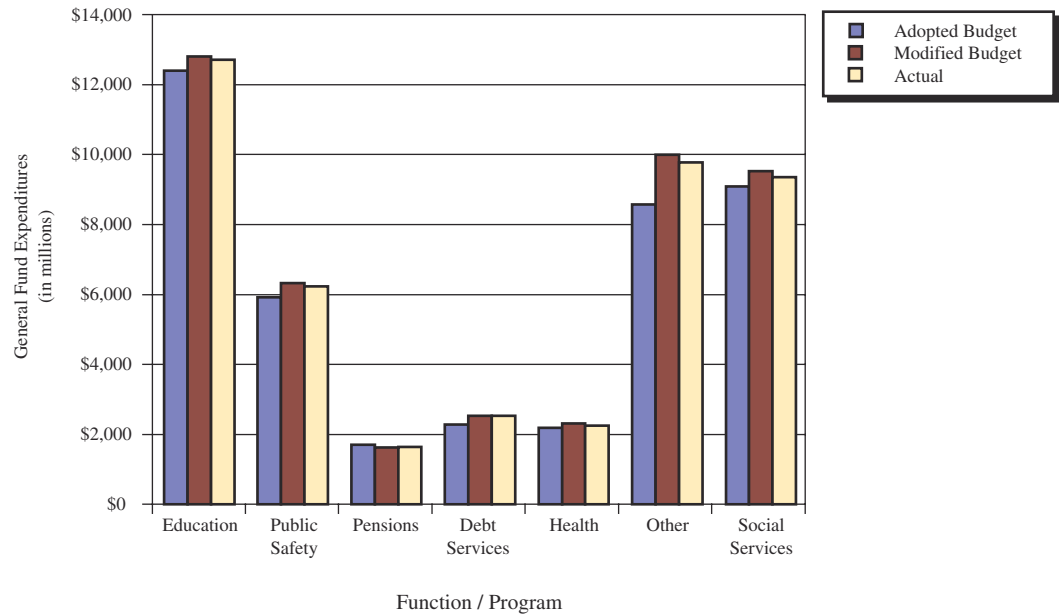
(in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
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	<u>1,752</u>	<u>1,640</u>	<u>1,231</u>
Taxes (net of refunds)	<u>22,663</u>	<u>21,847</u>	<u>21,696</u>
Federal, State and Other aid:			
Categorical	12,760	15,287	14,646
Unrestricted	707	695	666
Federal, State and Other aid	<u>13,467</u>	<u>15,982</u>	<u>15,312</u>
Other Than Taxes and Aid:			
Charges for services	1,389	1,386	1,458
Other revenues	1,829	2,149	1,919
OTB Transfers	33	25	22
TFA Transfers	<u>—</u>	<u>366</u>	<u>458</u>
Other Than Taxes and Aid	<u>3,251</u>	<u>3,926</u>	<u>3,857</u>
Total Revenues	<u>\$39,381</u>	<u>\$41,755</u>	<u>\$40,865</u>

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2003 and 2002 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

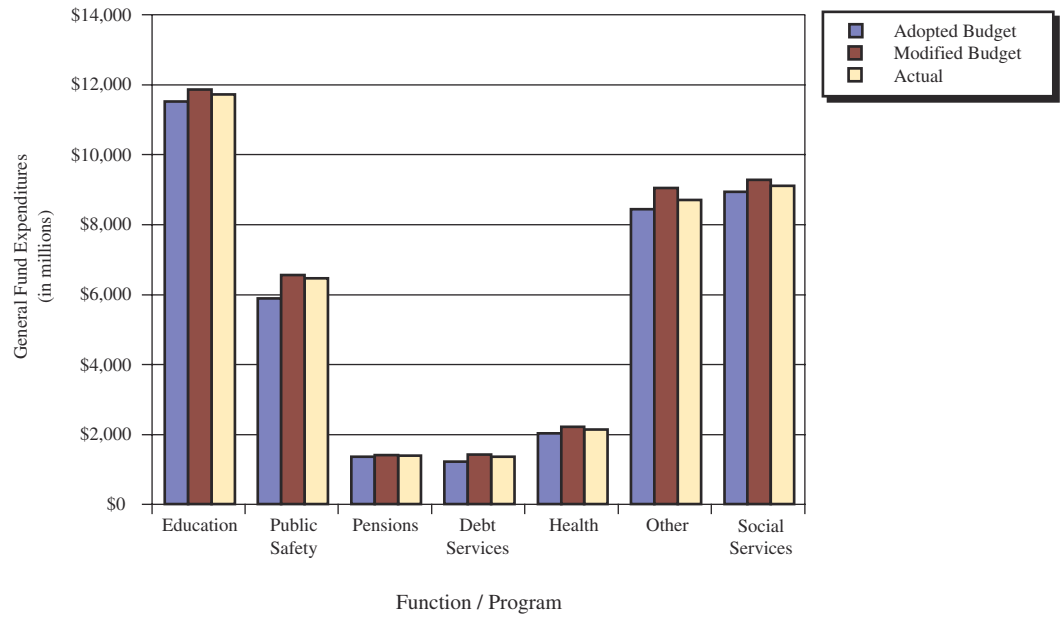
**General Fund Expenditures
Fiscal Year 2003**



**General Fund Expenditures
Fiscal Year 2003
(in millions)**

	Adopted Budget	Modified Budget	Actual
General Government	\$ 1,172	\$ 1,287	\$ 1,238
Public Safety and Judicial	5,898	6,298	6,204
Education	12,354	12,757	12,673
City University	465	478	444
Social Services	9,054	9,499	9,321
Environmental Protection	1,658	1,687	1,638
Transportation Services	763	1,039	1,016
Parks, Recreation, and Cultural Activities	298	297	293
Housing	420	456	437
Health (including HHC)	2,187	2,309	2,241
Libraries	251	338	338
Pensions	1,701	1,630	1,631
Judgments and Claims	419	613	627
Fringe Benefits and Other Benefit Payments	2,217	2,604	2,607
Other	887	1,162	1,108
Transfers and Other Payments for Debt Service	2,272	2,526	2,524
Total Expenditures	<u>\$42,016</u>	<u>\$44,980</u>	<u>\$44,340</u>

**General Fund Expenditures
Fiscal Year 2002**



General Fund Expenditures

Fiscal Year 2002

(in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
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	<u><u>\$39,381</u></u>	<u><u>\$41,755</u></u>	<u><u>\$40,860</u></u>

General Fund Surplus

The City had General Fund operating surpluses of \$1.422 billion, \$686 million and \$2.949 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2003, 2002 and 2001, respectively. For the fiscal years 2003, 2002 and 2001, the General Fund surplus was \$5 million after expenditures and transfers (discretionary and other).

The expenditures and transfers (discretionary and other) made by the City after the adoption of its fiscal years 2003, 2002 and 2001 budgets follow:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
		(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	\$ 166	\$ 509	\$ 917
Discretionary transfers to the General Debt Service Fund	237	154	1,180
Net equity contribution in bond refunding that accrued to future years debt service savings	4	4	46
Debt service prepayments for lease purchase debt service due in the fiscal year	73	—	56
Prepayment of debt service for the Municipal Assistance Corporation	—	—	458
Grant to Transitional Finance Authority	624	—	—
Advance cash subsidies to the Public Library system ..	107	—	131
Advance cash subsidies to the Transit Authority ...	206	14	151
Advance cash subsidies to the Housing Authority ..	<u>—</u>	<u>—</u>	<u>5</u>
Total expenditures and transfers (discretionary and other)	1,417	681	2,944
Reported Operating Surplus	<u>5</u>	<u>5</u>	<u>5</u>
Total Operating Surplus	<u>\$ 1,422</u>	<u>\$ 686</u>	<u>\$ 2,949</u>

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2003 Adopted Budget:

	<u>2003</u>
Additional Resources:	(in millions)
Federal categorical aid (including FEMA reimbursement)	\$ 1,199
Higher than anticipated property tax revenue collections, primarily due to a mid-year rate increase of 18.5 percent	1,039
State revenue sharing	73
Other unrestricted aid	580
State categorical aid	21
Lower than expected debt service and interest on Short-term Notes	242
Lower than expected MAC debt service	30
Other miscellaneous revenues	84
Non-grant revenue	305
Licenses, permits and privileges	16
Rental income—other	25
Other charges for services	26
General government charges	66
Net savings from administrative costs for supplies, equipment and other than personnel services	363
Lower than expected all other fixed and miscellaneous charges	54
Lower than expected pension costs	50
Social Services, excluding public assistance and Medicaid	164
Lower than expected funding to the Health and Hospitals Corporation	10
General Reserve	<u>200</u>
Total	<u>4,547</u>
Enabled the City to provide for:	
Higher than anticipated personal services costs excluding pensions, health insurance, and overtime	90
Lower than expected net all other tax revenue collections, excluding tax lien sales	497
Lower than expected Off-Track Betting Surtax and other revenues	11
Lower than anticipated State and Federal aid	230
Higher than anticipated judgment and claims	172
Lower than expected tax liens sales	85
Lower than expected revenues from fines and forfeitures	2
Higher than anticipated public assistance	39
Lower than expected interest income	24
Lower than expected income from JFK and LaGuardia Airports	182
Higher than anticipated overtime costs	288
Increased Health Insurance costs	325
Higher than anticipated Medicaid costs	209
Increased contractual services costs	869
Lower than anticipated collection of water and sewer charges	42
Disallowance reserve	32
Equity contributions in conjunction with bond refundings	4
Prepayment of certain debt service costs and subsidies due in FY 2004	1,413
All other net overspending and revenues below budget	<u>28</u>
Total	<u>4,542</u>
Reported Surplus	<u>\$ 5</u>

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 amounts for the fiscal year ended 2002 Adopted Budget:

	<u>2002</u>
Additional Resources:	(in millions)
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 personal 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	<u>200</u>
Total	<u>3,422</u>
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	<u>134</u>
Total	<u>3,417</u>
Reported Surplus	<u>\$ 5</u>

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		
	2003	June 30, 2002 (in millions)	2001
Land	\$ 739	\$ 737	\$ 734
Buildings	16,395	11,253	9,710
Equipment	2,546	1,522	1,599
Infrastructure	6,242	5,950	5,594
Construction work-in-progress	2,973	7,197	6,860
Total	<u>\$28,895</u>	<u>\$26,659</u>	<u>\$24,497</u>

The net increase in the City's capital assets during fiscal year 2003 was \$2.236 billion, an 8.4% increase. Capital assets additions in fiscal year 2003 were \$9.773 billion, an increase of \$3.127 billion from fiscal year 2002. Capital assets additions in the Education program totaling \$5.632 billion and total new construction work-in-progress (the majority of which are in the Education program) totaling \$1.981 billion accounted for 78.0% of the capital assets additions in fiscal year 2003.

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 in the Education program) 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. The following table summarizes the debt outstanding for New York City and City-related issuing entities at the end of fiscal years 2003, 2002 and 2001.

	New York City and City-related Debt		
	2003	2002 (in millions)	2001
General Obligation bonds (a)	\$29,679	\$28,465	\$26,836
Future tax secured bonds (TFA)	12,024	8,289	7,386
TSASC	1,258	740	703
1991 general resolution bonds (MAC)	2,151	2,880	3,217
Japanese Yen bonds	—	40	80
Revenue bonds	507	521	543
Bond Anticipation Notes (TFA)	1,110	1,200	—
Recovery Notes (TFA)	—	1,000	—
Total bonds and notes payable	46,729	43,135	38,765
Less treasury obligations	(64)	(116)	(168)
Net outstanding debt	<u>\$46,665</u>	<u>\$43,019</u>	<u>\$38,597</u>

(a) Does not include capital contract liabilities.

General Obligation

On June 30, 2003, New York City's outstanding general obligation (GO) debt, including capital contract liabilities, totaled \$32.4 billion compared with \$32.7 billion as of June 30, 2002. 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 July 1, 2003, the City's net general obligation debt limit was \$40.0 billion

(compared with \$36.0 billion as of July 1, 2002). Remaining GO debt incurring power, after providing for capital contract liabilities, totaled \$7.6 billion.

As of June 30, 2003, the City's outstanding General Obligation variable and fixed rate debt totaled \$4.15 billion and \$25.53 billion, respectively. Of the \$4.874 billion in general obligation bonds issued by the City in fiscal year 2003, \$2.714 billion were issued to refund certain outstanding bonds and \$2.16 billion were issued for new money 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 refundings produced \$232 million in debt service savings realized in fiscal year 2003 and will provide an additional \$53 million in fiscal year 2004. The refundings will generate approximately \$143 million in net present value savings throughout the life of the bonds.

In fiscal year 2003, Moody's Investors Service, ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings ("Fitch") maintained their ratings at A2, A and A+, respectively. Moody's negative outlook on New York City General Obligation Bonds continued in fiscal year 2003. This negative outlook reflected the disruptive economic effects of the World Trade Center tragedy, the national economic recession, the weakened financial services sector and projections of sizeable budget gaps. Standard & Poor's revised its rating outlook to stable from negative, however, based on the funding package negotiated with New York State that provides recurring revenue, state aid, and other budget relief measures to balance fiscal year 2004 and alleviate pressure on out-year gaps. Fitch's negative outlook in fiscal year 2003 reflected near-term economic weakness and rising debt and pension costs.

Short-term Financing

The City satisfied all of its seasonal needs in the public credit market with a competitive sale on October 9, 2002 of \$1.5 billion of short-term Revenue Anticipation Notes (RANs) that were secured by State aid. In February 2003, the City designated additional State educational aid as a source of payment for the RANs. The RANs matured on April 11, 2003 and carried the highest ratings from Moody's (MIG-1), Fitch (F1+), and S&P (SP-1+). These ratings together with favorable market conditions enabled the City to achieve a true interest cost of borrowing of 1.35% on the RANs.

Transitional Finance Authority

In 1997, the New York State Legislature created the New York City Transitional Finance Authority (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. As of June 30, 2003, the TFA had \$145 million of debt capacity remaining.

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. During fiscal year 2003, \$2 billion of TFA Recovery Bonds were issued, \$1 billion of which were used to redeem the previously issued Recovery BANs.

Of the \$3.74 billion in bonds issued by the TFA in fiscal year 2003, \$1.2 billion redeemed previously issued Bond Anticipation Notes ("BANs"), \$1.99 billion refinanced outstanding bonds, and \$550 million were issued for capital purposes. The TFA also issued \$1.1 billion of BANs. The two refinancings TFA completed in fiscal year 2003 will produce debt service savings of \$113 million and \$43 million in fiscal year 2004 and 2005, respectively. These refinancings will also generate approximately \$132 million in net present value savings throughout the life of the bonds.

In fiscal year 2003, 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 ratings identical to those of senior lien bonds and notes. TFA debt is not subject to the City's constitutional debt limit.

TSASC

TSASC is a special purpose, bankruptcy-remote local development corporation created pursuant to the Not-for-Profit Corporation Law of the State of New York. TSASC is authorized to issue bonds to purchase from the City its future right, title and interest under a Master Settlement Agreement (the "MSA") between participating cigarette manufacturers and 46 states, including the State of New York.

As of June 30, 2003, TSASC had approximately \$1.258 billion of bonds outstanding. On August 15, 2002, TSASC issued \$500 million (Series 2002-1) of bonds, of which \$120 million was used to reimburse the City for costs in connection with the closure of the Fresh Kills Landfill. The remainder of the proceeds was used to fund the City's ongoing capital needs.

In June 2003, Moody's downgraded R.J. Reynolds Tobacco Holdings to Ba1, which resulted in a Downgrade Trapping Event in connection with TSASC's outstanding bonds. Accordingly, a portion of tobacco settlement revenues that would otherwise be paid to the City must be deposited in a trapping account until an amount equal to 25% of the outstanding amount of TSASC's bonds has been accumulated in that account. In fiscal year 2003, Moody's, S&P's and Fitch all downgraded their ratings on bonds secured by tobacco settlement revenues, including TSASC's bonds. TSASC's bonds are now rated in the "A" category by Moody's. The majority of TSASC's bonds are now rated "BBB" by S&P. All of TSASC's bonds are now rated "BBB" by Fitch.

On September 15, 2003, TSASC announced that it did not intend to issue any additional bonds under its indenture and was reviewing restructuring alternatives for its outstanding bonds. TSASC debt is not subject to the City's constitutional debt limit.

Water Finance Authority

The New York City Municipal Water Finance Authority (Water Authority), a separate legal entity established in fiscal year 1986, has the power to issue bonds to finance the renovation and improvement of the City's water and sewer facilities. As of June 30, 2003, long-term outstanding Water Authority debt, including special resolution, was \$12.1 billion. In fiscal year 2003, Moody's, S&P and Fitch maintained their ratings for the Water Authority's bonds at Aa2, AA and AA, respectively.

Of the \$3.1 billion in revenue bonds issued by the Water Authority during fiscal year 2003, \$1.682 billion were issued to refund certain outstanding bonds and \$1.438 billion 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 refundings, structured to generate debt service savings that are nearly level throughout the life of the bonds, will provide approximately \$155 million in net present value.

As of June 30, 2003, outstanding Water Authority variable rate debt was \$1.495 billion, not including commercial paper. During fiscal year 2003, the Water Authority's tax-exempt dailies and tax-exempt weeklies traded at an average rate of 1.24% and 1.25%, respectively. The Water Authority also maintained its tax-exempt commercial paper program, enabling it to access the short-term market at more aggressive rates. The Water Authority's commercial paper authorization is \$925 million. At the end of fiscal year 2003, \$825 million of commercial paper was outstanding.

Interest Rate Exchange Agreements

In an effort to minimize long-term total interest costs, the City began to enter into interest rate exchange agreements in fiscal year 2003. The City received specific authorization to enter into these agreements, or swaps, under Section 54.90 of the New York State Local Finance

Law. In fiscal year 2003, the City entered into six synthetic fixed rate swaps with a total notional amount of \$615.1 million and one basis swap with a notional amount of \$671.2 million.

