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 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.

$1,148,265,000

The City of New York

General Obligation Bonds, Fiscal 2005 Series G, H and I

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

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 as shown on the inside cover pages. 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 pages.*

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters. 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 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 December 21, 2004.

UBS Financial Services Inc.

Bear, Stearns & Co. Inc. — **Citigroup** — **Morgan Stanley**

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

Advest/Lebenthal — **Apex Pryor Securities** — **Banc of America Securities LLC**
CIBC World Markets — **Commerce Capital Markets, Inc.** — **RBC Dain Rauscher Inc.**
A. G. Edwards — **Jackson Securities** — **Janney Montgomery Scott LLC**
Legg Mason Wood Walker, Incorporated — **Loop Capital Markets, LLC** — **Popular Securities**
Prager, Sealy & Co., LLC — **Raymond James & Associates, Inc.** — **Wachovia Bank, National Association**

December 10, 2004

$550,000,000 General Obligation Bonds, Fiscal 2005 Series G

December 1	Principal Amount	Interest Rate	Price or Yield
2006	$16,145,000	2¼%	2.15%
2007	16,725,000	2½	2.45
2008	9,715,000	2¾	2.83
2008	8,080,000	4	2.83
2009	18,685,000	3.10	100
2010	15,490,000	3.40	3.44
2010	4,020,000	5	3.44
2011	13,640,000	3⅝	3.67
2011	6,850,000	5	3.67
2012	8,765,000	3¾	3.80
2012	12,755,000	5	3.80
2013	1,820,000	3.90	3.92
2013	20,780,000	5	3.92
2014(1)	7,930,000	3.85	3.87
2014	15,765,000	4	3.97
2015	18,680,000	4.10	4.13
2015(2)	6,110,000	5	4.13
2016(2)(3)	2,295,000	4	3.91
2016(2)	23,645,000	5	4.21
2017(2)(3)	3,085,000	4	3.96
2017(2)	24,175,000	5	4.29
2018(3)	6,845,000	4	4.05
2018(2)	21,880,000	5	4.38
2019(3)	4,050,000	4.10	4.12
2019(2)	26,130,000	5	4.43
2020	2,865,000	4.45	4.48
2020(2)	28,835,000	5	4.48
2021	1,250,000	4½	4.54
2021(2)	32,050,000	5	4.54
2022	2,950,000	4½	4.59
2022(2)	12,020,000	5	4.59
2022(2)(3)	20,000,000	5	4.31
2023	1,985,000	4.60	4.62
2023(2)	34,750,000	5	4.62
2024(2)	7,990,000	5	4.68
2025(2)	7,255,000	5	4.73
2026(2)	7,615,000	5	4.79
2027(2)	8,000,000	5	4.82
2028(2)	8,390,000	5	4.84
2029	8,820,000	4¾	4.84
2033(2)(4)	34,555,000	5	4.86
2034(4)	16,610,000	4¾	4.86

(1) Insured by CDC IXIS Financial Guaranty North America, Inc.
(2) Priced to first par call on December 1, 2014.
(3) Insured by Ambac Assurance Corporation.
(4) Term Bond.

Interest on the Series G Bonds is payable on each June 1 and December 1 commencing June 1, 2005.

$572,895,000 General Obligation Bonds, Fiscal 2005 Series H

August 1	Principal Amount	Interest Rate	Yield
2005	$27,885,000	4%	1.97%
2006	17,850,000	5	2.15
2006	10,615,000	2¼	2.15
2007	25,205,000	5	2.45
2007	3,290,000	2½	2.45
2008	28,465,000	5	2.80
2009	28,490,000	5	3.09
2010	41,800,000	5	3.40
2011	41,800,000	5	3.63
2012	41,800,000	5	3.80
2013	41,800,000	5	3.92
2014	4,105,000	5	3.97
2014	5,625,000	4	3.97
2014(1)	32,070,000	5	3.87
2015(2)	41,800,000	5	4.13
2016(2)	41,800,000	5	4.21
2017(2)	41,800,000	5	4.29
2018(2)	19,425,000	5	4.38
2019(2)	28,795,000	5	4.43
2020(2)	19,425,000	5	4.48
2021(2)	29,050,000	5	4.54

$25,370,000 General Obligation Bonds, Fiscal 2005 Series I

February 1	Principal Amount	Interest Rate	Price or Yield
2005	$13,105,000	1.85%	100%
2006	965,000	5	2.06
2006	1,205,000	3	2.06
2007	1,075,000	5	2.37
2007	1,305,000	3	2.37
2008	915,000	5	2.65
2008	1,560,000	3	2.65
2009	880,000	5	2.91
2009	1,685,000	4	2.91
2010	2,675,000	5	3.29

(1) Insured by CDC IXIS Financial Guaranty North America, Inc.
(2) Priced to first par call on August 1, 2014.