Sales Tax Asset Receivable Corporation

In May 2003, New York State statutorily committed \$170 million of New York State Sales Tax to the City in each fiscal year from 2004 through 2034. The Sales Tax Asset Receivable Corporation ("STAR") was formed to securitize the payments and to use the proceeds to retire existing Municipal Assistance Corporation (MAC) for the City of New York debt, thereby saving the City approximately \$500 million per year for fiscal years 2004 through 2008.

In August 2003, STAR printed two Preliminary Offering Circulars for \$532.2 million Series A Bonds and \$24 million Series B Bonds. Following the printing of the Preliminary Offering Circulars, The New York State Local Government Assistance Corporation and the Division of the Budget of the State of New York (collectively, the "Plaintiffs") filed court papers challenging the constitutionality of the statutory amendments that had authorized the transaction. The Plaintiffs sought a preliminary injunction preventing the bond issuance. The State Supreme Court denied the Plaintiffs' request. The Plaintiffs then appealed to the Appellate Division, which granted the request pending a hearing in October 2003.

Subsequent Events

Subsequent to June 30, 2003, the City, and TFA completed the following financings:

On July 14, 2003, the City sold \$999.6 million of bonds for refunding purposes.

On September 4, 2003, the TFA issued \$145 million of bonds to finance capital expenditures incurred by the City.

On September 25, 2003, the City sold \$250 million of bonds for capital purposes.

On October 2, 2003, the City converted \$439.9 million of variable rate bonds to auction rate bonds to reduce interest rate costs.

On October 16, 2003, the City sold \$500 million of bonds for capital purposes.

On October 16, 2003, the City sold \$250 million of Tax Anticipation Notes (TANs) for short term seasonal financing.

On October 16, 2003, the City sold \$1.250 billion of RANs for short term seasonal financing.

Commitments

At June 30, 2003, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately \$9.7 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 \$49.3 billion over the remaining fiscal years 2004 through 2013. To help meet its capital spending program, the City, TFA, and TSASC borrowed \$4.1 billion in the public credit market in fiscal year 2003.

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 has been largely 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.

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, 2003
(in thousands)

	<u>Primary Government</u>	
	<u>Governmental</u>	<u>Component</u>
	<u>Activities</u>	<u>Units</u>
ASSETS:		
Cash and cash equivalents	\$ 4,448,684	\$ 1,275,278
Investments, including accrued interest	910,566	592,208
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$371,484)	534,497	—
Federal, State and other aid	6,447,866	—
Taxes other than real estate	2,380,014	—
Other	602,364	1,544,807
Mortgage loans and interest receivable, net	1,307	3,183,236
Inventories	213,957	47,410
Due from Primary Government	—	13,213
Due from Component Units	603,988	—
Restricted cash and investments	1,119,324	3,790,822
Deferred Charges—Issuance Costs	589,152	—
Capital assets:		
Land and construction work-in-progress	3,711,398	4,615,554
Other Capital assets (net of depreciation):		
Property, plant and equipment	18,940,986	17,345,561
Infrastructure	6,242,482	—
Other	99,055	309,306
Total assets	<u>46,845,640</u>	<u>32,717,395</u>
LIABILITIES:		
Accounts payable and accrued liabilities	9,165,574	1,810,530
Accrued interest payable	637,960	74,184
Deferred revenues:		
Prepaid real estate taxes	2,051,819	—
Other	1,258,236	168,070
Due to Primary Government	—	603,988
Due to Component Units	13,213	—
Estimated disallowance of Federal, State and other aid	249,660	—
Payable for investment securities purchased	257,000	—
Other	93,475	56,304
Noncurrent Liabilities:		
Due within one year	4,356,716	1,198,979
Due in more than one year	55,487,983	16,940,939
Total liabilities	<u>73,571,636</u>	<u>20,852,994</u>
NET ASSETS:		
Invested in capital assets, net of related debt	(4,770,629)	9,737,643
Restricted for:		
Capital projects	675,338	46,861
Debt service	1,244,182	580,182
Loans/Security Deposits	—	67,600
Donor restrictions	—	13,352
Operations	—	132,107
Unrestricted (deficit)	<u>(23,874,887)</u>	<u>1,286,656</u>
Total net assets (deficit)	<u><u>\$(26,725,996)</u></u>	<u><u>\$11,864,401</u></u>

See accompanying notes to financial statements

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2002
(in thousands)

	Primary Government	Component
	Governmental	Units
	Activities	Units
ASSETS:		
Cash and cash equivalents	\$ 1,172,279	\$ 1,168,837
Investments, including accrued interest	5,338,583	649,555
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	832,844	62,990
Debt service	1,922,910	583,407
Loans/Security Deposits	—	83,773
Donor restrictions	—	13,413
Operations	—	118,848
Unrestricted (deficit)	(22,486,954)	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 ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003
(in thousands)

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	
					<u>Governmental Activities</u>	<u>Component Units</u>
Primary government:						
General government	\$ 1,985,943	\$ 539,379	\$ 355,117	\$ 79,163	\$(1,012,284)	\$ —
Public safety and judicial	8,762,321	248,212	690,489	30,316	(7,793,304)	—
Education	14,499,037	44,203	7,476,132	8,546	(6,970,156)	—
City University	533,096	152,782	225,104	—	(155,210)	—
Social services	9,785,682	70,924	4,373,853	23,207	(5,317,698)	—
Environmental protection	2,055,835	827,446	40,269	36,724	(1,151,396)	—
Transportation services	2,083,259	609,148	160,777	178,166	(1,135,168)	—
Parks, recreation and cultural activities	607,787	58,351	10,328	86	(539,022)	—
Housing	787,584	194,226	186,006	75,384	(331,968)	—
Health (including payments to HHC)	2,709,563	45,938	1,086,020	23,928	(1,553,677)	—
Libraries	377,647	—	—	—	(377,647)	—
Debt service interest	2,417,993	—	—	—	(2,417,993)	—
Total primary government	<u>\$46,605,747</u>	<u>\$ 2,790,609</u>	<u>\$14,604,095</u>	<u>\$ 455,520</u>	<u>(28,755,523)</u>	<u>—</u>
Component Units	<u>\$ 9,898,613</u>	<u>\$ 6,479,248</u>	<u>\$ 1,895,582</u>	<u>\$ 1,028,283</u>	<u>—</u>	<u>(495,500)</u>
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					9,919,734	—
Sales and use taxes					4,326,464	—
Personal income tax					4,996,749	—
Income taxes, other					2,840,916	—
Other taxes					1,328,985	—
Investment income					126,037	169,354
Other Federal and State aid					1,743,466	2,139
Other					446,818	322,505
Total General revenues					<u>25,729,169</u>	<u>493,998</u>
Change in net assets					(3,026,354)	(1,502)
Net Assets (deficit) — Beginning					<u>(23,699,642)</u>	<u>11,865,903</u>
Net Assets (deficit) — Ending					<u>\$(26,725,996)</u>	<u>\$11,864,401</u>

See accompanying notes to financial statements

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

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	
					<u>Governmental Activities</u>	<u>Component Units</u>
Primary government:						
General government	\$ 2,070,573	\$ 998,465	\$ 598,886	\$ 73,355	\$ (399,867)	\$ —
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	(479,647)	—
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	<u>\$45,538,832</u>	<u>\$ 3,001,330</u>	<u>\$14,651,155</u>	<u>\$ 493,798</u>	<u>(27,392,549)</u>	<u>—</u>
Component Units	<u>\$ 9,476,799</u>	<u>\$ 6,216,875</u>	<u>\$ 1,819,735</u>	<u>\$ 878,972</u>	<u>—</u>	<u>(561,217)</u>
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	217,632
Other Federal and State aid					975,281	1,898
Other					435,149	348,411
Total General revenues					<u>23,540,066</u>	<u>567,941</u>
Change in net assets					(3,852,483)	6,724
Net Assets — Beginning					<u>(19,847,159)</u>	<u>11,859,179</u>
Net Assets — Ending					<u>\$(23,699,642)</u>	<u>\$11,865,903</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2003
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 3,595,882	\$ 33,093	\$ 56,039	\$ 763,670	\$ —	\$ 4,448,684
Investments, including accrued interest	82,723	—	306,922	586,914	(65,993)	910,566
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of \$371,484)	534,497	—	—	—	—	534,497
Federal, State and other aid	6,088,533	359,333	—	—	—	6,447,866
Taxes other than real estate	2,276,165	—	—	103,849	—	2,380,014
Other	592,964	—	—	—	—	592,964
Mortgage loans and interest receivable (less allowance for uncollectible amounts of \$753,475)	—	—	—	1,307	—	1,307
Due from other funds	2,828,956	1,574,822	148,355	225,694	(228,588)	4,549,239
Due from Component Units	372,597	231,391	—	—	—	603,988
Restricted cash and investments	—	629,819	—	489,505	—	1,119,324
Other	—	40,618	—	43,365	—	83,983
Total assets	<u>\$16,372,317</u>	<u>\$ 2,869,076</u>	<u>\$ 511,316</u>	<u>\$ 2,214,304</u>	<u>\$ (294,581)</u>	<u>\$21,672,432</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	\$ 7,818,703	\$ 1,069,698	\$ 4,479	\$ 341,335	\$ (68,641)	\$ 9,165,574
Bond anticipation notes payable	—	—	—	1,110,000	—	1,110,000
Accrued tax refunds:						
Real estate taxes	40,754	—	—	—	—	40,754
Personal income taxes	46,971	—	—	15,949	—	62,920
Other	46,684	—	—	—	—	46,684
Accrued judgments and claims	312,795	113,705	—	—	—	426,500
Deferred revenues:						
Prepaid real estate taxes	2,051,819	—	—	—	—	2,051,819
Uncollected real estate taxes	503,413	—	—	—	—	503,413
Taxes other than real estate	1,881,776	—	—	—	—	1,881,776
Other	1,316,523	13,093	—	87,900	—	1,417,516
Due to other funds	1,681,928	3,077,223	7,408	11,268	(228,588)	4,549,239
Due to Component Units	13,213	—	—	—	—	13,213
Estimated disallowance of Federal, State and other aid	249,660	—	—	—	—	249,660
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	<u>15,964,239</u>	<u>4,273,719</u>	<u>11,887</u>	<u>1,823,452</u>	<u>(297,229)</u>	<u>21,776,068</u>
Fund balances:						
Reserved for:						
Capital projects	—	539,334	—	136,004	—	675,338
Debt service	—	—	499,429	740,797	2,648	1,242,874
Noncurrent mortgage loans	—	—	—	1,308	—	1,308
Unreserved (deficit), reported in:						
General Fund	408,078	—	—	—	—	408,078
New York City Capital Projects Fund	—	(1,943,977)	—	—	—	(1,943,977)
Nonmajor Governmental Funds	—	—	—	(487,257)	—	(487,257)
Total fund balances (deficit)	<u>408,078</u>	<u>(1,404,643)</u>	<u>499,429</u>	<u>390,852</u>	<u>2,648</u>	<u>(103,636)</u>
Total liabilities and fund balances	<u>\$16,372,317</u>	<u>\$ 2,869,076</u>	<u>\$ 511,316</u>	<u>\$ 2,214,304</u>	<u>\$ (294,581)</u>	<u>\$21,672,432</u>

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, 2002
(in thousands)

	<u>General</u>	<u>New York City Capital Projects</u>	<u>General Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Adjustments/ Eliminations</u>	<u>Total Governmental Funds</u>
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	<u>\$15,883,792</u>	<u>\$ 2,929,642</u>	<u>\$ 721,848</u>	<u>\$ 2,802,354</u>	<u>\$ (420,414)</u>	<u>\$21,917,222</u>
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	<u>15,480,652</u>	<u>4,395,873</u>	<u>24,429</u>	<u>3,096,743</u>	<u>(378,853)</u>	<u>22,618,844</u>
Fund balances:						
Reserved for:						
Capital Projects	—	232,110	—	600,734	—	832,844
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	—	(1,698,341)	—	—	—	(1,698,341)
Nonmajor Governmental Funds	—	—	—	(2,175,517)	—	(2,175,517)
Total fund balances (deficit)	<u>403,140</u>	<u>(1,466,231)</u>	<u>697,419</u>	<u>(294,389)</u>	<u>(41,561)</u>	<u>(701,622)</u>
Total liabilities and fund balances	<u>\$15,883,792</u>	<u>\$ 2,929,642</u>	<u>\$ 721,848</u>	<u>\$ 2,802,354</u>	<u>\$ (420,414)</u>	<u>\$21,917,222</u>

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

JUNE 30, 2003
(in thousands)

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

Total fund balances—governmental funds	\$ (103,636)
Inventories recorded in the Statement of Net assets are recorded as expenditures in the governmental funds	213,957
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	28,894,866
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	3,158,093
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable	(45,425,211)
Accrued interest payable	(637,960)
Other Long-term liabilities	(12,826,105)
Net assets (deficit) of governmental activities	\$(26,725,996)

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	<u>(11,899,945)</u>
Net assets (deficit) of governmental activities	<u><u>\$(23,699,642)</u></u>

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, 2003
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	\$10,062,930	\$ —	\$ —	\$ —	\$ —	\$10,062,930
Sales and use taxes	4,321,464	—	—	—	—	4,321,464
Personal income tax	4,492,947	—	—	536,802	—	5,029,749
Income taxes, other	3,137,916	—	—	—	—	3,137,916
Other taxes	1,325,222	—	—	—	—	1,325,222
Federal, State and other categorical aid	14,816,057	387,675	—	88,691	—	15,292,423
Unrestricted Federal and State aid	1,442,813	—	—	—	—	1,442,813
Charges for services	1,481,382	—	—	—	—	1,481,382
Tobacco settlement	149,948	—	—	102,895	—	252,843
Investment income	43,256	—	3,660	65,768	—	112,684
Interest on mortgages, net	—	—	—	3,981	—	3,981
Unrestricted grant from New York City	—	—	—	624,000	—	624,000
Other revenues	1,367,265	1,251,419	71,921	1,440,065	(1,339,793)	2,790,877
Total revenues	<u>42,641,200</u>	<u>1,639,094</u>	<u>75,581</u>	<u>2,862,202</u>	<u>(1,339,793)</u>	<u>45,878,284</u>
EXPENDITURES:						
General government	1,238,442	608,431	—	34,375	—	1,881,248
Public safety and judicial	6,203,911	290,007	—	—	—	6,493,918
Education	12,672,864	1,315,422	—	1,376,211	(1,339,793)	14,024,704
City University	443,654	12,763	—	—	—	456,417
Social services	9,321,286	80,609	—	—	—	9,401,895
Environmental protection	1,638,442	1,415,282	—	—	—	3,053,724
Transportation services	1,016,155	1,185,237	—	—	—	2,201,392
Parks, recreation and cultural activities	293,182	360,808	—	—	—	653,990
Housing	437,382	300,984	—	—	—	738,366
Health (including payments to HHC)	2,241,495	115,049	—	—	—	2,356,544
Libraries	337,639	49,217	—	—	—	386,856
Pensions	1,630,581	—	—	—	—	1,630,581
Judgments and claims	626,916	—	—	—	—	626,916
Fringe benefits and other benefit payments	2,606,860	—	—	—	—	2,606,860
Administrative and other	1,107,572	—	11,131	79,512	—	1,198,215
Debt Service:						
Interest	—	—	1,320,039	796,052	(54)	2,116,037
Redemptions	—	—	1,055,010	989,310	(52,275)	1,992,045
Lease payments	—	—	—	66,821	—	66,821
Refunding escrow	—	—	4,449	—	—	4,449
Total expenditures	<u>41,816,381</u>	<u>5,733,809</u>	<u>2,390,629</u>	<u>3,342,281</u>	<u>(1,392,122)</u>	<u>51,890,978</u>
Excess (deficiency) of revenues over expenditures	<u>824,819</u>	<u>(4,094,715)</u>	<u>(2,315,048)</u>	<u>(480,079)</u>	<u>52,329</u>	<u>(6,012,694)</u>
OTHER FINANCING SOURCES (USES):						
Transfers from (to) General Fund	—	—	2,109,622	(1,275,029)	(8,120)	826,473
Transfers from Nonmajor Capital Projects Funds	1,670,837	1,926,954	—	107,961	(1,926,954)	1,778,798
Transfers from (to) Component Units, net	6,592	—	—	—	—	6,592
Proceeds from sale of bonds	—	2,187,431	—	4,361,343	—	6,548,774
Capitalized leases	—	41,918	—	—	—	41,918
Refunding bond proceeds	—	—	2,790,193	2,142,187	—	4,932,380
Transfer to New York City Capital Projects Fund	—	—	—	(1,926,954)	1,926,954	—
Transfers to General Debt Service Fund	(2,109,622)	—	—	(7,436)	—	(2,117,058)
Transfer from (to) Nonmajor Debt Service Funds, net	(387,688)	—	7,436	(107,961)	—	(488,213)
Payments to refunded bond escrow holder	—	—	(2,790,193)	(2,128,791)	—	(4,918,984)
Total other financing sources (uses)	<u>(819,881)</u>	<u>4,156,303</u>	<u>2,117,058</u>	<u>1,165,320</u>	<u>(8,120)</u>	<u>6,610,680</u>
Net change in fund balances	4,938	61,588	(197,990)	685,241	44,209	597,986
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	403,140	(1,466,231)	697,419	(294,389)	(41,561)	(701,622)
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 408,078</u>	<u>\$(1,404,643)</u>	<u>\$ 499,429</u>	<u>\$ 390,852</u>	<u>\$ 2,648</u>	<u>\$ (103,636)</u>