Interest on the Series H and I Bonds is payable on each February 1 and August 1 commencing February 1, 2005.

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

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

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 $1,148,265,000 aggregate principal amount of the City's General Obligation Bonds, Fiscal 2005 Series G, H and I (the "Bonds") issued as fixed rate, tax-exempt bonds.

INTRODUCTORY STATEMENT

The Bonds will be general obligations of the City for the payment of which the City will pledge its faith and credit. All real property subject to taxation by the City will be subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, to pay the principal of, applicable redemption premium, if any, and interest on the Bonds.

The City, with a population of approximately 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 2004 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—2000-2004 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 New York State ("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 the New York State Financial Emergency Act For The City of New York (the "Financial Emergency Act" or the "Act") and the New York City Charter (the "City Charter"), 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 2005 fiscal year 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 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 which relates to the City and certain entities that receive funds from the City, including the financial plan for the 2005 through 2008 fiscal years submitted to the Control Board on June 29, 2004 (the "June Financial Plan") and Modification No. 05-1 to the June Financial Plan submitted to the Control Board on October 21, 2004. The June Financial Plan as so modified is referred to as the "2005-2008 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 may issue 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

2005-2008 Financial Plan

For the 2004 fiscal year, the City's General Fund had an operating surplus of $1.928 billion, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, after discretionary and other transfers. The 2004 fiscal year is the twenty-fourth consecutive year that the City has achieved an operating surplus, before discretionary and other transfers, and balanced operating results, after discretionary and other transfers.

The City's expense and capital budgets for the 2005 fiscal year were adopted on June 25, 2004. The June Financial Plan, which was consistent with the City's expense and capital budgets for the 2005 fiscal year, projected revenues and expenditures for the 2005 fiscal year balanced in accordance with GAAP, and projected gaps of $3.7 billion, $4.5 billion, and $3.7 billion for fiscal years 2006, 2007, and 2008, respectively.

On October 21, 2004, the City submitted to the Control Board a modification to the June Financial Plan (as so modified, the "Financial Plan"). The Financial Plan projects revenues and expenditures for the 2005 fiscal year balanced in accordance with GAAP, and projects gaps of $3.0 billion, $4.2 billion, and $3.3 billion in fiscal years 2006 through 2008, respectively. The Financial Plan includes an out-year gap-closing program to reduce expenditures and increase revenues by a total of $3.0 billion in fiscal years 2005 and 2006, and $1.9 billion and $1.7 billion in fiscal years 2007 and 2008, respectively. See "SECTION VII: FINANCIAL PLAN—Actions to Close Remaining Gaps."

Changes in projected revenues since the June Financial Plan include: (i) increases in projected tax revenues of $577 million, $589 million, $544 million and $524 million in fiscal years 2005 through 2008, respectively, resulting primarily from increases in real property transaction and property tax revenues, and increases in baseline projections of non-property taxes as a result of strong fiscal year 2004 collections, partially offset by decreases in personal income, business income and sales taxes as a result of lower forecast securities industry profits in calendar year 2004; (ii) increases in non-tax revenues of $33 million in fiscal year 2005, reflecting primarily increased investment earnings; and (iii) reductions in anticipated State assistance of $201 million, $196 million, $94 million, and $77 million in fiscal years 2005 through 2008. Changes in projected expenditures since the June Financial Plan, include: (i) increased energy costs of $40 million in fiscal year 2005 and $65 million in each of fiscal years 2006 through 2008; (ii) increases in education spending of $87 million in fiscal year 2005; and (iii) decreases in debt service costs of $72 million and $27 million in fiscal years 2005 and 2006, respectively, and increases in debt service costs of $39 million and $48 million in fiscal years 2007 and 2008, respectively.

The Financial Plan also reflects legislation enacted by the State Legislature pursuant to which the Local Government Assistance Corporation ("LGAC") is to make available to the City or its assignee $170 million annually until 2034. The City has assigned the $170 million annual payments 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. On September 22, 2004 the first $170 million annual payment was received by STAR Corp. which completed its financing on November 4, 2004. The proceeds of the STAR Corp. financing were used to provide MAC with an amount sufficient to defease its outstanding debt and to provide the City with $631 million, which represents the amount of MAC debt service for fiscal year 2004 and a portion of MAC debt service for fiscal year 2005. The economic impact on the City's budget of the STAR Corp. financing is to make available to the City approximately $1.0 billion in fiscal year 2005 and $500 million annually in fiscal years 2006 through 2008 by eliminating future retention of City revenues by MAC for its debt service and reimbursing the City for revenues already retained in the 2004 and 2005 fiscal years.

The Financial Plan makes provision for wage increases for all City employees for the 2002-2005 round of bargaining consistent with the settlement with District Council 37 of the American Federation of State, County and Municipal Employees ("DC 37"). 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 New York City Transitional Finance Authority ("TFA") to have outstanding $2.5 billion of bonds and notes ("Recovery Bonds") 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 2003-2004 fiscal year in balance on a cash basis, with a reported closing balance in the General Fund of $1.1 billion. The Governor's Executive Budget for the 2004-2005 fiscal year projected balance on a cash basis for the 2004-2005 fiscal year, with a closing balance in the General Fund of $964 million, and projected gaps of $2.9 billion in fiscal year 2005-2006 and $4.4 billion in fiscal year 2006-2007, assuming all the Executive Budget savings proposals were enacted.

The State Legislature completed action on the budget for the 2004-2005 fiscal year on August 11, 2004. The State released its Annual Information Statement, dated September 19, 2004 (the "Annual

Information Statement") which reflected the Legislative Budget Agreement for 2004-2005 and subsequent vetoes by the Governor. The State released its quarterly update to the Annual Information Statement on November 16, 2004 (the "November Update") in which the State Division of the Budget ("DOB") projects that General Fund receipts will total $43.0 billion in fiscal year 2004-2005, an increase of $359 million from the enacted budget estimate. General Fund disbursements are projected to total $43.2 billion, an increase of $215 million. The net impact of the revenue and spending revisions leaves a potential current year imbalance of $290 million which DOB plans to close through a Fiscal Management Plan (the "FMP") which DOB has prepared in cooperation with State agencies. The FMP has already generated $66 million in administrative savings. The DOB will continue to work with State agencies to develop administrative and legislative actions to achieve the remaining $224 million of savings needed to balance the 2004-2005 budget and to begin to reduce the outyear gaps. In addition to the expected FMP savings, the State Financial Plan also assumes that resources from the Empire conversion, which are being held in escrow as the result of litigation, will be available by the end of the current fiscal year to avoid additional General Fund costs in the range of $200 million to $400 million in fiscal year 2004-2005. In the November Update the DOB also projects gaps in the range of $6 billion in fiscal year 2005-2006 and $7 billion to $8 billion in fiscal year 2006-2007, essentially unchanged from the enacted budget. The projected gaps do not include any amounts that may be needed to provide additional funds for education purposes resulting from the litigation relating to the State's distribution of education aid. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Department of Education*."

The November Update noted that the Governor vetoed General Fund spending additions valued at $235 million in fiscal year 2004-2005 and that the vetoes are expected to generate savings in fiscal years 2005-2006 and 2006-2007 as well. Under the State Constitution, the Legislature may take action on the Governor's vetoes through December 31, 2004, or enact additional appropriations, subject to gubernatorial veto, at any time during the 2004-2005 fiscal year.

The November Update and the Annual Information Statement identify a number of risks, including implementation of the FMP, costs that could materialize as a result of adverse rulings in pending litigation; federal disallowances or other federal actions that could produce adverse effects on the State's projections of receipts and disbursements; and risks relating to the national and local economies, including increases in energy prices, national security concerns and financial sector performance.