The reconciliation of the net change in fund balances of governmental funds to the change in net assets of governmental activities in the Statement of Activities 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, 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	<u>40,385,721</u>	<u>1,512,184</u>	<u>37,155</u>	<u>2,444,911</u>	<u>(1,489,539)</u>	<u>42,890,432</u>
EXPENDITURES:						
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	<u>39,498,314</u>	<u>6,320,102</u>	<u>2,732,708</u>	<u>3,149,808</u>	<u>(1,544,269)</u>	<u>50,156,663</u>
Excess (deficiency) of revenues over expenditures	<u>887,407</u>	<u>(4,807,918)</u>	<u>(2,695,553)</u>	<u>(704,897)</u>	<u>54,730</u>	<u>(7,266,231)</u>
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	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 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)	<u>(882,147)</u>	<u>5,459,354</u>	<u>1,272,125</u>	<u>(1,420,341)</u>	<u>(11,569)</u>	<u>4,417,422</u>
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	<u>\$ 403,140</u>	<u>\$(1,466,231)</u>	<u>\$ 697,419</u>	<u>\$ (294,389)</u>	<u>\$ (41,561)</u>	<u>\$ (701,622)</u>

The reconciliation of the net change in fund balances of governmental funds to the change in net assets of governmental activities in the Statement of Activities 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, 2003
(in thousands)

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

Net change in fund balances—total governmental funds		\$ 597,986
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	\$ 3,567,561	
Depreciation expense	<u>(2,090,831)</u>	1,476,730
The net effect of various miscellaneous transactions involving capital assets and other (<i>i.e.</i> , sales, trade-ins, and donations) is to decrease net assets		(849,930)
The issuance of long-term debt (<i>e.g.</i> , 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	(6,548,774)	
Principal payments of bonds	1,992,045	
Other	<u>(169,589)</u>	(4,726,318)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds		(741,711)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		<u>(482,971)</u>
Change in net assets—governmental activities		<u>\$ (3,026,354)</u>

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)
<p>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.</p>		
Purchases of fixed assets	\$ 4,561,073	
Depreciation expense	<u>(1,554,469)</u>	3,407,229
The net effect of various miscellaneous transactions involving capital assets and other (<i>i.e.</i> , sales, trade-ins, and donations) is to decrease net assets		(1,349,069)
<p>The issuance of long-term debt (<i>e.g.</i>, 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.</p>		
Proceeds from sales of bonds	(3,815,823)	
Principal payments of bonds	1,810,277	
Other	<u>(30,616)</u>	(2,036,162)
Some expenses reported in the statement of activities do not require the use of current financial resources 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		<u>(322,572)</u>
Change in net assets—governmental activities		<u>\$ (3,852,483)</u>

See accompanying notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2003

(in thousands)

	Budget		Actual	Better (Worse) Than Modified Budget
	Adopted	Modified		
REVENUES:				
Real estate taxes	\$ 9,108,826	\$10,061,490	\$10,062,930	\$ 1,440
Sales and use taxes	4,208,700	4,297,900	4,321,464	23,564
Personal income tax	4,898,135	4,475,887	4,492,947	17,060
Income taxes, other	3,073,300	2,631,300	3,137,916	506,616
Other taxes	1,594,535	1,870,635	1,325,222	(545,413)
Federal, State and other categorical aid	13,322,982	15,149,663	14,816,057	(333,606)
Unrestricted Federal and State aid	790,231	1,674,839	1,442,813	(232,026)
Charges for services	1,588,649	1,435,894	1,481,382	45,488
Tobacco settlement	154,353	149,948	149,948	—
Investment income	67,480	36,010	43,256	7,246
Other revenues	<u>1,553,342</u>	<u>1,562,547</u>	<u>1,367,265</u>	<u>(195,282)</u>
Total revenues	<u>40,360,533</u>	<u>43,346,113</u>	<u>42,641,200</u>	<u>(704,913)</u>
EXPENDITURES:				
General government	1,171,887	1,286,622	1,238,442	48,180
Public safety and judicial	5,898,209	6,298,096	6,203,911	94,185
Education	12,354,215	12,756,723	12,672,864	83,859
City University	464,834	478,273	443,654	34,619
Social services	9,053,594	9,498,673	9,321,286	177,387
Environmental protection	1,658,204	1,687,326	1,638,442	48,884
Transportation services	762,691	1,039,505	1,016,155	23,350
Parks, recreation and cultural activities	298,303	297,264	293,182	4,082
Housing	420,275	456,079	437,382	18,697
Health (including payments to HHC)	2,186,804	2,308,587	2,241,495	67,092
Libraries	251,457	337,977	337,639	338
Pensions	1,700,524	1,629,756	1,630,581	(825)
Judgments and claims	418,868	612,706	626,916	(14,210)
Fringe benefits and other benefit payments	2,217,148	2,604,167	2,606,860	(2,693)
Other	<u>887,273</u>	<u>1,162,439</u>	<u>1,107,572</u>	<u>54,867</u>
Total expenditures	<u>39,744,286</u>	<u>42,454,193</u>	<u>41,816,381</u>	<u>637,812</u>
Excess of revenues over expenditures	<u>616,247</u>	<u>891,920</u>	<u>824,819</u>	<u>(67,101)</u>
OTHER FINANCING SOURCES (USES):				
Transfers from Component Units	30,900	22,200	19,920	(2,280)
Transfers to Component Units	(19,609)	(13,367)	(13,328)	39
Transfers from Nonmajor Debt Service Funds	—	12,700	13,210	510
Transfers to Nonmajor Debt Service Funds	(409,682)	(400,897)	(400,898)	(1)
Transfers from Nonmajor Capital Projects Funds	1,625,000	1,599,000	1,670,837	71,837
Transfers and other payments for debt service	<u>(1,842,856)</u>	<u>(2,111,556)</u>	<u>(2,109,622)</u>	<u>1,934</u>
Total other financing uses	<u>(616,247)</u>	<u>(891,920)</u>	<u>(819,881)</u>	<u>72,039</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ —</u>	<u>\$ —</u>	4,938	<u>\$ 4,938</u>
FUND BALANCES AT BEGINNING OF YEAR			403,140	
FUND BALANCES AT END OF YEAR			<u>\$ 408,078</u>	

See accompanying notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2002

(in thousands)

	<u>Adopted</u>	<u>Modified</u>	<u>Actual</u>	Better (Worse) Than Modified Budget
REVENUES:				
Real estate taxes	\$ 8,590,371	\$ 8,753,021	\$ 8,760,872	\$ 7,851
Sales and use taxes	4,267,900	3,960,300	3,957,386	(2,914)
Personal income tax	5,074,441	4,669,139	4,555,059	(114,080)
Income taxes, other	2,979,300	2,824,800	3,192,084	367,284
Other taxes	1,751,474	1,639,774	1,230,829	(408,945)
Federal, State and other categorical aid	12,760,412	15,286,643	14,645,970	(640,673)
Unrestricted Federal and State aid	706,419	694,776	665,820	(28,956)
Charges for services	1,388,898	1,386,371	1,458,393	72,022
Tobacco settlement	220,259	211,159	211,159	—
Investment income	154,540	80,170	80,559	389
Other revenues	1,453,977	1,858,142	1,627,590	(230,552)
Total revenues	<u>39,347,991</u>	<u>41,364,295</u>	<u>40,385,721</u>	<u>(978,574)</u>
EXPENDITURES:				
General government	1,221,977	1,964,034	1,809,624	154,410
Public safety and judicial	5,885,091	6,557,898	6,462,311	95,587
Education	11,521,485	11,862,492	11,715,015	147,477
City University	444,978	456,903	417,838	39,065
Social services	8,927,220	9,275,281	9,097,726	177,555
Environmental protection	1,637,330	1,649,043	1,602,525	46,518
Transportation services	605,262	689,841	676,728	13,113
Parks, recreation and cultural activities	315,341	307,959	305,063	2,896
Housing	453,916	464,155	440,284	23,871
Health (including payments to HHC)	2,033,080	2,207,726	2,131,506	76,220
Libraries	131,433	124,030	123,808	222
Pensions	1,363,845	1,397,525	1,391,896	5,629
Judgments and claims	309,527	389,527	521,834	(132,307)
Fringe benefits and other benefit payments	2,288,857	2,427,737	2,426,143	1,594
Other	1,026,560	567,416	376,013	191,403
Total expenditures	<u>38,165,902</u>	<u>40,341,567</u>	<u>39,498,314</u>	<u>843,253</u>
Excess of revenues over expenditures	<u>1,182,089</u>	<u>1,022,728</u>	<u>887,407</u>	<u>(135,321)</u>
OTHER FINANCING SOURCES (USES):				
Transfers from Component Units	33,000	24,700	21,707	(2,993)
Transfers from Nonmajor Capital Projects Funds	—	365,927	457,832	91,905
Transfers and other payments for debt service	(1,215,089)	(1,413,355)	(1,361,686)	51,669
Total other financing uses	<u>(1,182,089)</u>	<u>(1,022,728)</u>	<u>(882,147)</u>	<u>140,581</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)				
	<u>\$ —</u>	<u>\$ —</u>	5,260	<u>\$ 5,260</u>
FUND BALANCES AT BEGINNING OF YEAR			397,880	
FUND BALANCES AT END OF YEAR			<u>\$ 403,140</u>	

See accompanying notes to financial statements.

THE CITY OF NEW YORK
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2003
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Fund</u>
ASSETS:		
Cash and cash equivalents	\$ 77,630	\$ 214,539
Receivables:		
Member loans	1,664,971	—
Investment securities sold	3,288,422	—
Accrued interest and dividends	388,111	—
Investments:		
Other short-term investments	3,860,844	—
Debt securities	22,541,818	1,103,325
Equity securities	45,235,692	—
Mortgages	150	—
Guaranteed investment contracts	1,730,254	—
Management investment contracts	195,852	—
Mutual funds	13,883,631	—
Collateral from securities lending transactions	12,202,294	—
Due from other funds	1,163	—
Other	51,794	10
Total assets	<u>105,122,626</u>	<u>1,317,874</u>
LIABILITIES:		
Accounts payable and accrued liabilities	404,502	437,844
Payable for investment securities purchased	7,018,063	—
Accrued benefits payable	351,889	—
Due to other funds	1,163	—
Securities lending transactions	12,282,294	—
Other	30,780	880,030
Total liabilities	<u>20,088,691</u>	<u>1,317,874</u>
NET ASSETS:		
Held in Trust for Benefit Payments	<u>\$ 85,033,935</u>	<u>\$ —</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2002
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Fund</u>
ASSETS:		
Cash and cash equivalents	\$ 177,566	\$ 35,144
Receivables:		
Member loans	1,729,085	—
Investment securities sold	1,941,087	—
Accrued interest and dividends	436,056	—
Investments:		
Other short-term investments	3,124,469	—
Debt securities	25,701,760	1,144,965
Equity securities	44,963,169	—
Mortgages	3,053	—
Guaranteed investment contracts	1,519,138	—
Management investment contracts	173,510	—
Mutual funds	15,203,553	—
Collateral from securities lending transactions	9,783,635	—
Due from other funds	1,143	—
Other	79,058	4
Total assets	<u>104,836,282</u>	<u>1,180,113</u>
LIABILITIES:		
Accounts payable and accrued liabilities	987,608	351,288
Payable for investment securities purchased	5,798,292	—
Accrued benefits payable	259,585	—
Due to other funds	1,143	—
Securities lending transactions	9,783,635	—
Other	35,226	828,825
Total liabilities	<u>16,865,489</u>	<u>1,180,113</u>
NET ASSETS:		
Held in Trust for Benefit Payments	<u>\$ 87,970,793</u>	<u>\$ —</u>

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, 2003
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>
ADDITIONS:	
Contributions:	
Member contributions	\$ 1,109,616
Employer contributions	1,760,734
Other employer contributions	21,263
Total contributions	<u>2,891,613</u>
Investment income:	
Interest income	1,587,924
Dividend income	799,154
Net depreciation in fair value of investments	(198,672)
Less investment expenses	104,751
Investment income, net	<u>2,083,655</u>
Securities lending transactions:	
Securities lending income	137,876
Securities lending fees	(191,831)
Net securities lending loss	<u>(53,955)</u>
Payments from other funds	2,228
Other	45,392
Total additions	<u>4,968,933</u>
DEDUCTIONS:	
Benefit payments and withdrawals	7,802,728
Payments to other funds	2,232
Other	7,888
Administrative expenses	92,943
Total deductions	<u>7,905,791</u>
Decrease in plan net assets	(2,936,858)
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	87,970,793
End of Year	<u>\$ 85,033,935</u>

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)

	<u>Pension and Other Employee Benefit Trust Funds</u>
ADDITIONS:	
Contributions:	
Member contributions	\$ 1,062,526
Employer contributions	1,508,934
Other employer contributions	22,020
Total contributions	<u>2,593,480</u>
Investment income:	
Interest income	1,975,969
Dividend income	772,792
Net depreciation in fair value of investments	(11,501,162)
Less investment expenses	110,148
Investment loss, net	<u>(8,862,549)</u>
Securities lending transactions:	
Securities lending income	280,406
Securities lending fees	(227,551)
Net securities lending income	<u>52,855</u>
Payments from other funds	2,099
Other	28,222
Total additions	<u>(6,185,893)</u>
DEDUCTIONS:	
Benefit payments and withdrawals	6,788,727
Payments to other funds	2,099
Other	41,884
Administrative expenses	77,849
Total deductions	<u>6,910,559</u>
Decrease in plan net assets	(13,096,452)
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	<u>101,067,245</u>
End of Year	<u>\$ 87,970,793</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2003
(in thousands)

	<u>Health and Hospitals Corporation</u>	<u>Off-Track Betting Corporation</u>	<u>Housing Development Corporation October 31, 2002</u>	<u>Housing Authority December 31, 2002</u>	<u>Economic Development Corporation</u>	<u>Water and Sewer System</u>	<u>Nonmajor Component Units</u>	<u>Total</u>
ASSETS:								
Cash and cash equivalents	\$ 279,776	\$ 21,621	\$ 1,674	\$ 861,910	\$ 37,993	\$ 8,568	\$ 63,736	\$ 1,275,278
Investments, including accrued interest	76,816	—	233,676	279,742	235	—	1,739	592,208
Other receivables	610,320	2,289	214,085	155,180	80,979	474,443	7,511	1,544,807
Mortgage loans and interest receivable, net	—	—	3,139,460	1,061	42,715	—	—	3,183,236
Inventories	28,713	—	—	18,697	—	—	—	47,410
Due from Primary Government	—	—	—	—	—	13,213	—	13,213
Restricted cash and investments	361,791	3,586	875,552	8,961	123,386	2,272,548	144,998	3,790,822
Capital assets:								
Construction work-in-progress	276,474	—	—	—	—	4,339,080	—	4,615,554
Property, plant and equipment	4,409,297	54,495	6,860	9,173,800	6,637	15,792,229	501,817	29,945,135
Accumulated depreciation	(2,947,981)	(38,379)	(1,859)	(4,451,524)	(2,525)	(5,131,666)	(25,640)	(12,599,574)
Other	30,778	584	65,602	58,917	24,033	122,168	7,224	309,306
Total assets	<u>3,125,984</u>	<u>44,196</u>	<u>4,535,050</u>	<u>6,106,744</u>	<u>313,453</u>	<u>17,890,583</u>	<u>701,385</u>	<u>32,717,395</u>
LIABILITIES:								
Accounts payable and accrued liabilities	856,776	13,980	191,567	641,912	63,826	22,560	19,909	1,810,530
Accrued interest payable	13,580	—	34,142	1,547	—	24,915	—	74,184
Deferred revenues	—	—	50,145	13,119	1,159	69,155	34,492	168,070
Due to Primary Government	—	304	372,293	—	—	231,391	—	603,988
Other	—	4,982	—	28,373	21,503	—	1,446	56,304
Noncurrent Liabilities:								
Due within one year	32,885	1,730	64,562	42,477	—	1,057,318	7	1,198,979
Due in more than one year	1,048,453	7,379	3,109,319	246,335	107,461	11,894,966	527,026	16,940,939
Total liabilities	<u>1,951,694</u>	<u>28,375</u>	<u>3,822,028</u>	<u>973,763</u>	<u>193,949</u>	<u>13,300,305</u>	<u>582,880</u>	<u>20,852,994</u>
NET ASSETS:								
Invested in capital assets, net of related debt	974,820	13,477	5,001	4,596,198	3,875	4,107,253	37,019	9,737,643
Restricted for:								
Capital projects	—	—	—	—	46,861	—	—	46,861
Debt service	—	—	331,340	—	—	203,695	45,147	580,182
Loans/Security Deposits	—	—	—	—	66,017	—	1,583	67,600
Donor restrictions	13,352	—	—	—	—	—	—	13,352
Operations	—	—	—	—	—	132,107	—	132,107
Unrestricted	186,118	2,344	376,681	536,783	2,751	147,223	34,756	1,286,656
Total net assets	<u>\$ 1,174,290</u>	<u>\$ 15,821</u>	<u>\$ 713,022</u>	<u>\$ 5,132,981</u>	<u>\$ 119,504</u>	<u>\$ 4,590,278</u>	<u>\$ 118,505</u>	<u>\$ 11,864,401</u>

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	\$ 227,858	\$ 20,076	\$ 1,342	\$ 857,868	\$ 14,117	\$ 5,274	\$ 42,302	\$ 1,168,837
Investments, including accrued interest	75,438	—	186,131	385,950	235	—	1,801	649,555
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	<u>2,932,137</u>	<u>42,920</u>	<u>3,902,181</u>	<u>5,994,299</u>	<u>392,922</u>	<u>16,557,735</u>	<u>417,748</u>	<u>30,239,942</u>
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
Other	2,250	5,282	—	53,517	17,592	—	1,387	80,028
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
Total liabilities	<u>1,636,634</u>	<u>27,770</u>	<u>3,234,569</u>	<u>1,028,582</u>	<u>195,493</u>	<u>11,945,576</u>	<u>305,415</u>	<u>18,374,039</u>
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
Loans/Security Deposits	—	—	—	—	80,745	—	3,028	83,773
Donor restrictions	13,413	—	—	—	—	—	—	13,413
Operations	—	—	—	—	—	118,848	—	118,848
Unrestricted (deficit)	360,869	(170)	347,111	608,248	49,833	76,257	34,255	1,476,403
Total net assets	<u>\$ 1,295,503</u>	<u>\$ 15,150</u>	<u>\$ 667,612</u>	<u>\$ 4,965,717</u>	<u>\$ 197,429</u>	<u>\$ 4,612,159</u>	<u>\$ 112,333</u>	<u>\$ 11,865,903</u>

B-45

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2002	Housing Authority December 31, 2002	Economic Development Corporation	Water and Sewer System	Nonmajor Component Units	Total
Expenses	\$4,519,855	\$245,282	\$135,056	\$2,520,723	\$541,163	\$1,903,086	\$ 33,448	\$ 9,898,613
Program Revenues:								
Charges for Services	3,552,738	241,447	154,721	627,107	163,319	1,711,920	27,996	6,479,248
Operating Grants and Contributions ...	389,739	—	—	1,488,047	17,796	—	—	1,895,582
Capital Grants, Contributions and other ..	210,439	—	—	524,274	275,726	7,233	10,611	1,028,283
Total program revenues	<u>4,152,916</u>	<u>241,447</u>	<u>154,721</u>	<u>2,639,428</u>	<u>456,841</u>	<u>1,719,153</u>	<u>38,607</u>	<u>9,403,113</u>
Net program revenues (expenses)	<u>(366,939)</u>	<u>(3,835)</u>	<u>19,665</u>	<u>118,705</u>	<u>(84,322)</u>	<u>(183,933)</u>	<u>5,159</u>	<u>(495,500)</u>
General Revenues:								
Investment income	11,044	315	25,745	33,432	1,937	96,236	645	169,354
Unrestricted Federal and State aid	—	—	—	—	2,139	—	—	2,139
Other	234,682	4,191	—	15,127	2,321	65,816	368	322,505
General revenues	<u>245,726</u>	<u>4,506</u>	<u>25,745</u>	<u>48,559</u>	<u>6,397</u>	<u>162,052</u>	<u>1,013</u>	<u>493,998</u>
Change in net assets	(121,213)	671	45,410	167,264	(77,925)	(21,881)	6,172	(1,502)
Net Assets—Beginning	<u>1,295,503</u>	<u>15,150</u>	<u>667,612</u>	<u>4,965,717</u>	<u>197,429</u>	<u>4,612,159</u>	<u>112,333</u>	<u>11,865,903</u>
Net Assets—Ending	<u>\$1,174,290</u>	<u>\$ 15,821</u>	<u>\$713,022</u>	<u>\$5,132,981</u>	<u>\$119,504</u>	<u>\$4,590,278</u>	<u>\$118,505</u>	<u>\$11,864,401</u>

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)

	<u>Health and Hospitals Corporation</u>	<u>Off-Track Betting Corporation</u>	<u>Housing Development Corporation October 31, 2001</u>	<u>Housing Authority December 31, 2001</u>	<u>Economic Development Corporation</u>	<u>Water and Sewer System</u>	<u>Nonmajor Component Units</u>	<u>Total</u>
Expenses	\$ 4,253,606	\$ 251,092	\$ 153,258	\$ 2,396,481	\$ 552,029	\$ 1,841,725	\$ 28,608	\$ 9,476,799
Program Revenues:								
Charges for Services	3,357,154	246,695	167,426	608,036	191,023	1,618,573	27,968	6,216,875
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	<u>3,874,726</u>	<u>246,695</u>	<u>167,426</u>	<u>2,424,212</u>	<u>527,886</u>	<u>1,630,876</u>	<u>43,761</u>	<u>8,915,582</u>
Net program revenues (expenses)	<u>(378,880)</u>	<u>(4,397)</u>	<u>14,168</u>	<u>27,731</u>	<u>(24,143)</u>	<u>(210,849)</u>	<u>15,153</u>	<u>(561,217)</u>
General Revenues:								
Investment income (loss)	14,621	525	44,579	60,229	(810)	97,543	945	217,632
Unrestricted Federal and State aid	—	—	—	—	1,898	—	—	1,898
Other	245,395	3,796	—	41,066	3,092	53,582	1,480	348,411
General revenues	<u>260,016</u>	<u>4,321</u>	<u>44,579</u>	<u>101,295</u>	<u>4,180</u>	<u>151,125</u>	<u>2,425</u>	<u>567,941</u>
Change in net assets	(118,864)	(76)	58,747	129,026	(19,963)	(59,724)	17,578	6,724
Net Assets—Beginning	<u>1,414,367</u>	<u>15,226</u>	<u>608,865</u>	<u>4,836,691</u>	<u>217,392</u>	<u>4,671,883</u>	<u>94,755</u>	<u>11,859,179</u>
Net Assets—Ending	<u>\$ 1,295,503</u>	<u>\$ 15,150</u>	<u>\$ 667,612</u>	<u>\$ 4,965,717</u>	<u>\$ 197,429</u>	<u>\$ 4,612,159</u>	<u>\$ 112,333</u>	<u>\$ 11,865,903</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003 and 2002

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 Department 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) for purposes of providing financing assistance including funding for certain oversight of the City's financial activities. Pursuant to the Act, MAC is empowered to issue and sell bonds and notes for the purpose of paying or loaning the proceeds of such sales to the City and to exchange its obligations for those of the City. MAC is no longer authorized to issue bonds for new funding purposes. MAC continues to be authorized to issue obligations to renew or refund outstanding obligations without limitation as to amount.

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 sales 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 sales taxes and per capita aid are returned to the City by the State after MAC debt service requirements are met and subject to a

TFA claim on sales taxes—see **New York City Transitional Finance Authority (TFA)**. 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, a corporate governmental agency constituting a public benefit corporation and instrumentality of the State of New York was created in 1997 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 debt service coverage levels. Net collections of personal income taxes not required by TFA are paid to the City by TFA.

New York City Samurai Funding Corporation (SFC). SFC was created in 1992 and is a special purpose governmental not-for-profit entity, created to issue Yen-denominated bonds. The City is not liable for any obligations of SFC under the bonds, nor is any bond to be considered a debt of the City. 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.

SFC has paid its outstanding obligations during fiscal year 2003 and has no remaining assets or liabilities at June 30, 2003. SFC has no continuing operating activities and it is expected that it will be dissolved in fiscal year 2004 in accordance with the provisions of the New York Not-For-Profit Corporation Law.

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 proceeds of TSASC's initial bond issuance and the net proceeds from future bond issues. 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. See Note D.5. for information about an event that occurred in fiscal year 2003 that affects the ability of TSASC to issue debt and make distributions to the City.

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.

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, all of whom are appointed by the Mayor which includes the Schools Chancellor of the City who serves as the chairman.

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

As SCA represents a pass-through entity, in existence for the sole purpose of capital projects, all expenditures are capitalized. Upon completion of the capital projects, the assets are transferred to 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, and a closely affiliated not-for-profit corporation, HHC Foundation.

HHC mainly provides, on behalf of the City, comprehensive medical and mental health services to City residents regardless of ability to pay. Funds appropriated from the City are payments, either directly or indirectly, for services rendered by HHC. The City pays for patient care rendered to prisoners, uniformed City employees, and various discretely funded facility-specific programs. In addition, the City has paid HHC's costs for settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts, as well as other HHC costs including interest on City debt which funded HHC capital acquisitions, interest on New York State Housing Finance Agency debt on HHC assets acquired through lease purchase agreements prior to April 1, 1993, and interest on Dormitory Authority of the State of New York debt on assets acquired through lease purchase agreements after 2001. From 1993 through 2001, HHC reimbursed the City for these debt service payments. Since 2002, HHC no longer reimburses the City for debt service but instead, reimburses the City for malpractice settlements it pays on behalf of HHC, up to an agreed upon amount to be negotiated each year. 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 multiple, exotic, and super 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, a corporate governmental agency constituting a public benefit corporation and instrumentality of the State of New York 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 discretely presented component units, 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. The bonds and notes of the HDC are not debts of either the State or the City. HDC has a fiscal year ending October 31.

HDC operates in a manner similar to a private business that includes activities such as financing of real estate development, investment banking, commercial lending, and consulting. HDC is supported by various program fees, servicing fees on certain of its mortgage loans and for loans serviced for the City, investment income, and interest charged to mortgages and has been self-sustaining. Mortgage loan earnings represent HDC's major source of operating revenue. HDC maintains separate accounts for each program to control and manage money for particular purposes or to demonstrate that its properly using specific resources.

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. 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 and debt service payments; and (c) New York City in the form of operating assistance, reimbursement of certain expenses, 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. Capital project budgets are submitted at various times during the year. 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's financial statements include the accounts of EDC and its affiliates, Metropolitan Business Assistance, Ltd. and Apple Industrial Development Corporation. 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. The ability of BRAC to extract fees for residential conversion ended as of January 1, 1998 per the Zoning Resolution.

All conversion contributions received by BRAC are restricted for the use of administering industrial retention/relocation programs consistent with the Zoning Resolution. One such program, the Industrial Relocation Grant Program provides grants up to \$30,000 to eligible New York City 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 City's Mayor appoints the majority of the members of the Board of Directors.

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, and to refund any and all outstanding bonds and general obligation bonds of the City issued for water and sewer purposes. The Water Board was established to lease the water distribution and sewage collection system from the City and to establish and collect rates, fees, rents, and other charges for the use of, or for services furnished, rendered, or made available by the water distribution and sewage collection system to produce cash sufficient to pay debt service on the Water Authority's bonds and to place NYW 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 Pension Fund (POLICE)
- New York City Fire Pension Fund (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/457 Plan)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/401(k) Plan)

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

In fiscal year 2003, the City adopted three new statements and a Technical Bulletin of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 39 *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14
- Statement No. 40 *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3
- Statement No. 41 *Budgetary Comparison Schedules—Perspective Differences*, an amendment of GASB Statement No. 34
- Technical Bulletin No. 2003-1 *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*

Statement No. 39 provides 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.

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.

There was no change to the reporting entity of the City as a result of the implementation of Statement No. 39.

Statement No. 40 establishes and modifies disclosure requirements related to deposit and investment risks to include custodial credit risk and foreign currency risk for deposits and credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk for investments. The custodial credit risk disclosure requirements of Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* have been updated with the concurrent elimination of certain deposit and investment risks disclosures. Under Statement No. 40, the City is required to disclose information (if applicable) covering four principal areas:

- Investment credit risk disclosures, including credit quality information issued by rating agencies;
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or specification identification of the securities;
- Interest rate sensitivity for investments that are highly sensitive to changes in interest rates (examples: enhanced variable-rate investments and certain asset-backed securities); and
- Foreign exchange exposures that would indicate the foreign investment's denomination.

Statement No. 41 clarifies existing guidance on budgetary comparisons in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* by requiring that budgetary comparisons be presented for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The City has already elected to report this budgetary comparison information in its Statements of Revenues, Expenditures, and Changes in Fund Balances (Statements) for the General Fund as part of the basic financial statements, rather than as RSI. A separate column has been added to the Statements for the General Fund to report the variance between the modified budget and actual amounts shown.

Technical Bulletin No. 2003-1 prescribes certain disclosures for derivative transactions that are not reported at fair value on the statement of net assets. The Technical Bulletin provides disclosure requirements for the City's objective for entering into a derivative and the derivative's terms, fair value, and risk exposures. Risk exposures, where applicable, would require disclosures for: credit risk, interest rate risk, basis risk, termination risk, rollover risk, and market-access risk. These disclosure requirements are designed to enhance the understanding of financial statement users of the significance of derivatives to the City's net assets and will assist them in assessing the amounts, timing, and uncertainty of future cash flows.

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 sales and income taxes, property taxes, grants, entitlements, and donations which are recorded on the accrual basis of accounting. Revenues from sales and income taxes are recognized when the underlying exchange transaction takes place. Revenues from property tax are recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are 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 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 2003 and 2002 were approximately \$1.485 billion and \$.777 billion, 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 2003 and 2002 is included in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2003 and 2002 (estimated at \$214 million and \$210 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 \$753.5 million and \$752.3 million for fiscal years 2003 and 2002, 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. Derivatives

In June, 2003, GASB issued Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. This Technical Bulletin took immediate effect in fiscal year 2003 and requires disclosure of the objective for entering into the derivative and the derivative's terms, fair value, and risk exposures. The City's compliance with this Technical Bulletin is reflected in the disclosures of the following derivatives contracted during fiscal year 2003 which are reported at fair value on the government-wide statement of net assets.

Swap Transaction Summary

In an effort to lower its borrowing costs over the life of its bonds, the City began in fiscal year 2003 to enter into Interest Rate Exchange Agreements (swaps). In fiscal year 2003, the City entered into six synthetic fixed rate swaps with a total notional amount of \$615.0 million and one basis swap with a notional amount of \$671.2 million. As of June 30, 2003, the total marked to market value of the City's swaps was approximately (\$93.5) million which was reported on the government-wide statement of net assets. The table includes the significant terms and marked to market values for each of the City's individual swap transactions.

Transaction Number	1-4	5	6	7
Corresponding Bond Series	2003 C, D, & E	2003 G-4, G-5, G-6, and H-3	2003 G-2, G-3, and H-2	1993 B, 1994 H-7, 1995 B-11 and B-12, 2001 H-M, 2002 A-9, A-10 and A-11, 2003 F
Swap Type	Synthetic Fixed	Synthetic Fixed	Synthetic Fixed	Basis Swap
Notional Amount	\$400,000,000	\$135,050,000	\$80,000,000	\$671,245,000
Up-front Cash Payment to the City	N/A	N/A	N/A	\$20,000,000
Effective Date	11/13/02	1/22/03	1/22/03	3/14/03
Termination Date	8/1/20	8/1/26	8/1/14	3/15/29
Final Bond Maturity	8/1/20	8/1/26	8/1/14	3/15/29
Provider Cancel Option Date	N/A	4/15/07	4/15/07	N/A
Option Premium	N/A	\$7,467,000	\$2,345,000	N/A
City Pays	3.269%	3.259%	2.818%	BMA Index x 1.36
City Receives	Prior to and including 5/15/2010, the lesser of the weighted average of the remarketed rate on the City's Series 2003 C Term Bonds Maturing 2020 for the applicable period and 62.8% of USD-LIBOR-BBA; after 5/15/2010, 62.8% of USD-LIBOR-BBA.	60.8% of USD-LIBOR-BBA	61.8% of USD-LIBOR-BBA	USD-LIBOR-BBA
First Counterparty Payment Date	12/2/02	2/3/03	2/3/03	various dates, starting with 7/15/03
First City Payment Date	8/1/03	8/1/03	8/1/03	various dates, starting with 7/15/03
Marked to Market Value as of 6/30/03 ...	(\$32,235,000)	(\$16,241,443)	(\$6,238,000)	(\$38,760,218)

N/A Not applicable.

LIBOR London Interbank Offered Rate

BMA Bond Market Association Municipal Swap Index

Synthetic Fixed Rate Transactions

The City entered into its synthetic fixed rate swaps to take advantage of the low financing costs available through the swap market. To execute these transactions, the City issued variable rate bonds and entered into a swap in which it pays a fixed interest rate and receives approximately 62% of LIBOR. As demonstrated in the table below, the net interest costs incurred through these swaps was significantly below those of a hypothetical concurrent traditional fixed rate financing. In connection with swaps 5 and 6, the City also sold options to the counterparty for a total of approximately \$9.8 million, which gives the counterparty the right to cancel those swaps at par on April 15, 2007.

Net Effective Interest Rates Resulting From Synthetic Fixed Rate Swaps

	2003 C(1) Variable \$400M	2003 GH Auction \$135M	2003 GH Variable \$80M
Fixed payment to counterparty	3.269%	3.259%	2.818%
Variable payment from counterparty(2)	-0.833	-0.788	-0.801
Net swap payments	2.436	2.471	2.017
Variable rate bond payments	1.097	0.980	1.078
Net effective total interest costs	<u>3.533%</u>	<u>3.451%</u>	<u>3.095%</u>
Concurrent traditional fixed rate(3)	<u>5.200%</u>	<u>4.805%</u>	<u>4.805%</u>

- (1) Aggregation of four 2003C synthetic fixed rate SWAPs with identical terms.
- (2) Percentage of LIBOR: 2003C - 62.8%; 2003GH Auction - 60.8%; 2003GH Variable 61.8%.
- (3) Hypothetical fixed rate bond issue on the day the swap priced. Calculated using market rates from that day and same amortization schedule as the swap.

Basis Swap

The City entered into a basis swap in order to convert its taxable general obligation variable rate debt, which trades based on LIBOR, into variable rate debt based on the BMA index. This index conversion was achieved through a swap in which the City receives a variable rate based on LIBOR (equal to the interest payment on the underlying taxable bonds) and pays 1.36 times the BMA index. As a result, the underlying taxable debt trades as a function of the same BMA index as the City’s approximately \$3.0 billion of general obligation tax-exempt variable rate debt. The basis swap also serves as partial protection against the City’s increased debt service costs associated with rising interest rates. Because rising interest rates drive down the ratio of BMA to LIBOR, they result in a net increase in the City’s basis swap receipts. The City also received a \$20 million cash payment from the counterparty as a part of the basis swap.

Risks

Below is a list of risks inherent in the types of swap transactions that the City has entered into.

Credit Risk: The risk that a counterparty (or its guarantor) will not meet its obligations under the swap. In this event, the City would have to pay another entity to assume the position of the defaulting counterparty. The City has sought to limit its counterparty risk by contracting only with highly rated entities or requiring guarantees of the counterparty’s obligations under the swap documents.