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 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 inside cover pages 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 Financial Emergency Act, a general debt service fund (the "General Debt Service Fund" or the "Fund") has been established for City bonds and certain City notes. Pursuant to the Act, payments of the City real estate tax must be deposited upon receipt in the Fund, and retained under a statutory formula, for the payment of debt service (with exceptions for debt service, such as principal of seasonal borrowings, that is set aside under other procedures). The statutory formula has in recent years resulted in retention of sufficient real estate taxes to comply with the City Covenants (as defined in "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 under 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 provide a general reserve for each fiscal year to cover potential reductions in its projected revenues or increases in its projected expenditures during each such fiscal year, 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 will be used for capital purposes and, together with funds to be provided by the City, 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. The expenses of the City incurred in connection with the issuance and sale of the Bonds will be paid from the proceeds of the Bonds.

Optional Redemption

The Series G Bonds maturing after December 1, 2014 will be subject to redemption at the option of the City, on or after December 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 Series H Bonds 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 Series I Bonds are not subject to redemption prior to maturity. The City may select amounts, coupons and maturities for redemption in its sole discretion. On and after any redemption date, interest will cease to accrue on the Bonds called for redemption.

Mandatory Redemption

The Series G Bonds maturing in 2033 and 2034 are Term Bonds subject to mandatory redemption, by lot within such maturity, on each date at a redemption price equal to the principal amount thereof, plus accrued interest, without premium, in the amount set forth below:

	Principal Amount to be Redeemed	
December 1	2033 Maturity	2034 Maturity
2030	$ 9,260,000	
2031	9,720,000	
2032	10,210,000	
2033	5,365,000(1)	$ 5,355,000
2034		11,255,000(1)

(1) Stated maturity.

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

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

Bond Insurance

The principal of and interest on the Series G Bonds maturing in 2016 (4% coupon), 2017 (4% coupon), 2018 (4% coupon), 2019 (4.10% coupon) and 2022 (5% coupon, 4.31% yield) are expected to be insured by Ambac Assurance Corporation (the "Ambac Insured Bonds"). Information about Ambac

Assurance Corporation ("Ambac Assurance") is set forth in Appendix D. An Ambac Assurance specimen insurance policy is set forth in Appendix E. The principal of and interest on the Series G Bonds maturing in 2014 (3.85% coupon) and the Series H Bonds maturing in 2014 (5% coupon, 3.87% yield) are expected to be insured by CDC IXIS Financial Guaranty North America, Inc. (the "CIFGNA Insured Bonds", and together with the Ambac Insured Bonds, the "Insured Bonds"). Information about CDC IXIS Financial Guaranty North America, Inc. ("CIFGNA") is set forth in Appendix D. A CIFGNA specimen 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 \$82.4 billion as of September 30, 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, the City Charter requires that the City Council set tax rates on real property at a level sufficient to produce a balanced budget 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 2003 fiscal year, which includes, among other things, the City's financial statements for the 2003 fiscal year, has received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the twenty-third consecutive year the CAFR of the Comptroller has won such award.

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

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

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

Financial Reporting and Control Systems

Since 1978, the City's financial statements have been required to be audited by independent certified public accountants and to be presented in accordance with GAAP. The City has completed twenty-four 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 2002 and 2003 and an excess of assets over liabilities and an increase in net assets in fiscal year 2004.

Both OMB and the Office of the Comptroller utilize a financial management system which provides comprehensive current and historical information regarding the City's financial condition. This information, which is independently evaluated by each office, provides a basis for City action required to maintain a balanced budget and continued financial stability.

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

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

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

More than 95% of the aggregate assets of the City's five defined benefit pension systems are managed by outside managers, supervised by the Office of the City Comptroller, and the remainder is held in cash or managed by the City Comptroller. Allocations of investment assets are determined by each fund's board of trustees. As of September 30, 2004 aggregate pension assets were allocated approximately as follows: 50% U.S. equities; 28% U.S. fixed income; 18% international equities; 3% 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"), the New York City Health and Hospitals Corporation ("HHC") and the New York City Housing Authority (the "Housing Authority" or "HA") are examples of Covered Organizations. The Act requires that the City's four-year financial plans conform to a number of standards. Unless otherwise permitted by the Control Board under certain conditions, the City must prepare and balance its budget covering all expenditures other than capital items so that the results of such budget will not show a deficit when reported in accordance with GAAP. Provision must be made, among other things, for the payment in full of the debt service on all City securities. The budget and operations of the City and the Covered Organizations must be in conformance with the financial plan then in effect.

From 1975 to June 30, 1986, the City was subject to a Control Period, as defined in the Act, which was terminated upon the satisfaction of the statutory conditions for termination, including the termination of all federal guarantees of obligations of the City, a determination by the Control Board that the City had maintained a balanced budget in accordance with GAAP for each of the three immediately preceding fiscal years and a certification by the State and City Comptrollers that sales of securities by or for the benefit of the City satisfied its capital and seasonal financing requirements in the public credit markets and were expected to satisfy such requirements in the 1987 fiscal year. With the termination of the Control Period, certain Control Board powers were suspended including, among others, its power to approve or disapprove certain contracts (including collective bargaining agreements), long-term and short-term borrowings, and the four-year financial plan and modifications thereto of the City and the Covered Organizations. After the termination of the Control Period but prior to the statutory expiration date of the Act 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, 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 2004, 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 41.7% 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—2000-2004 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, $1.7 billion and $1.8 billion in increased collections in the 2003 through 2005 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. From fiscal year 1994 through fiscal year 1997 billable assessed values declined, reflecting the impact of the protracted local recession on office vacancy rates and on office building valuations. Billable assessed value resumed slow growth in fiscal years 1998 and 1999, growing 0.7% and 2.6%, respectively, as the local recovery began to accelerate and office vacancy rates dropped below twelve percent.

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 $84.2 million, respectively. The City currently expects to receive $98.3 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	12,250.6	11,370.3	92.8	180.1	(189.5)	(591.0)	(289.3)	2.36	84.2
2005(6) . . .	12,720.0	11,540.1	90.7	142.0	(164.0)	(847.7)	(332.2)	2.61	98.3

(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, $11.1 million and $5.6 million in the 2000, 2001, 2002, 2003 and 2004 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 58.3% 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. On November 4, 2004, all of MAC's outstanding bonds were defeased with the proceeds of STAR Corp. bonds and MAC reserve funds. For more information, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

Revenues from taxes other than the real property tax in the 2004 fiscal year increased by $3.265 billion, an increase of approximately 24.6% from the 2003 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real property tax, for each of the City's 2000 through 2004 fiscal years.

	2000	2001	2002	2003	2004
			(In Millions)		
Personal Income(1)	$ 5,353	$ 5,746	$ 4,538	$ 4,460	$ 5,984
General Corporation	1,779	1,735	1,330	1,237	1,540
Banking Corporation	347	424	320	213	415
Unincorporated Business Income	805	820	791	832	908
Sales	3,509	3,662	3,360	3,535	4,018
Commercial Rent(2)	344	377	380	397	426
Real Property Transfer	483	473	425	513	766
Mortgage Recording	403	407	477	526	817
Utility	247	300	258	295	291
Cigarette	31	28	27	159	138
Hotel	219	241	184	192	217
All Other(3)	473	351	381	367	466
Audits	416	401	485	571	576
Total	$14,409	$14,965	$12,957	$13,297	$16,562

Note: Totals may not add due to rounding.

(1) Personal Income excludes $247 million, $407 million, $451 million, $537 million and $109 million retained by the TFA in fiscal years 2000, 2001, 2002, 2003 and 2004, respectively. In fiscal years 2000, 2001, 2002, 2003 and 2004, Personal Income includes $200 million, $415 million, $520 million, $540 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 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 $1.243 billion in fiscal year 2000, $1.607 billion in fiscal year 2001, $1.462 billion in fiscal year 2002, $873 million in fiscal year 2003 and $1.093 billion in fiscal year 2004. 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, operating expenses and contractual and other obligations incurred pursuant to the TFA indenture. Personal Income also reflects the impact of a grant of $624 million to the TFA in fiscal year 2003 which was used by the TFA to pay debt service in fiscal year 2004, thereby increasing tax revenue in fiscal year 2004 by $624 million.

(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 $260 million, $504 million, $632 million, $660 million and $677 million in fiscal years 2000, 2001, 2002, 2003 and 2004, 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 2000 through 2004 fiscal years.