Termination Risk: The risk that a counterparty will terminate a swap at a time when the City owes it a termination payment. The City has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of the following events: a payment default by the City; other City defaults which remain uncured for 30 days after notice; City bankruptcy; insolvency of the City (or similar events); or a downgrade of the City’s credit rating below investment grade (i.e., BBB-/Baa3).

Basis Risk: The risk that the City’s variable rate payments will not equal its variable rate receipts because they are based on different indexes. Under the terms of its synthetic fixed rate swap transactions, the City pays a variable rate on its bonds based on the BMA index but receives a variable rate on the swap based on a percentage of LIBOR. In its basis swap, the City’s variable payer rate is based on BMA and its variable receiver rate on a percentage of LIBOR.

Tax Risk: The risk that a change in Federal tax rates will alter the fundamental relationship between BMA and LIBOR. A reduction in Federal tax rates, for example, will likely increase the City’s payment on its underlying variable rate bonds in the synthetic fixed rate transactions and variable payer rate in the basis swap.

15. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2003 were due July 1, 2002 and January 1, 2003 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 2003 taxes was June 21, 2002. 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.

On November 25, 2002, new property tax rates were adopted. These rates included an 18.5% increase for the second half of fiscal year 2003. This was the first increase in the average property tax rate since fiscal year 1992. The increase brings the tax levy to \$10.7 billion, which generated \$10.1 billion in revenue in fiscal year 2003, an increase of \$1.3 billion in property taxes over fiscal year 2002.

The City offered a discount of 2% for the prepayment of real estate taxes for fiscal years 2004 and 2003. Collections of these real estate taxes received on or before June 30, 2003 and 2002 were \$2.052 billion and \$1.374 billion, respectively. These amounts were recorded as deferred revenue.

The City sold approximately \$25.6 million of real property tax liens, fully attributable to fiscal year 2003, at various dates in fiscal year 2003. 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 \$2.9 million worth of liens sold in fiscal year 2003 will require replacement. The estimated refund accrual amount of \$3 million, including the surcharge and interest, results in fiscal year 2003 sale proceeds of \$22.6 million.

In fiscal year 2003, \$20.1 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2002 sale. This resulted in a decrease to fiscal year 2003 revenue of \$11.1 million for the refund amount in excess of the fiscal year 2002 accrual of \$9 million and decreased the proceeds of the fiscal year 2002 sale to \$33.4 million down from the original fiscal year 2002 proceeds reported last year of \$44.5 million.

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 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.

In fiscal years 2003 and 2002, \$371 million and \$343 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, 2003 and 2002, excess amounts of \$166 million and \$509 million, respectively, were transferred to the Debt Service Funds.

16. 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.

17. 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.

18. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized as expenditures in the period incurred. Bond discounts in the government-wide financial statements units are deferred and amortized over the term of the bonds using a 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. Bond issuance costs are amortized in the government-wide financial statements over the term of the bonds using the straight-line method.

19. Intra-entity Activity

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as 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.

20. 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.

21. 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.

22. 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.

23. 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.

B. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A summary reconciliation of the difference between total fund balances (deficit) as reflected on the governmental funds balance sheet and total net assets (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 difference are related to the 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 \$2.964 billion and \$2.374 billion subsequent to its original adoption in fiscal years 2003 and 2002, 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 \$1.4 billion and \$1.5 billion at June 30, 2003 and 2002, 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, 2003 and 2002, the carrying amount of the City's unrestricted cash and cash equivalents was \$4.449 billion and \$1.172 billion, respectively, and the bank balances were \$3.364 billion and \$.893 billion, respectively. Of the unrestricted bank balances, \$1.192 billion and \$.642 billion were uninsured and uncollateralized at June 30, 2003 and 2002,

respectively. At June 30, 2003 and 2002, the carrying amount of the restricted cash and cash equivalents was \$.959 billion and \$1.170 billion, respectively, and the bank balances were \$1.703 million and \$.505 million, respectively. Of the bank balances, \$1.503 million and \$.305 million, respectively, were uninsured and uncollateralized.

The uninsured, collateralized and the uninsured, uncollateralized cash balances carried during the year represent primarily the compensating balances that are required to be maintained at banks in exchange 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 following is a summary of the fair value of investments of the City as of June 30, 2003 and 2002 all of which mature in less than one year:

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Governmental activities:		
<u>Investment Type</u>		
<u>Unrestricted</u>		
Commercial paper	\$ 82,723	\$3,357,053
U.S. Government securities	441,975	1,386,548
Repurchase agreements	<u>385,868</u>	<u>594,967</u>
Total unrestricted	<u>\$910,566</u>	<u>\$5,338,568</u>
<u>Restricted</u>		
Commercial paper	\$159,491	
U.S. Discount notes	<u>1,002</u>	
Total restricted	<u>\$160,493</u>	

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.

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. 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. The underlying fixed income securities have an average maturity of 10 years. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. During fiscal year 2003, the value of certain underlying securities became impaired because of the credit failure of the issuer. Accordingly, the carrying amounts of the collateral reported in four of the Systems' statements of fiduciary net assets have been reduced by a total of \$80 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities lending transactions.

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, 2002 and 2003:

Primary Government	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002 <small>(in thousands)</small>	Additions	Deletions	Balance June 30, 2003
Governmental activities:							
Capital assets, not being depreciated:							
Land	\$ 733,854	\$ 3,029	\$ —	\$ 736,883	\$ 2,028	\$ —	\$ 738,911
Construction work-in-progress	6,860,620	2,420,923	2,084,784	7,196,759	1,980,856	6,205,128	2,972,487
Total capital assets, not being depreciated	7,594,474	2,423,952	2,084,784	7,933,642	1,982,884	6,205,128	3,711,398
Capital assets, being depreciated:							
Buildings	17,684,939	2,633,299	466,077	19,852,161	6,205,128	51,409	26,005,880
Equipment	5,430,846	707,379	571,876	5,566,349	773,557	603,361	5,736,545
Infrastructure	8,823,634	881,227	207,566	9,497,295	811,120	281,498	10,026,917
Total capital assets, being depreciated	31,939,419	4,221,905	1,245,519	34,915,805	7,789,805	936,268	41,769,342
Less accumulated depreciation:							
Buildings	7,974,991	648,096	23,734	8,599,353	1,051,950	40,805	9,610,498
Equipment	3,831,676	425,973	213,735	4,043,914	528,948	1,381,921	3,190,941
Infrastructure	3,229,865	480,400	163,156	3,547,109	509,933	272,607	3,784,435
Total accumulated depreciation	15,036,532	1,554,469 ⁽¹⁾	400,625	16,190,376	2,090,831 ⁽¹⁾	1,695,333	16,585,874
Total capital assets, being depreciated, net	16,902,887	2,667,436	844,894	18,725,429	5,698,974	(759,065)	25,183,468
Governmental activities capital assets, net	\$24,497,361	\$5,091,388	\$2,929,678	\$26,659,071	\$7,681,858	\$5,446,063	\$28,894,866

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2003 and 2002 as follows:

	2003	2002
	<small>(in thousands)</small>	
Governmental activities:		
General government	\$ 371,904	\$ 267,908
Public safety and judicial	203,205	144,972
Education	615,105	297,499
City University	11,866	10,727
Social services	173,928	61,140
Environmental protection	396,201	186,915
Transportation services	188,573	385,748
Parks, recreation and cultural activities	101,224	175,844
Health	17,726	12,676
Libraries	11,099	11,040
Total depreciation expense—governmental activities	<u>\$2,090,831</u>	<u>\$1,554,469</u>

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2003 and 2002. Sources of funding for capital assets are not available prior to fiscal year 1987.

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	\$ 6,008,003	\$ 6,060,573
City bonds	36,204,693	33,605,805
Federal grants	387,414	374,687
State grants	165,371	137,272
Private grants	55,868	53,637
Capitalized leases	<u>2,659,391</u>	<u>2,617,473</u>
Total funding sources	<u>\$45,480,740</u>	<u>\$42,849,447</u>

At June 30, 2003 and 2002, 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 the governmental activities capital assets and are recorded in the respective component unit financial statements.

Included in land and buildings at June 30, 2003 and 2002 are leased properties capitalized at \$2.659 billion and \$2.617 billion, respectively, with related accumulated amortization of \$448 million and \$311 million, respectively.

Capital Commitments

At June 30, 2003, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately \$9.7 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 \$49.3 billion over fiscal years 2004 through 2013. To help meet its capital spending program, the City, TFA, and TSASC borrowed \$4.1 billion in the public credit market in fiscal year 2003. The City and TFA plan to borrow \$3.1 billion in the public credit market in fiscal year 2004.

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, 2003 and 2002 were approximately \$498 million and \$500 million, respectively.

As of June 30, 2003, 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:

	<u>Capital Leases</u>	<u>Operating Leases</u> (in thousands)	<u>Total</u>
Governmental activities:			
Fiscal year ending June 30:			
2004	\$ 168,940	\$ 302,465	\$ 471,405
2005	185,512	285,449	470,961
2006	193,772	276,628	470,400
2007	193,809	267,338	461,147
2008	190,845	248,199	439,044
2009-2013	762,480	899,080	1,661,560
2014-2018	653,994	591,476	1,245,470
2019-2023	586,988	194,970	781,958
2024-2028	338,209	5,581	343,790
2029-2033	238,174	1,801	239,975
2034-2038	95,844	1,500	97,344
2039-2043	19,170	—	19,170
Future minimum payments	<u>3,627,737</u>	<u>\$3,074,487</u>	<u>\$6,702,224</u>
Less interest	<u>1,416,578</u>		
Present value of future minimum payments	<u>\$2,211,159</u>		

The present value of future minimum lease payments includes approximately \$1.746 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, 2003 and 2002 was approximately \$109 million and \$115 million, respectively. As of June 30, 2003, the following future minimum rentals are provided for by the leases:

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
Governmental activities:			
Fiscal year ending June 30:			
2004	\$ 739,374	\$ 65,549,012	\$ 66,288,386
2005	773,118	58,700,283	59,473,401
2006	803,266	53,264,301	54,067,567
2007	835,585	47,402,525	48,238,110
2008	837,528	43,900,841	44,738,369
2009-2013	4,214,307	197,378,860	201,593,167
2014-2018	4,586,527	143,708,906	148,295,433
2019-2023	4,640,920	110,453,306	115,094,226
2024-2028	4,181,034	83,383,471	87,564,505
2029-2033	4,135,668	51,189,943	55,325,611
2034-2038	4,065,684	45,511,674	49,577,358
2039-2043	2,898,901	44,784,099	47,683,000
2044-2048	2,296,427	44,606,429	46,902,856
2049-2053	2,149,680	39,679,145	41,828,825
2054-2058	2,149,680	37,849,847	39,999,527
2059-2063	2,149,680	37,849,845	39,999,525
2064-2068	2,149,680	37,849,841	39,999,521
2069-2073	2,149,680	36,362,340	38,512,020
2074-2078	2,149,680	32,718,590	34,868,270
2079-2083	551,571	17,824,616	18,376,187
2084-2088	—	12,109,815	12,109,815
2089-2093	—	202	202
Future minimum lease rentals	<u>48,457,991</u>	<u>\$1,242,077,890</u>	<u>\$1,290,535,881</u>
Less interest	<u>33,385,687</u>		
Present value of future minimum lease rentals	<u>\$15,072,304</u>		

4. Short-Term Liabilities*Changes in Short-term liabilities*

In fiscal years 2002 and 2003, the changes in short-term liabilities were as follows:

Primary Government	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003
	(in thousands)						
Governmental activities:							
Notes payable:							
Revenue anticipation notes (1) ..	\$ —	\$1,500,000	\$1,500,000	\$ —	\$1,500,000	\$1,500,000	\$ —
Bond anticipation notes (2)	—	2,800,000	600,000	2,200,000	1,110,000	2,200,000	1,110,000
Total notes payable	\$ —	\$4,300,000	\$2,100,000	\$2,200,000	\$2,610,000	\$3,700,000	\$1,110,000

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

(2) Bond anticipation notes (BANs) are used by TFA to provide financing for the City's capital expenditures. In fiscal year 2002, the BANs were also used as 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 2002 and 2003, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003	Due Within One Year
	(in thousands)							
Governmental activities:								
Bonds payable:								
General obligation								
bonds	\$26,835,791	\$3,968,609	\$2,338,916	\$28,465,484	\$ 4,873,575	\$3,660,050	\$29,679,009	\$1,463,080
1991 general resolution								
bonds	3,217,035	106,610	444,005	2,879,640	—	728,320	2,151,320	—
Future tax secured								
bonds	7,386,010	1,020,190	117,535	8,288,665	5,799,825	2,064,230	12,024,260	184,925
Tobacco flexible								
amortization bonds	703,660	45,878	9,430	740,108	527,127	8,915	1,258,320	42,310
Japanese Yen bonds	80,000	—	40,000	40,000	—	40,000	—	—
Revenue bonds(1)(2)(3)	542,940	—	21,734	521,206	—	14,840	506,366	29,514
Total before treasury								
obligations and discounts	38,765,436	5,141,287	2,971,620	40,935,103	11,200,527	6,516,355	45,619,275	1,719,829
Less treasury obligations	168,373	—	52,102	116,271	—	52,275	63,996	12,480
Total before discounts	38,597,063	5,141,287	2,919,518	40,818,832	11,200,527	6,464,080	45,555,279	1,707,349
Less discounts (net)	167,307	321,172	141,318	347,161	12,670	229,763	130,068	—
Total bonds payable	38,429,756	4,820,115	2,778,200	40,471,671	11,187,857	6,234,317	45,425,211	1,707,349
Capital lease obligations	1,804,577	563,376	69,814	2,298,139	41,918	128,898	2,211,159	55,400
Real estate tax refunds	582,395	116,152	118,827	579,720	233,466	116,624	696,562	128,596
Other tax refunds	1,328,459	160,130	121,459	1,367,130	185,604	135,130	1,417,604	109,604
Judgments and claims	4,226,508	1,047,127	936,615	4,337,020	1,182,606	982,224	4,537,402	964,817
Vacation and sick leave	2,108,702	212,156	104,917	2,215,941	622,174	240,623	2,597,492	239,054
Pension liability	188,200	161,000	21,400	327,800	294,700	37,000	585,500	—
Landfill closure and post-								
closure care costs	1,396,916	—	114,247	1,282,669	33,588	52,488	1,263,769	41,896
Total changes in governmental								
activities long-term								
liabilities	\$50,065,513	\$7,080,056	\$4,265,479	\$52,880,090	\$13,781,913	\$7,927,304	\$58,734,699	\$3,246,716

(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 \$255,460 in 2002 and \$275,041 in 2003 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, 2003 and 2002 summarized by type of issue are as follows:

Primary Government	2003			2002		
	General Obligations	Revenue	Total	General Obligations	Revenue	Total
	(in thousands)					
Governmental activities:						
Bonds payable:						
General obligation bonds	\$29,615,013	\$ —	\$29,615,013	\$28,349,213	\$ —	\$28,349,213
1991 general resolution bonds	2,151,320	—	2,151,320	2,879,640	—	2,879,640
Future tax secured bonds	12,024,260	—	12,024,260	8,288,665	—	8,288,665
Tobacco flexible amortization bonds	1,258,320	—	1,258,320	740,108	—	740,108
Japanese yen bonds	—	—	—	40,000	—	40,000
Revenue bonds	—	506,366	506,366	—	521,206	521,206
Total bonds payable	<u>\$45,048,913</u>	<u>\$506,366</u>	<u>\$45,555,279</u>	<u>\$40,297,626</u>	<u>\$521,206</u>	<u>\$40,818,832</u>

The following table summarizes future debt service requirements as of June 30, 2003:

Primary Government	Governmental Activities			
	General Obligation Bonds		Revenue Bonds	
	Principal	Interest(1)	Principal	Interest
	(in thousands)			
Fiscal year ending June 30:				
2004	\$ 1,677,835	\$ 1,922,787	\$ 36,667	\$ 25,990
2005	2,294,156	1,903,717	32,396	26,252
2006	2,262,670	1,781,970	33,396	22,200
2007	2,322,960	1,665,892	32,472	20,596
2008	2,343,681	1,549,922	32,625	18,781
2009-2013	10,177,076	6,175,279	136,152	68,020
2014-2018	9,161,598	3,772,878	117,623	33,474
2019-2023	8,142,607	1,998,427	41,758	14,785
2024-2028	4,962,386	761,338	33,669	5,399
2029-2033	1,673,154	131,057	9,608	702
2034-2038	30,740	3,848	—	—
2039-2043	3	—	—	—
Thereafter until 2147	47	—	—	—
	<u>45,048,913</u>	<u>21,667,115</u>	<u>506,366</u>	<u>236,199</u>
Less interest component	—	<u>21,667,115</u>	—	<u>236,199</u>
Total future debt service requirements	<u>\$45,048,913</u>	<u>\$ —</u>	<u>\$506,366</u>	<u>\$ —</u>

(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.

The average (weighted) interest rates for outstanding City general obligation bonds as of June 30, 2003 and 2002 were 5.1% and 5.5%, respectively, and both ranged from 0% to 13.5%, and the interest rates on outstanding MAC bonds as of both June 30, 2003 and 2002 ranged from 9.0% to 13.5%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2003 and 2002, the City issued \$2.714 billion and \$1.008 billion, respectively, of general obligation bonds to advance refund general obligation bonds of \$2.599 billion and \$1.003 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of \$4.4 million and \$3.8 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 2003, the refunding transactions will decrease the City's aggregate debt service payments by \$127.5 million and provide an economic gain of \$142.6 million. In fiscal year 2002, the refunding transactions decreased the City's aggregate debt service payments by \$200 thousand and provided an economic gain of \$52.3 million. At June 30, 2003 and 2002, \$8.475 billion and \$5.875 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, 2003, the 10% general limitation was approximately \$39.991 billion (compared with \$35.993 billion as of July 1, 2002). 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, 2003, the combined City, TFA, and TSASC remaining debt incurring power totaled \$8.976 billion, after providing for capital commitments.