	2000	2001	2002	2003	2004
			(In Millions)		
Licenses, Permits and Franchises	$ 329	$ 338	$ 356	$ 357	$ 374
Interest Income	195	245	81	43	30
Charges for Services	439	439	461	501	592
Water and Sewer Payments	801	843	858	846	885
Rental Income	139	154	115	109	108
Fines and Forfeitures	468	495	485	548	697
Other	718	1,109	1,383	2,244	684
Total	$3,089	$3,623	$3,739	$4,648	$3,370

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 2000 include $42 million from the recovery of prior year FICA overpayments. Other miscellaneous revenues for fiscal years 2000, 2001, 2002, 2003 and 2004 include $247 million, $154 million, $211 million, $150 million and $67 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, trapping requirements and operating expenses. Other miscellaneous revenues for fiscal years 2001, 2002, 2003 and 2004 do not include TSRs retained by TSASC for debt service, trapping requirements and operating expenses, totaling $50 million, $45 million, $103 million and $147 million, respectively. For further information see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—4. Miscellaneous Revenues." 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. Other miscellaneous revenues for fiscal year 2004 include $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.

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 2000 through 2004 fiscal years.

	2000	2001	2002	2003	2004
			(In Millions)		
State Per Capita Aid	$405	$327	$328	$ 400	$327
Other(1)	226	307	338	1,043	636
Total	$631	$634	$666	$1,443	$963

(1) Included in the 2000, 2001, 2002, 2003 and 2004 fiscal years are $147 million, $158 million, $201 million, $180 million and $271 million, respectively, of aid associated with the partial State takeover of long-term care Medicaid costs. Included in the 2003 and 2004 fiscal years are approximately $762 million and $151 million, respectively, in non-recurring Federal Emergency Management Agency ("FEMA") reimbursement for costs related to the September 11 attack. A total of approximately $197 million for unpaid prior year education aid and $9 million of federal reimbursement for snow removal costs are included in fiscal year 2004.

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 2000 through 2004 fiscal years.

	2000	2001	2002	2003	2004
			(In Millions)		
Federal					
Community Development(1)	$ 264	$ 250	$ 281	$ 226	$ 240
Welfare(2)	2,335	2,339	2,541	2,550	2,448
Education(2)	1,127	1,227	1,364	1,595	1,770
Other(2)	691	734	1,911	1,247	957
Total	$4,417	$4,550	$6,097	$5,618	$5,415
State					
Welfare	$1,382	$1,581	$1,585	$1,576	$1,724
Education	4,829	5,388	5,592	5,834	5,873
Higher Education	124	129	129	133	139
Health and Mental Health	348	349	434	416	377
Other	379	321	290	358	342
Total	$7,062	$7,768	$8,030	$8,317	$8,455

(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 reimbursement from FEMA 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—2000-2004 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 March 31, 2005. 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 50% of Medicaid costs for federally eligible recipients.

The City's Expense Budget increased during the five-year period ended June 30, 2004, 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 and full-time equivalent employees of the City, including the mayoral agencies, the DOE and CUNY, at the end of each of the City's 2000 through 2004 fiscal years.

	2000	2001	2002	2003	2004
Education	137,941	139,873	138,411	135,282	134,325
Police	53,234	52,474	51,924	50,787	50,544
Social Services, Homeless and Children's Services	23,892	23,427	24,376	22,361	23,340
City University Community Colleges and Hunter Campus Schools	6,274	6,293	5,756	6,039	6,450
Environmental Protection and Sanitation	15,988	16,022	15,985	14,933	15,473
Fire	16,055	15,728	15,854	15,180	15,522
All Other	50,348	51,188	54,062	49,982	50,903
Total	303,732	305,005	306,368	294,564	296,557

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 2000 through 2004 fiscal years.

	2000	2001	2002	2003	2004
Transit Authority	46,082	47,689	47,954	47,694	47,400
Housing Authority	14,867	14,704	14,694	14,673	13,841
HHC	35,509	34,968	35,377	35,956	35,833
Total(1)	96,458	97,361	98,025	98,323	97,074

(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, water and sewer facilities, 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 Plan 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 Plan 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 $27.9 billion during the 2000 through 2004 fiscal years. City-funded expenditures, which totaled $24.3 billion during the 2000 through 2004 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 2000 through 2004 fiscal years.