On June 16, 2003, a "Downgrade Trapping Event" as defined in the Indenture, dated as of November 1, 1999, between TSASC and the Bank of New York as Trustee (the Indenture), which requires the funding of an additional reserve for the benefit of TSASC bondholders from amounts that would otherwise be paid to the City. The Indenture requires that tobacco settlement revenues (TSRs) and other revenue received after the occurrence of a Downgrade Trapping Event in an amount equal to the lesser of (a) 25% of the principal amount of outstanding bonds or (b) that portion of the installment equal to the ratio of the principal amount of bonds issued to \$2.76 billion be deposited in the trapping account established under the Indenture. Accordingly, (assuming no additional bonds are issued under the Indenture) 46.46% of TSRs and other revenues will be deposited in the trapping account until an amount equal to the trapping requirement is retained. The trapping requirement is 25% of outstanding TSASC bonds, or approximately \$314 million as of June 30, 2003. Based on the projection of TSRs made in August, 2002 in connection with the issuance of TSASC's Series 2002-1 bonds, it is anticipated that the trapping requirement will be fulfilled in April, 2008 or earlier, if funded from sources other than TSRs. On September 15, 2003, TSASC announced that it does not intend to issue any additional bonds to the public under the Indenture and that it is reviewing restructuring alternatives for its outstanding bonds. TSASC and the City are considering various alternatives to eliminate or meet the trapping requirement, some of which would not involve a refunding of TSASC's bonds.

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 2003, discretionary and other transfers of \$407 million were made from the General Fund to the General Debt Service Fund for fiscal year 2004 debt service. In addition, in fiscal year 2003, discretionary transfers of \$73 million were made to component units of the Debt Service Funds. In fiscal year 2002, discretionary and other transfers of \$667 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.

Swap payments and associated debt

The table that follows represents debt services payments on certain general obligation variable-rate bonds, net of swap payments (see Note A.14) associated with those bonds, as of June 30, 2003. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2003 remains constant over the life of the bonds.

Primary Government	Governmental Activities			Total
	General Obligation Bonds		Interest Rate Swaps, Net	
	Principal	Interest		
(in thousands)				
Fiscal year ending June 30:				
2004	\$ 10,450	\$ 138	\$ 35	\$ 10,623
2005	8,175	137	26	8,338
2006	8,370	141	28	8,539
2007	8,660	146	29	8,835
2008	9,005	155	30	9,190
2009-2013	188,120	2,492	2,226	192,838
2014-2018	401,035	5,010	7,105	413,150
2019-2023	567,030	6,299	6,472	579,801
2024-2028	69,700	728	914	71,342
2029	15,750	173	52	15,975
Total	<u>\$1,286,295</u>	<u>\$15,419</u>	<u>\$16,917</u>	<u>\$1,318,631</u>

Judgments and Claims

The City is a defendant in lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings.

As of June 30, 2003 and 2002, claims in excess of \$542 billion and \$533 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be \$4.5 billion and \$4.3 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.

Two thousand seventy-six personal injury notices of claims totaling approximately \$12 billion related to the September 11 attack on the World Trade Center are pending against the City. Thirty actions representing 1,653 of these claimants have been commenced against the City, and have been removed to Federal court pursuant to the Air Transportation and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (2001) (the Act), which grants exclusive Federal jurisdiction for all claims related to or resulting from the September 11 attack. Twenty-eight of these actions consist of claims filed by City firefighters, police officers, sanitation workers, and construction workers alleging that adequate respiratory protection was not provided during the rescue and recovery operations. Two of the cases allege wrongful death. On June 20, 2003, the Southern District of New York ordered that actions alleging injuries resulting from exposure to World Trade Center debris on or before September 29, 2001 would remain in Federal court, while those alleging injuries based on exposure after that date would be remanded to state court. It is unclear what effect the decision will have on cases arising from the September 11 attack and on the application of the Act's limitation on the City's liability for actions arising from the September 11 attack. The City has appealed this decision. Additionally, one action has been commenced in Federal court on behalf of eight sanitation workers who allegedly sustained respiratory injuries while working on barges transporting debris removed from the World Trade Center site. This case, however, seeks recovery not under the Act, but under a separate Federal statute, and is therefore not subject to the decision from the Southern District.

The City is evaluating several defenses to the personal injury claims, and has entered into stipulations with most of the respirator claimants staying the litigation against the City until at least November, 2003 to enable the claimants to decide whether to seek

compensation from the Victim Compensation Fund. Due to the nature of the alleged respiratory injuries, which may worsen or improve over time, and the uncertainty regarding the number of claimants who will ultimately seek compensation from the Victim Compensation Fund, potential liability of the City is not possible to estimate.

A property damage claim relating to the September 11 attack relating to 7 World Trade Center (7 WTC) alleges damages totaling approximately \$1.1 billion, and is brought by the insurer of the building owner, which has paid about \$860 million for property damage, and Con Edison and its insurers, which claim \$314 million for the loss of the electrical substation over which 7 WTC was built. The claim alleges that a diesel fuel tank, which stored fuel for emergency back-up power to the City's Office of Emergency Management facility on the 23rd floor, contributed to the building's collapse. The City has entered into agreements with the 7 WTC claimants staying that litigation until December 10, 2003, thereby permitting the claimants to pursue claims against other possible defendants before furthering claims against the City.

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 \$2 billion. In May, 1999, the Appellate Division, First Department, affirmed the Supreme Court's earlier denial of the defendants' motion for summary judgment. The discovery previously directed by the Appellate Division has now been completed and defendants have moved for summary judgment. If the plaintiff were to prevail in this action, it could result in substantial costs to the City.

On August 13, 2003, Local Government Assistance Corporation (LGAC), its Chairperson, the State Division of the Budget and its Director sued the City and the State Tax Asset Receivable Corporation (STARC) a local development corporation and an instrumentality of the City seeking to prevent the issuance of bonds by STARC, the local development corporation expected to finance the cost of debt service on MAC debt otherwise payable from City sales tax revenues. STARC debt is expected to be paid from the annual payment of \$170 million from LGAC which the City would assign to STARC. The State Supreme Court granted the City's and STARC's motion for summary judgment. Plaintiffs appealed that decision to the State Appellate Division which had previously issued a preliminary injunction preventing STARC from issuing its bonds pending appeal. The appeal is expected to be heard in November.

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 \$697 million and \$580 million at June 30, 2003 and 2002, respectively, as reported in the government-wide financial statements.

Pension Liability

As of June 30, 2003 and 2002, 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, 2003 which equates to the total estimated current cost is \$1.067.9 billion 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 2003, expenditures for landfill closure and postclosure care costs totaled \$52.5 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 March 27, 2003, 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:

	<u>Amount</u> <u>(in thousands)</u>
Landfill	\$1,067,928*
Hazardous waste sites	<u>195,841</u>
Total landfill and hazardous waste sites liability	<u>\$1,263,769</u>

* 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, 2003 and 2002, primary government and discretely presented component unit receivable and payable balances were as follows:

Governmental Activities:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>2003</u>	<u>2002</u>
(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	<u>8,375</u>	<u>15,805</u>
		<u>2,828,956</u>	<u>2,836,386</u>
NYC Capital Projects Fund	General Fund	<u>1,571,928(1)</u>	<u>1,763,555(1)</u>
General Debt Service Fund:	General Fund	110,000	—
	NYC Capital Projects Fund	<u>38,355</u>	<u>32,391</u>
		<u>148,355</u>	<u>32,391</u>
Total due from/to other funds		<u>4,549,239</u>	<u>4,632,332</u>

Component Units:

Due from/to primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>		
Primary government—General Fund:	Component units: HDC	372,293	238,488
	OTB	304	320
	Water Board	—	9,246
		<u>372,597</u>	<u>248,054</u>
Primary government—NYC Capital Projects Fund	Component unit—Water Authority	<u>231,391</u>	<u>253,456</u>
Primary government—Private Housing Loan Programs	Primary government—HDC	—	11,621
Total due from component units		<u>603,988</u>	<u>513,131</u>
Component unit—Water Board	Primary government—General Fund	<u>13,213</u>	<u>243</u>
Total due to component units		<u>13,213</u>	<u>243</u>
Total due from/to primary government and component units		<u>617,201</u>	<u>513,374</u>
Total primary government and component units receivable and payable balances		<u>\$5,166,440</u>	<u>\$5,145,706</u>

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

Note: During both fiscal years 2003 and 2002, the New York City Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

E. Other Information

1. Audit Responsibility

In fiscal years 2003 and 2002, respectively, 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, 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 Plans (Internal Revenue Code Section 401(k) was made available in fiscal year 2003) for Employees of The City of New York and Related Agencies and Instrumentalities. Fiscal year 2003 no longer includes TSASC, Inc. which is now audited by Deloitte & Touche LLP.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2003 and 2002:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Pension and Other Employee Benefit Trust Funds	
	2003	2002	2003	2002	2003	2002	2003	2002
Total assets	7	6	81	80	86	99	4	4
Revenues / additions (deductions) and other financing sources	10	2	73	74	95	99	1	3

2. Subsequent Events

Long-term Financing

Subsequent to June 30, 2003, the City and TFA completed the following long-term financing:

City Debt:

On July 14, 2003, the City sold its Series A and B bonds of \$999.6 million for refunding purposes. On September 25, 2003, the City sold its Series C bonds of \$250 million for the financing of capital project expenditures. On October 15, 2003, the City sold its Series D bonds of \$500 million for the financing of capital project expenditures. On October 2, 2003, the City converted variable rate bonds to auction rate bonds in the amount of \$439.9 million which reduced interest rate costs. On October 16, 2003, the City sold \$1.250 billion of Series A revenue anticipation notes and \$250 million of Series A tax anticipation notes in order to ensure positive cash flow balances.

TFA Debt:

On September 4, 2003, TFA issued its Series 2004 A bonds of \$145 million to finance capital expenditures incurred by the City.

3. Other Employee Benefit Trust Funds

Deferred Compensation Plans For Employees of The City of New York and Related Agencies and Instrumentalities (DCP)

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(k). DCP is available to certain employees of The City of New York and related agencies and instrumentalities. DCP permits employees 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 or hardship (as defined by the Internal Revenue Code).

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

Participants in DCP can choose among seven investment options, or one of four pre-arranged portfolios consisting of varying percentages of those investment options.

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 95.1% 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. Amounts related to OPEB expenditures are recognized when paid. 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 \$54 per month.

The amounts expended for health care benefits for fiscal years 2003 and 2002 are as follows:

	2003		2002	
	Active	Retired	Active	Retired
Number of employees	342,986	194,311	347,237	187,145
Cost of health care (in thousands)*	\$1,858,959	\$792,393	\$1,696,511	\$693,373

* 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 2003 and 2002 are as follows:

	2003		2002	
	Active	Retired	Active	Retired
Number of claims	20,717	6,608	18,700	6,361
Cost of Superimposed Major Medical (in thousands)*	\$ 2,327	\$ 849	\$ 2,302	\$ 768

* 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 Department of Education and Charter Schools and certain employees of the School Construction Authority.
4. New York City Police Pension Fund, a single-employer public employee retirement system, for full-time uniformed employees of the Police Department. Note: In conjunction with the establishment of an administrative staff separate from the New York City Police Department in accordance with Chapter 292 of the Laws of 2001, the New York City Police Department, Subchapter Two Pension Fund is generally being referred to herein as the New York City Police Pension Fund (POLICE) as set forth in the Administrative Code of The City of New York Section 13-214.1.
5. New York City Fire Pension Fund, a single-employer public employee retirement system, for full-time uniformed employees of the Fire Department. Note: The New York City Fire Department, Subchapter Two Pension Fund is generally being referred to herein as the New York City Fire Pension Fund (FIRE) as set forth in the Administrative Code of The City of New York Section 13-313.1.

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, 2002 and 2001, the membership of the actuarial pension systems consisted of:

	2002					
	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
Retirees and beneficiaries receiving benefits	123,477	54,562	10,275	37,263	16,715	242,292
Terminated vested members not yet receiving benefits . .	3,815	3,981	157	408	14	8,375
Active members	177,511	95,678	25,253	36,536	11,271	346,249
Total plan membership	<u>304,803</u>	<u>154,221</u>	<u>35,685</u>	<u>74,207</u>	<u>28,000</u>	<u>596,916</u>

	2001					
	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
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	<u>301,137</u>	<u>150,959</u>	<u>34,661</u>	<u>74,399</u>	<u>27,503</u>	<u>588,659</u>

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 State statutes and City laws 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. Certain members of NYCERS and BERS also make additional member contributions.

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, 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, 2002, 2001, and 2000.

Annual Pension Costs

The annual pension costs and the City's actual pension contributions (statutorily-required contributions) for fiscal year 2003 were determined as part of the June 30, 2002 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, 2003, 2002, and 2001 were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
		(in millions)	
NYCERS	\$ 197.8	\$ 105.7	\$ 100.0
TRS	805.8	607.8	572.0
BERS	87.9	66.7	52.1
POLICE	813.1	631.9	543.8
FIRE	387.0	344.5	298.9
Total annual pension costs	<u>\$2,291.6</u>	<u>\$1,756.6</u>	<u>\$1,566.8</u>

For fiscal year 2003, the City's actual pension contributions for the five major actuarial pension systems, made on a statutorily-required basis based on the actuarial valuations performed as of June 30, 2002, plus other pension expenditures, were approximately \$1,750.6 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 statutorily-required 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), as later modified by Chapter 278 of the Laws of 2002 (Chapter 278/02), provides for a phase-in schedule for funding the additional liabilities created by the benefits provided by Chapter 125/00.

Specifically, in accordance with Chapter 125/00, the Actuary for the five major actuarial pension systems, in calculating the statutorily-required contributions in each of the following fiscal years, included the following percentage of the increase in actuarial liabilities attributable to the Chapter 125/00 COLA benefits:

<u>Phase-In Percent</u>	<u>Fiscal Year</u>
20%	2001
40	2002

Chapter 278/02 revised the phase-in schedule for fiscal years 2003 and later.

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

Chapter 278/02 provides that, for the June 30, 2000 actuarial valuation, the Actuary is to recognize, on a theoretical basis only, 10% of the additional liabilities created by the benefits provided by 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 employer contributions for fiscal years 2002 to 2009.

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.

Because the fiscal years 2002 and 2001 accounting periods are closed and Chapter 278/02 has a retroactive effect, the interest-adjusted difference between employer contributions actually paid for fiscal years 2002 and 2001 under Chapter 125/00 and the amounts that would have been payable under the ten-year phase-in schedule for such fiscal years is deducted from the otherwise required employer contributions for fiscal year 2003.

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 increased employer contributions in later years.

The City's actual pension contributions for the fiscal years ended June 30, 2003, 2002, and 2001 were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
		(in millions)	
NYCERS*	\$ 50.7	\$ 50.0	\$ 48.2
TRS*	629.6	500.8	437.9
BERS*	67.1	54.5	38.0
POLICE	625.4	534.5	413.2
FIRE	317.0	302.3	241.3
OTHER**	60.8	49.8	38.3
Total actual pension contributions	<u>\$1,750.6</u>	<u>\$1,491.9</u>	<u>\$1,216.9</u>

* NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems. The City's actual pension contributions as a percentage of the total statutorily-required contributions (calculated on a statutory basis reflecting the phase-in of liabilities required under Chapter 278/02 and Chapter 125/00) for all employers participating in NYCERS, TRS, and BERS for fiscal years ended June 30, 2003, 2002, and 2001 were:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
NYCERS	46.94%	47.30%	48.18%
TRS	98.44	98.21	98.42
BERS	95.53	96.44	96.81

In accordance with GASB27, the City's obligation for NYCERS, TRS, and BERS is fulfilled by paying its portion of the total statutorily-required 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. Note: The annual pension costs for these systems are the actuarially-required contributions.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for fiscal year 2003 are as follows:

	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
		(in millions)	
(1) Annual Required Contribution	\$821.4	\$389.5	\$1,210.9
(2) Interest on Net Pension Obligation	18.2	8.0	26.2
(3) Adjustment to Annual Required Contribution	26.5	10.5	37.0
(4) Annual Pension Cost=(1)+(2)-(3)	813.1	387.0	1,200.1
(5) Statutorily-required Contribution	<u>625.4</u>	<u>317.0</u>	<u>942.4</u>
(6) Increase in Net Pension Obligation=(4)-(5)	187.7	70.0	257.7
(7) Net Pension Obligation Beginning of Year	<u>228.0</u>	<u>99.8</u>	<u>327.8</u>
(8) Net Pension Obligation End of Year=(6)+(7)	<u>\$415.7</u>	<u>\$169.8</u>	<u>\$ 585.5</u>

The following is a 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	6/30/03	\$813.1	77%	\$415.7
	6/30/02	631.9	85	228.0
	6/30/01	543.8	76	130.6
FIRE	6/30/03	387.0	82	169.8
	6/30/02	344.5	88	99.8
	6/30/01	298.9	81	57.6

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, 2003 and 2002 are as follows:

	2003	2002
<i>Valuation Date</i>	<i>June 30, 2002.</i>	<i>June 30, 2001.</i>
<i>Actuarial Cost Method(1)</i>	<i>Frozen Initial Liability.</i>	<i>Frozen Initial Liability.</i>
<i>Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)</i>	<i>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.</i>	<i>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.</i>
<i>Remaining Amortization Period</i>	<i>8 years for FIRE(2) and 3 years for 1999 ERI, and 4 years for 2000 ERI.</i>	<i>9 years for FIRE(2), 4 years for 1999 ERI, and 5 years for 2000 ERI.</i>
<i>Actuarial Asset Valuation Method</i> ...	<i>Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.</i>	<i>Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.</i>
<i>Investment Rate of Return</i>	<i>8.0% per annum(4) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).</i>	<i>8.0% per annum(4) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).</i>
<i>Post-Retirement Mortality</i>	<i>Tables based on recent experience.</i>	<i>Tables based on recent experience.</i>
<i>Active Service Withdrawal, Death, Disability, Service Retirement</i>	<i>Tables based on recent experience.</i>	<i>Tables based on recent experience.</i>
<i>Salary Increases</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(4)</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(4)</i>
<i>Cost-of-Living Adjustments</i>	<i>1.3% per annum.(4)</i>	<i>1.3% per annum.(4)</i>

- (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 was reestablished by the Entry Age Actuarial Cost Method as of June 30, 1999 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.