	2000	2001	2002	2003	2004	Total
Education	$1,296	$1,708	$1,765	$1,315	$1,192	$ 7,276
Environmental Protection	797	830	1,037	1,301	1,631	5,596
Transportation	637	577	724	739	763	3,440
Transit Authority(1)	270	279	191	446	199	1,385
Housing	290	414	380	301	360	1,745
Hospitals	43	34	62	67	35	241
Sanitation	118	178	185	114	173	768
All Other(2)	1,358	1,290	1,976	1,451	1,402	7,477
Total Expenditures(3)	$4,809	$5,310	$6,320	$5,734	$5,755	$27,928
City-funded Expenditures(4)	$4,096	$4,389	$5,436	$5,376	$5,044	$24,341

(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 2000 through 2004 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures for the 2000 through 2004 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, 2004, 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 "2000-2004 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 and the City Charter. 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.

2000-2004 Summary of Operations

The following table sets forth the City's results of operations for its 2000 through 2004 fiscal years in accordance with GAAP.

The information regarding the 2000 through 2004 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 2003 and 2004 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 2000 through 2002 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				
	2000	2001	2002	2003	2004
	(In Millions)				
Revenues and Transfers					
Real Estate Tax(2)	$ 7,850	$ 8,246	$ 8,761	$10,063	$11,582
Other Taxes(3)(4)	14,409	14,965	12,957	13,297	16,562
Miscellaneous Revenues(3)	3,089	3,623	3,799	4,648	3,370
Other Categorical Grants	432	492	615	1,006	977
Unrestricted Federal and State Aid(3)	631	634	666	1,443	963
Federal Categorical Grants	4,417	4,550	6,097	5,618	5,415
State Categorical Grants	7,062	7,768	8,030	8,317	8,455
Less: Disallowances Against Categorical Grants	(5)	(46)	0	(47)	(27)
Total Revenues and Transfers(5)	$37,885	$40,232	$40,865	$44,345	$47,297
Expenditures and Transfers					
Social Services	$ 8,330	$ 8,717	$ 9,098	$ 9,321	$ 9,650
Board of Education	10,674	11,545	11,718	12,673	13,061
City University	398	408	440	464	516
Public Safety and Judicial	5,649	5,875	6,434	6,197	6,118
Health Services	1,777	1,959	2,132	2,241	2,418
Pensions(6)	615	1,127	1,392	1,631	2,308
Debt Service(3)(7)	3,339	2,522	1,371	2,309	3,472
MAC Debt Service Funding(3)(7)	451	458	5	225	502
All Other(7)	6,647	7,616	8,270	9,279	9,247
Total Expenditures and Transfers(5)	$37,880	$40,227	$40,860	$44,340	$47,292
Surplus(7)	$ 5	$ 5	$ 5	$ 5	$ 5

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

(2) In fiscal years 2000, 2001, 2002, 2003 and 2004 Real Estate Tax includes $59.9 million, $89.4 million, $112.4 million, $119.6 million and $137.3 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. On November 4, 2004, all of MAC's outstanding bonds were defeased with the proceeds of STAR Corp. bonds and MAC reserve funds. For more information, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS." 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 $247 million, $407 million, $451 million, $537 million, and $109 million in fiscal years 2000, 2001, 2002, 2003 and 2004, respectively, retained by the TFA. Debt Service does not include debt service on TFA bonds or TSASC bonds. Miscellaneous Revenues includes TSRs 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 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 $1,928 billion, $1.422 billion, $686 million, $2.949 billion and $3.192 billion before discretionary and other transfers and expenditures for the 2004, 2003, 2002, 2001 and 2000 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 2005 Results

The following table compares the forecast for the current fiscal year contained in the June Financial Plan submitted to the Control Board on June 29, 2004 (the "June 2004 Forecast") with the forecast contained in the Financial Plan submitted to the Control Board on October 21, 2004 (the "October 2004 Forecast"). Each forecast was prepared on a basis consistent with GAAP. For information regarding recent developments, see SECTION I: RECENT FINANCIAL DEVELOPMENTS."