Currently, Gabriel, Roeder, Smith & Company (GRS) is preparing a study for fiscal years 1998 through 2001. It is anticipated that the GRS study will be released by Fall, 2003.

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 the 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 the 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 the 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.

Chapter 69 of the Laws of 2002 establishes the UAAL as of June 30, 2003 for an Early Retirement Incentive Program to be amortized on a level basis over a period of 5 years beginning in fiscal year 2004.

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 Pension Fund administers 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 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 Pension Fund and who retired on or after October 1, 1968.

The New York City Fire Pension Fund administers 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 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 Pension Fund and who retired on or after October 1, 1968.

The New York City Employees' Retirement System administers 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. As a result of insufficient fund assets to pay benefits as of June 30, 2001, NYCERS has commenced the transfer of assets to pay benefits of the fund.
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 2003 and 2002, no excess earnings on equity investments are estimated to be transferable to the VSFs.

Required Supplementary Information (Unaudited)

The schedule of funding progress presents the following information for each of the past four consecutive fiscal years of each of the NYCERS: the actuarial valuation date, the actuarial asset value, the actuarial accrued liability, the unfunded actuarial accrued liability, the actuarial asset value as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial accrued liability to annual covered payroll. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of June 30, 2002, 2001, 2000, and 1999.

Required Supplementary Information (Unaudited)

		(1)	(2)	(3)	(4)	(5)	(6)
	Valuation Date	Actuarial Asset Value (AAV) (a)	Actuarial Accrued Liability (AAL)* (a) & (b)	Unfunded AAL (UAAL)(c) (2) - (1) (in millions)	Funded Ratio (1) ÷ (2)	Covered Payroll	UAAL as a Percentage of Covered Payroll (3) ÷ (5)
NYCERS	6/30/02	\$43,561.1	\$43,619.9	\$58.8	99.9%	\$8,901.1	0.7%
	6/30/01	43,015.4	43,087.6	72.2	99.8	8,515.3	0.8
	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	6/30/02	34,177.8	34,181.1	3.3	100.0	5,469.2	0.1
	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	6/30/02	1,835.8	1,835.8	0.0	100.0	736.7	0.0
	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	6/30/02	18,913.6	18,913.6	0.0	100.0	2,496.2	0.0
	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	6/30/02	6,612.3	6,738.7	126.4	98.1	789.7	16.0
	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 the 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. 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 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 has been largely 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 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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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 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.

Refunded bonds that are to be paid at maturity which are redeemable by their terms, if any, may be called for redemption at the option of the City if the escrow account is hereafter restructured to provide for their redemption. Any such restructuring must preserve (a) the sufficiency of the escrow account to pay the principal, interest to maturity or redemption, and any redemption premium on all the refunded bonds and (b) the exclusion from gross income for federal income tax purposes of interest on the Bonds and the refunded bonds.

<u>Series</u>	<u>Dated Date</u>	<u>Maturities</u>	<u>Payment Date</u>	<u>Amount</u>
1992D	February 1, 1992	February 1, 2006 (CAB)	February 1, 2006	\$ 5,450,000 ⁽¹⁾
1993B	October 29, 1992	October 1, 2005 (CAB)	October 1, 2005	7,500,000 ⁽²⁾
1993E	May 27, 1993	May 15, 2006 (CAB)	May 15, 2006	2,500,000 ⁽¹⁾
		May 15, 2008 (CAB)	May 15, 2008	7,035,000 ⁽¹⁾
1994H	April 12, 1994	August 1, 2008 (6.000%)	September 3, 2004	3,490,000 ⁽²⁾
		August 1, 2009	September 3, 2004	4,565,000 ⁽¹⁾
		August 1, 2010	September 3, 2004	5,110,000 ⁽²⁾
		August 1, 2011 (6.125%)	September 3, 2004	3,490,000 ⁽²⁾
1996A	August 14, 1995	August 1, 2006	August 1, 2005	2,160,000 ⁽¹⁾
1996B	August 14, 1995	August 15, 2006	August 15, 2005	4,550,000 ⁽¹⁾
1996F	January 9, 1996	February 1, 2015	February 1, 2006	6,770,000 ⁽¹⁾⁽³⁾
		February 1, 2019	February 1, 2006	755,000 ⁽¹⁾⁽³⁾
1996G	January 9, 1996	February 1, 2007	February 1, 2006	17,930,000 ⁽¹⁾
		February 1, 2010	February 1, 2006	11,215,000 ⁽¹⁾
		February 1, 2014	February 1, 2006	7,730,000 ⁽¹⁾⁽³⁾
		February 1, 2017	February 1, 2006	17,070,000 ⁽¹⁾⁽³⁾
1996I	March 14, 1996	March 15, 2009	March 15, 2006	4,115,000 ⁽²⁾
		March 15, 2013	March 15, 2006	560,000 ⁽¹⁾
		March 15, 2022	March 15, 2006	520,000 ⁽¹⁾⁽³⁾
1996J-1	February 15, 1996	February 15, 2008	February 15, 2006	65,000 ⁽¹⁾
		February 15, 2019	February 15, 2006	19,980,000 ⁽¹⁾⁽³⁾
1996K	April 1, 1996	April 1, 2008	April 1, 2006	2,940,000 ⁽²⁾
1997A	July 11, 1996	August 1, 2010	August 1, 2006	20,180,000 ⁽¹⁾
		August 1, 2011	August 1, 2006	19,650,000 ⁽²⁾
1997B	August 15, 1996	August 15, 2008	August 15, 2006	935,000 ⁽¹⁾
		August 15, 2026	August 15, 2006	95,000 ⁽¹⁾⁽³⁾
1997C	August 15, 1996	February 1, 2009	August 1, 2006	3,240,000 ⁽¹⁾
		February 1, 2011	August 1, 2006	10,000 ⁽¹⁾
		February 1, 2012	August 1, 2006	210,000 ⁽¹⁾
		February 1, 2016	August 1, 2006	3,470,000 ⁽¹⁾⁽³⁾
1997D	August 15, 1996	November 1, 2008	November 1, 2006	215,000 ⁽¹⁾
		November 1, 2011	November 1, 2006	11,200,000 ⁽¹⁾
		November 1, 2012	November 1, 2006	11,850,000 ⁽¹⁾
1997E	November 21, 1996	August 1, 2010	August 1, 2006	7,800,000 ⁽¹⁾
		August 1, 2016	August 1, 2006	11,920,000 ⁽¹⁾⁽³⁾

<u>Series</u>	<u>Dated Date</u>	<u>Maturities</u>	<u>Payment Date</u>	<u>Amount</u>
1997F	November 21, 1996	August 1, 2008	August 1, 2006	\$ 9,120,000 ⁽¹⁾
		August 1, 2009	August 1, 2006	7,535,000 ⁽¹⁾
		August 1, 2010	August 1, 2006	7,995,000 ⁽¹⁾
		August 1, 2012	August 1, 2006	11,555,000 ⁽¹⁾
		August 1, 2013	August 1, 2006	10,795,000 ⁽²⁾
		August 1, 2016	August 1, 2006	20,520,000 ⁽¹⁾⁽³⁾
		August 1, 2024	August 1, 2006	6,515,000 ⁽¹⁾⁽³⁾
1997G	January 7, 1997	October 15, 2014 (5.875%)	October 15, 2007	5,265,000 ⁽¹⁾
		October 15, 2014 (6.200%)	October 15, 2007	10,000,000 ⁽²⁾
		October 15, 2026	October 15, 2007	19,880,000 ⁽¹⁾⁽³⁾
1997H	January 28, 1997	August 1, 2025	August 1, 2007	1,000,000 ⁽¹⁾⁽³⁾
1997I	April 24, 1997	April 15, 2009	April 15, 2007	14,135,000 ⁽¹⁾
		April 15, 2010	April 15, 2007	25,000 ⁽¹⁾
		April 15, 2012	April 15, 2007	11,875,000 ⁽¹⁾
		April 15, 2027	April 15, 2007	14,300,000 ⁽¹⁾⁽³⁾
1997J	April 24, 1997	August 1, 2013	August 1, 2007	2,755,000 ⁽¹⁾
1997M	June 10, 1997	June 1, 2010	June 1, 2007	1,910,000 ⁽¹⁾
1998C	November 18, 1997	November 15, 2005	November 15, 2005	3,085,000 ⁽¹⁾
		November 15, 2020	November 15, 2007	31,005,000 ⁽²⁾⁽³⁾
1998I	June 11, 1998	May 15, 2008	May 15, 2008	1,275,000 ⁽¹⁾
1999C	August 20, 1998	August 15, 2007	August 15, 2007	4,620,000 ⁽¹⁾
1999I	April 21, 1999	April 15, 2006	April 15, 2006	5,920,000 ⁽²⁾
1999J	June 15, 1999	May 15, 2006	May 15, 2006	3,060,000 ⁽²⁾
		May 15, 2007	May 15, 2007	9,890,000 ⁽²⁾
		May 15, 2008	May 15, 2008	7,235,000 ⁽¹⁾
		May 15, 2010	May 15, 2009	3,835,000 ⁽¹⁾
2000A	June 1, 2000	May 15, 2006	May 15, 2006	3,465,000 ⁽¹⁾
		May 15, 2008 (5.500%)	May 15, 2008	5,580,000 ⁽¹⁾
		May 15, 2008 (6.000%)	May 15, 2008	3,395,000 ⁽¹⁾
		May 15, 2013	May 15, 2010	6,535,000 ⁽¹⁾
		May 15, 2014 (6.375%)	May 15, 2010	13,065,000 ⁽¹⁾
		May 15, 2015 (6.375%)	May 15, 2010	6,810,000 ⁽¹⁾
		May 15, 2016	May 15, 2010	19,415,000 ⁽¹⁾
		May 15, 2019 (6.000%)	May 15, 2010	6,860,000 ⁽¹⁾
		May 15, 2025	May 15, 2010	7,200,000 ⁽¹⁾
2001A	July 6, 2000	May 15, 2007	May 15, 2007	1,525,000 ⁽¹⁾
		May 15, 2008	May 15, 2008	3,940,000 ⁽²⁾
2002A	November 1, 2001	November 1, 2005 (5.000%)	November 1, 2005	3,770,000 ⁽¹⁾
2002B	December 20, 2001	December 1, 2005	December 1, 2005	3,680,000 ⁽¹⁾
2002C	March 21, 2002	March 15, 2006	March 15, 2006	3,390,000 ⁽¹⁾
2002D	June 3, 2002	June 1, 2006	June 1, 2006	2,795,000 ⁽¹⁾
2003F	January 22, 2003	January 15, 2006	January 15, 2006	2,960,000 ⁽¹⁾
2003I	March 6, 2003	March 1, 2006	March 1, 2006	11,040,000 ⁽²⁾
2003J	June 4, 2003	June 1, 2006	June 1, 2006	855,000 ⁽²⁾

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

(2) The amount shown is all of the bonds of this description, except those, if any, for which have been previously provided.

(3) The amount will be credited against the following redemption or maturity dates:

1996F 2015 Term Bond	
February 1	Amount
2013	\$6,770,000

1996G 2014 Term Bond	
February 1	Amount
2013	\$1,210,000
2014	6,520,000

1996I 2022 Term Bond	
March 15	Amount
2022	\$520,000

1997B 2026 Term Bond	
August 15	Amount
2017	\$95,000

1997E 2016 Term Bond	
August 1	Amount
2014	\$11,920,000

1997F 2024 Term Bond	
August 1	Amount
2017	\$3,045,000
2019	3,470,000

1997H 2025 Term Bond	
August 1	Amount
2020	\$1,000,000

1998C 2020 Taxable Term Bond	
November 15	Amount
2012	\$ 8,290,000
2013	10,665,000
2014	8,625,000
2019	3,425,000

1996F 2019 Term Bond	
February 1	Amount
2017	\$755,000

1996G 2017 Term Bond	
February 1	Amount
2016	\$17,070,000

1996J-1 2019 Term Bond	
February 15	Amount
2017	\$ 9,405,000
2018	10,015,000
2019	560,000

1997C 2016 Term Bond	
February 1	Amount
2014	\$3,470,000

1997F 2016 Term Bond	
August 1	Amount
2014	\$ 5,745,000
2015	12,170,000
2016	2,605,000

1997G 2026 Term Bond	
October 15	Amount
2020	\$10,685,000
2022	9,195,000

1997I 2027 Term Bond	
April 15	Amount
2018	\$1,920,000
2020	735,000
2022	5,470,000
2024	6,175,000

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BOND INSURER

The following information pertaining to Financial Security Assurance Inc. (“FSA”) has been supplied by FSA. 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 FSA 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 such provisions. See “APPENDIX E — SPECIMEN INSURANCE POLICY.”

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. (“Financial Security”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Bonds maturing in 2009 (27/8% and 5% coupons), 2011 (3¼% coupon), 2012 (3½% coupon and 5¼% coupon, 3.65% yield), 2013 (5¼% coupon), 2014 (5¼% coupon), 2018 (5¼% coupon) and 2020 (5¼% coupon) (the “Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty 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, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

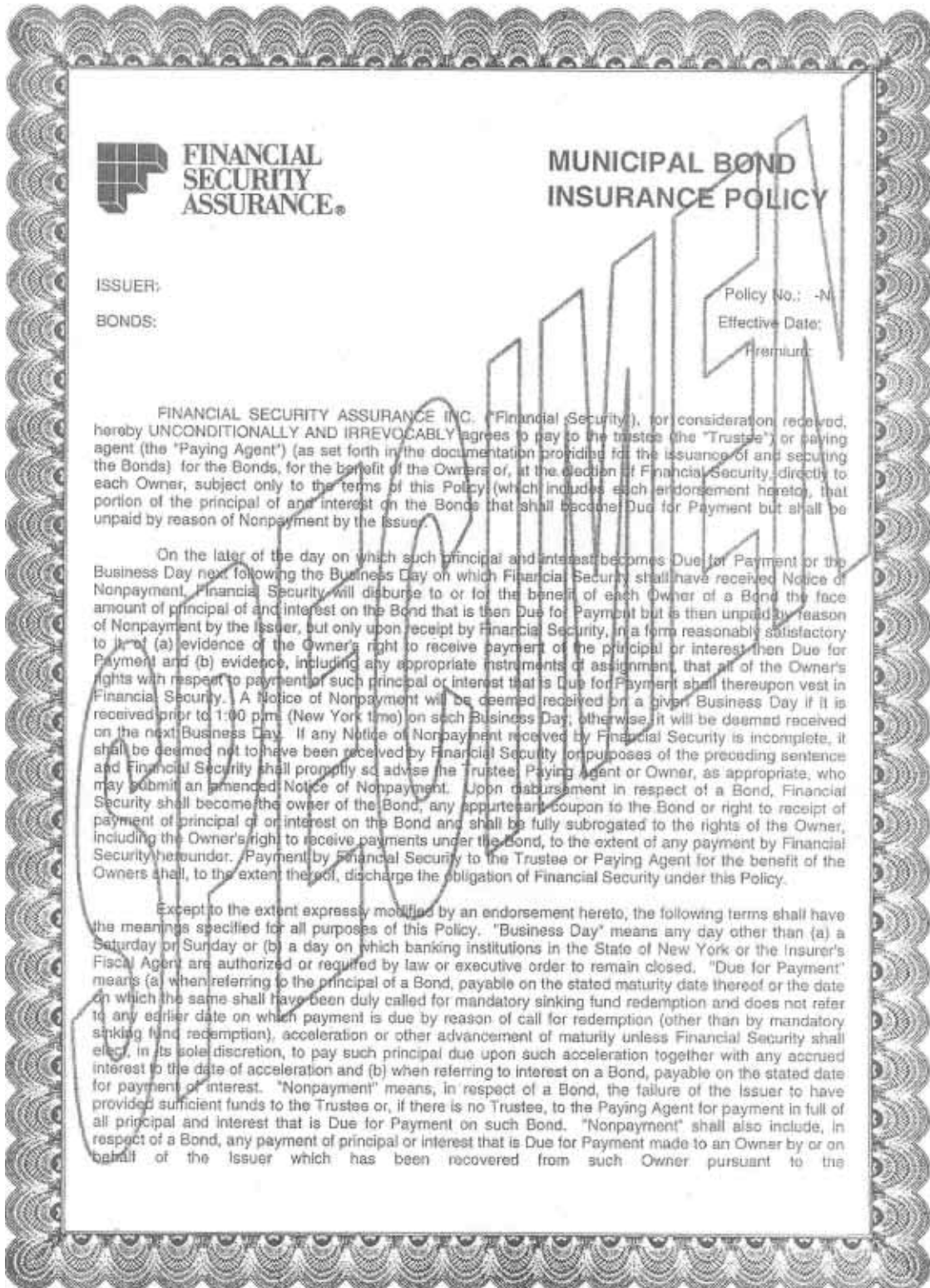
At March 31, 2004, Financial Security’s total policyholders’ surplus and contingency reserves were approximately \$2,156,705,000 and its total unearned premium reserve was approximately \$1,391,897,000 in accordance with statutory accounting practices. At March 31, 2004, Financial Security’s total shareholders’ equity was approximately \$2,430,264,000 and its total net unearned premium reserve was approximately \$1,190,846,000 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 Insured 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 Insured 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 Insured Bonds or the advisability of investing in the Insured 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 Issuer the information presented under this caption for inclusion in the Official Statement.

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SPECIMEN INSURANCE POLICY



**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N-

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 on 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 or of 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)

FINANCIAL SECURITY ASSURANCE INC.

By _____

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)

CPI BONDS

The CPI Bonds will bear interest at the MUNI-CPI Rate. The following is a summary of provisions expected to be included in the proceedings under which the CPI Bonds are to be issued, and is subject in all respects to the underlying documents, copies of which will be available for inspection during business hours at the office of the Fiscal Agent.

Definitions

“**Calculation Agent**” means, initially, Morgan Stanley & Co. Incorporated, or such other Calculation Agent as may be appointed pursuant to the Certificate.

“**Constant Rate**” means 0.80% for the CPI Bonds due in 2013 and 0.90% for the CPI Bonds due in 2014.

“**CPI Bonds**” means the City’s General Obligation Bonds, Fiscal 2005 Series B, in the amount of \$25,000,000 maturing in 2013 and \$25,000,000 maturing in 2014.

“**CPI-U**” means the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers, published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor. See “Description of CPI-U” below.

“**Current Reference CPI-U**” means the Reference CPI-U for the current Interest Payment Date.

“**Favorable Opinion of Bond Counsel**” means an opinion of nationally recognized bond counsel, to the effect that the action proposed to be taken is authorized or permitted by the Certificate and will not adversely affect the exclusion of interest on the Tax-Exempt Bonds from gross income for purposes of federal income taxation.

“**Floating Rate-CPI**” means the rate, calculated by the Calculation Agent on the Reset Date immediately prior to each Interest Payment Date equal to (A) the quotient of (1) the Current Reference CPI-U minus the Preceding Reference CPI-U, divided by (2) the Preceding Reference CPI-U, multiplied by (B) the quotient of (1) the actual number of days in the calendar year in which the current Interest Payment Date falls, divided by (2) the actual number of days in the current interest period. The resulting product will be truncated to six decimal places and rounded to five decimal places.

“**Initial CPI-U**” equals 188.99355.

“**Interest Payment Date**” means each February 1 and August 1, commencing February 1, 2005. For purposes of calculating interest accruals for any interest period, the Interest Payment Dates shall be deemed to be February 1 and August 1, without regard for whether any of such dates is a Business Day.

“**MUNI-CPI Rate**” means for each maturity of CPI Bonds the sum of the Floating Rate-CPI plus the Constant Rate for such maturity. If for any Interest Payment Date the sum of the Floating Rate-CPI plus the Constant Rate results in zero or a negative number, the MUNI-CPI Rate will be zero for that Interest Payment Date. In no event will the MUNI-CPI Rate exceed 18% per annum.

“**Preceding Reference CPI-U**” means the Reference CPI-U for the immediately preceding Interest Payment Date (or the Initial CPI-U for the first interest calculation).

“**Record Date**” means the fifteenth day of the calendar month preceding each Interest Payment Date.

“**Reference CPI-U**” means (i) the CPI-U for the immediately preceding November with respect to each February 1 Interest Payment Date and (ii) the CPI-U for the immediately preceding May with respect to each August 1 Interest Payment Date.

“**Reference Month**” means the third calendar month immediately preceding the relevant Interest Payment Date. The Reference Months will be May and November.

“**Reset Date**” means a date that is not earlier than the fifth Business Day following the release of the Reference CPI-U for each Interest Payment Date, but in no event later than the date which is seven days prior to such Interest Payment Date.

“**Treasury Inflation-Protection Securities**” means the inflation-indexed securities issued by the United States Treasury.

Interest Rate – General

The CPI Bonds bear interest at a floating MUNI-CPI Rate such that each interest payment thereon takes into account inflation and deflation from the Reference Month with respect to the immediately preceding Interest Payment Date. The MUNI-CPI Rate has two components, which are together paid to the bondowner semiannually: (i) a floating rate (the “Floating Rate-CPI”) which increases or decreases during each semiannual period to correspond to percentage changes in the CPI-U and (ii) the Constant Rate for each maturity. If for any Interest Payment Date the sum of the Floating Rate-CPI and the Constant Rate results in zero or a negative number the interest rate for such Interest Payment Date will be zero. In no event will the MUNI-CPI Rate exceed 18% per annum.

Calculating the MUNI-CPI Rate; Interest Payments

The MUNI-CPI Rate for each maturity of the CPI Bonds equals the Floating Rate-CPI plus the applicable Constant Rate. The Floating Rate-CPI equals the change in CPI-U multiplied by the quotient of (i) the actual number of days in the calendar year in which the Interest Payment Date falls divided by (ii) the actual number of days in the current interest period. The change in the CPI-U will equal the quotient of (a) the Current Reference CPI-U minus the Preceding Reference CPI-U, divided by (b) the Preceding Reference CPI-U. The Current Reference CPI-U for each semiannual Interest Payment Date will be the CPI-U for the immediately preceding November with respect to each February 1 Interest Payment Date and the CPI-U for the immediately preceding May with respect to each August 1 Interest Payment Date. The CPI-U for a particular month is generally released and published in the following month.

The MUNI-CPI Rate per annum on the CPI Bonds for any interest period will be determined as follows and will depend on the value of the Current Reference CPI-U and the Preceding Reference CPI-U as shown below:

$$\begin{aligned} \text{Floating Rate-CPI} &= \frac{\text{Current Reference CPI-U} - \text{Preceding Reference CPI-U}}{\text{Preceding Reference CPI-U}} \times \frac{\text{Actual Days in Current Year}^{(1)}}{\text{Actual Days in Current Interest Period}^{(2)}} \\ \text{MUNI-CPI Rate} &= \text{Floating Rate CPI-U determined for the applicable Interest Payment Date} + \text{Constant Rate} \\ \text{Current Reference CPI-U} &= \text{The Reference CPI-U for the current Interest Payment Date} \\ \text{Preceding Reference CPI-U} &= \text{The Reference CPI-U for the immediately preceding Interest Payment Date (or the Initial CPI-U for the initial interest calculation)} \end{aligned}$$

⁽¹⁾ The “Current Year” refers to the calendar year in which the current Interest Payment Date falls.

⁽²⁾ The current interest period will include the preceding Interest Payment Date and will exclude the day on which the current Interest Payment Date falls.

The Floating Rate-CPI will be truncated to six decimal places and rounded to five decimal places. If the number in the sixth decimal place is five or higher, the fifth decimal place will be rounded up.

Interest on the CPI Bonds will be payable in arrears on each Interest Payment Date to the owners thereof as of the applicable Record Date and will be computed on the basis of a 365- or 366-day year for the number of days actually elapsed. Interest will accrue at the MUNI-CPI Rate on the principal amount from and including the delivery date or the immediately preceding Interest Payment Date to, but not including, the next succeeding Interest Payment Date. The MUNI-CPI Rate is determined in arrears on each Reset Date and applied retroactively to all days in the relevant interest period. Interest payments on

any Interest Payment Date shall equal the principal amount of CPI Bonds multiplied by the MUNI-CPI Rate multiplied by the quotient obtained by dividing (1) the actual number of days in the relevant interest period by (2) the actual number of calendar days in the year in which the Interest Payment Date falls. The determination of any MUNI-CPI Rate by the Calculation Agent will be final, absent manifest error. The minimum MUNI-CPI Rate for any interest period will be zero and the maximum will be 18%.

At or prior to 12:00 Noon (New York City time) on each Reset Date, the Calculation Agent shall calculate the Floating Rate-CPI applicable to the next succeeding Interest Payment Date and shall supply to the Trustee, Morgan Stanley Capital Services Inc. and the City the Floating Rate-CPI so determined and the number of days in the period to which such Floating Rate-CPI applies in writing or by electronic communication promptly confirmed in writing. As noted, the calculation of the Floating Rate-CPI by the Calculation Agent shall be final and conclusive and binding on the owners of the CPI Bonds and the City, absent manifest error.

There will be no adjustment to the principal amount of the CPI Bonds at maturity or at any other time during the term of the CPI Bonds. The amount that owners of the CPI Bonds will receive at maturity is equal to the principal amount of CPI Bonds purchased by such owners.

Example. Assume the Constant Rate is 1.8%, the Reference CPI-U for the current Interest Payment Date is 162.07606 and the Initial CPI-U was 158.69204. Further assume the actual number of days in the current interest period is 183, and assuming the calculation year is not a leap year, the actual number of days in the year is 365. The Floating Rate-CPI and the amount of interest paid on \$1,000 of principal amount of CPI Bonds for such interest period would be as follows:

$$\begin{aligned} \text{Floating Rate-CPI} &= \frac{162.07606 - 158.69204}{158.69204} \times \frac{365}{183} \\ &= .0425324 \\ &= .042532 \text{ (truncated to six decimal places)} \\ \text{Floating Rate-CPI} &= .04253 \text{ (rounded to five decimal places)} \\ \text{MUNI-CPI Rate} &= .0180 + .04253 \\ &= .06053 \end{aligned}$$

Amount of interest paid for the calculation period on \$1,000 principal amount of CPI Bonds:

$$\begin{aligned} \text{Interest Paid} &= 6.053\% \times \frac{183}{365} \times \$1,000 \\ &= \$30.35 \end{aligned}$$

The numbers in the foregoing example were provided by the Calculation Agent and are given for illustration and information purposes only and are in no way a prediction of the CPI-U or interest rates on the CPI Bonds offered hereby. The Constant Rate in the example is not the Constant Rate applicable to either maturity of the CPI Bonds.

Description of CPI-U

The CPI-U is a measure of the average change in consumer prices over time in a fixed market basket of goods and services, including food, clothing, shelter, fuels, transportation, charges for doctors' and dentists' services, and drugs. In calculating the CPI-U, price changes for the various items are averaged together with weights that represent their importance in the spending of urban households in the United States. The contents of the market basket of goods and services and the weights assigned to the various items are updated periodically to take into account changes in consumer expenditure patterns.

The CPI-U is expressed in relative terms in relation to a time base reference period for which the level is set at 100. For example, if the CPI-U for the 1982-1984 reference period is 100.0, an increase of 16.5 percent from that period would be shown as 116.5. The CPI-U for a particular month is generally released and published in the following month. From time to time, the CPI-U is rebased to a more recent

base reference period. The base reference period for the CPI Bonds will be the 1982-1984 period with an average of 100.0. This is the same base reference period used by the U.S. Treasury for purposes of calculating the inflation adjustment for the Treasury Inflation-Protection Securities first auctioned on January 29, 1997 (CUSIP #9128272M3).

If a previously reported CPI-U is revised, the CPI Bonds will continue to use the previously reported CPI-U in calculating interest payments. If CPI-U is rebased to a different year, the CPI Bonds will continue to use the CPI-U based on the base reference year in effect on the date the CPI Bonds were issued.

If, while a Treasury Inflation-Protection Security is outstanding, the applicable CPI-U is (1) discontinued, (2) in the judgment of the Secretary of the U.S. Treasury, fundamentally altered in a manner materially adverse to the interests of an investor in Treasury Inflation-Protection Securities, or (3) in the judgment of the Secretary of the U.S. Treasury, altered by legislation or executive order in a manner materially adverse to the interests of an investor in Treasury Inflation-Protection Securities (each, a “Material Alteration”), the U.S. Treasury has announced that, after consulting with the Bureau of Labor Statistics, or any successor agency, the U.S. Treasury will substitute an appropriate alternative index and will notify the public of the substitute index and how it will be applied (the “Substitute Index and Methodology”). Determinations of the Secretary of the U.S. Treasury in this regard will be final. If the U.S. Treasury announces a Substitute Index and Methodology for determining the CPI-U while a Treasury Inflation-Protection Security is outstanding, the MUNI-CPI Rate will be calculated based on such Substitute Index and Methodology. Determinations of the Calculation Agent of the MUNI-CPI Rate utilizing the Substitute Index and Methodology will be final.

For any date in respect of which the Reference CPI-U is determined (a “Reference Date”), if (i) while a Treasury Inflation-Protection Security that requires a determination of the CPI-U for such Reference Date (the “Reference TIP”) is outstanding, a Material Alteration has occurred, and the U.S. Treasury has not notified the public of a Substitute Index and Methodology or (ii) while a Reference TIP is not outstanding, and in the judgment of the Calculation Agent the CPI-U is (A) discontinued, (B) fundamentally altered in a manner materially adverse to the interests of an investor in the CPI Bonds, or (C) altered by legislation or executive order in a manner materially adverse to the interests of an investor in the CPI Bonds, then the Calculation Agent will substitute an appropriate alternative index and will determine how it will be applied, which, in the judgment of the Calculation Agent, will result in interest payments on the CPI Bonds which are substantially the same as those which would have been calculated utilizing the methodology for determining CPI-U applicable on the date the CPI Bonds were issued. Determinations of the Calculation Agent in this regard will be final.

If the CPI-U for a particular month is not reported by the last day of the following month, the U.S. Treasury has indicated that it will announce an index number based on the last twelve-month change in the CPI-U available (the “Substitute Index Number”). Any calculations of the City’s payment obligations on the CPI Bonds that rely on that month’s CPI-U will be based on the Substitute Index Number. The formula for calculating the Substitute Index Number to be used is:

$$\text{Reference CPI-U}_M = \text{CPI-U}_{M-1} \times \left[\frac{\text{CPI-U}_{M-1}}{\text{CPI-U}_{M-13}} \right]^{1/12}$$

This Substitute Index Number will be used for all subsequent calculations that rely on that month’s index number and will not be replaced by the actual CPI-U when it is reported. Generalizing for the last reported CPI-U issued N months prior to month M:

$$\text{Reference CPI-U}_M = \text{CPI-U}_{M-N} \times \left[\frac{\text{CPI-U}_{M-N}}{\text{CPI-U}_{M-N-12}} \right]^{N/12}$$

M = current month

In the event that the Secretary of the U.S. Treasury has not announced a Substitute Index Number pursuant to the immediately preceding paragraph, then the Calculation Agent will determine the Substitute Index Number based on the formula set forth above.

Supplemental Certificates

For any one or more of the following purposes and at any time or from time to time, the City may enter into a supplement to the Certificate:

- (a) to cure any ambiguity, supply any omission, or correct any defect or inconsistent provision relating to the CPI Bonds;
- (b) to identify particular CPI Bonds for purposes not inconsistent with the Certificate; or
- (c) to insert such provisions with respect to the CPI Bonds as are necessary or desirable and are not to the prejudice of the Bondholders.

Each supplement is conditioned upon delivery to the City of a Favorable Opinion of Bond Counsel.

Bondowner's Considerations

An investment in securities with interest determined by reference to an inflation index involves factors independent of the creditworthiness of the City or otherwise not associated with an investment in securities with interest determined by reference to a fixed rate, floating rate or other index-linked rate. Such factors may include, without limitation, the volatility of the CPI-U, the amount of other securities linked to the CPI-U, the level, direction and volatility of the market interest rates generally, the possibility that the inflation index may be subject to significant changes, that changes in the inflation index may or may not correlate to changes in interest rates generally or with changes in other indices and that the resulting interest may be greater or less than that payable on other securities of similar maturities. **In addition, in the event of a deflation or a reduction in the rate of increase in the inflation index, the amount of the semiannual interest payments will decrease or may be zero.**

The value of the inflation index may depend on a number of factors, including economic, financial and political events over which the City has no control. The historical experience of the inflation index should not be taken as an indication of its performance during the term of the CPI Bonds. While the CPI-U measures changes for prices in goods and services, movements in the CPI-U that have occurred in the past are not necessarily indicative of changes that may occur in the future. The calculation of the index ratio incorporates an approximate three-month lag, which may have an impact on the trading price of the CPI Bonds, particularly during periods of significant, rapid changes in the index.

The MUNI-CPI Rate of interest on the CPI Bonds is determined in arrears on the basis of the CPI-U released three months prior to the applicable Interest Payment Date. The three-month lag period in the calculation of interest on the CPI Bonds may have an impact on the trading prices of the CPI Bonds, particularly during periods of significant, rapid changes in the CPI-U. There can be no assurance that any calculation of accrued interest prior to the release of the Reference CPI-U will accurately reflect the rate payable on the next succeeding Interest Payment Date.

Tax-exempt municipal securities bearing interest at a MUNI-CPI Rate are relatively new investment instruments. There can be no assurance that a secondary market for the CPI Bonds will develop or, if a secondary market does develop, that it will continue or that it will provide owners of the CPI Bonds with liquidity of investment. In addition, as a new product, the CPI Bonds may not be widely traded or as well understood as fixed rate, floating rate or other index-linked securities. Lesser liquidity and fewer market participants may result in larger spreads between bid and asked prices for the CPI Bonds than the bid-asked spreads for fixed rate, floating rate or other index-linked securities of the same maturity. Larger bid-asked spreads normally result in higher transaction costs and lower overall returns. The liquidity of the CPI Bonds may be enhanced over time if other issuers of tax-exempt bonds issue similar securities, or more entities participate in the market for inflation-protection securities, generally.

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SIDLEY AUSTIN BROWN & WOOD LLP

BEIJING
BRUSSELS
CHICAGO
DALLAS
GENEVA
HONG KONG
LONDON

787 SEVENTH AVENUE
NEW YORK, NEW YORK 10019
TELEPHONE 212 839 5300
FACSIMILE 212 839 5599
www.sidley.com
FOUNDED 1866

LOS ANGELES
NEW YORK
SAN FRANCISCO
SHANGHAI
SINGAPORE
TOKYO
WASHINGTON, D.C.

July 29, 2004

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 2005 Series A (the “Series A Bonds”) and Series B (the “Series B Bonds” and, with the Series A Bonds, 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 Series A Bonds, the 3% Series B Bonds due in 2005, the 2½% Series B Bonds due in 2006 and 2007, and the Series B Bonds due after 2007 (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 Bonds in the event of a failure by the City to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and the covenants regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and we render no opinion as to the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes on or after the date on which any action is taken under the Certificate upon the approval of counsel other than ourselves.

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,

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