	June 2004 Forecast	October 2004 Forecast	Increase/(Decrease) from June 2004 Forecast
REVENUES			
Taxes			
General Property Tax	$11,550	$11,616	$ 66
Other Taxes	15,003	15,723	720 (1)
Tax Audit Revenue	508	523	15
Miscellaneous Revenues	5,784	5,980	196 (2)
Unrestricted Intergovernmental Aid	562	562	—
Anticipated State and Federal Actions	450	50	(400)(3)
Less: Intra-City Revenues	(1,146)	(1,189)	(43)
Disallowances Against Categorical Grants	(15)	(15)	—
Subtotal – City Funds	$32,696	$33,250	$ 554
Other Categorical Grants	807	803	(4)
Inter-Fund Revenues	348	349	1
Total City Funds & Inter-Fund Revenues	$33,851	$34,402	$ 551
Federal Categorical Grants	4,733	4,957	224 (4)
Federal – FEMA Insurance Program	—	1,000	1,000 (5)
State Categorical Grants	8,626	8,709	83
Total Revenues	$47,210	$49,068	$1,858
EXPENDITURES			
Personal Services			
Salaries and Wages	$17,062	$17,205	$ 143
Pensions	3,376	3,376	—
Fringe Benefits	5,152	5,160	8
Total – Personal Services	$25,590	$25,741	$ 151 (6)
Other Than Personal Services			
Medical Assistance	4,766	4,733	(33)
Public Assistance	2,293	2,353	60
Pay-As-You-Go Capital	200	200	—
All Other	12,688	14,029	1,341 (7)
Total – Other Than Personal Services	$19,947	$21,315	$1,368
Debt Service	2,299	2,207	(92)(8)
Budget Stabilization & Prepayments	220	574	354 (9)
MAC Debt Service	—	120	120 (10)
General Reserve	300	300	—
Total Expenditures	$48,356	$50,257	$1,901
Less: Intra-City Expenses	(1,146)	(1,189)	(43)
Net Total Expenditures	$47,210	$49,068	$1,858

(1) The increase in Other Taxes is due to increases in personal income taxes of $96 million, sales and use taxes of $144 million, banking corporation tax of $119 million, unincorporated business tax of $7 million, mortgage recording tax of $234 million, real property transfer tax of $122 million, utility tax of $18 million, hotel occupancy tax of $15 million and all other taxes of $10 million and the State's STAR Program aid of $3 million offset by decreases of $49 million in general corporation tax.

(2) The increase in Miscellaneous Revenues is due to an increase of approximately $120 million in reimbursement to the City for revenues retained by MAC, an increase of $6 million in TSRs, an increase of $27 million in interest income based on the current forecast of the City cash balances and an increase of $43 million in intra-City revenues.

(3) The decrease in Anticipated State and Federal Actions reflects net State actions of $199 million, including the repeal of the sales tax exemption on clothing, that are now reflected elsewhere in the Financial Plan, and elimination of $201 million of anticipated State actions that did not occur. The remaining $50 million in the Financial Plan reflects anticipated federal actions.

(4) The increase in Federal Categorical Grants is due to $306 million in categorical budget modifications processed between July 2004 and September 2004 offset by an $82 million decrease in social services funding.

(5) Federal FEMA Insurance Program reflects $1 billion reimbursement from FEMA for insurance for claims relating to work at the World Trade Center site following the September 11 attack. For further information, see "SECTION IX: OTHER INFORMATION—Litigation—*Miscellaneous.*"

(6) The increase in Personal Services is due to a net increase of $79 million in education and $72 million in categorical budget modifications processed from July 2004 through September 2004.

(7) The increase in Other Than Personal Services — All Other is due primarily to categorical budget modifications processed from July 2004 through September 2004 including payment of $1 billion for insurance for claims relating to work at the World Trade Center site following the September 11 attack. For further information, see "SECTION IX: OTHER INFORMATION—Litigation—*Miscellaneous.*"

(8) The reduction in Debt Service is primarily due to lower than forecast short-term interest rates and the elimination of the note borrowing in fiscal year 2005.

(9) The increase in Budget Stabilization and Prepayments is due to the increase in the projected discretionary transfers into the General Debt Service Fund in fiscal year 2005 for debt service due in fiscal year 2006.

(10) The increase in MAC Debt Service is due to a delay until the second quarter of fiscal year 2005 in the refinancing of outstanding MAC debt by STAR Corp. MAC debt service expense in fiscal year 2005 has been reimbursed from the proceeds of the STAR Corp. issuance. For further information see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 2005 through 2008 fiscal years as contained in the 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."

	2005-2008 Fiscal Years(1)(2)			
	2005	2006	2007	2008
	(In Millions)			
REVENUES				
Taxes				
General Property Tax(3)	$11,616	$12,087	$12,617	$13,427
Other Taxes(4)(5)	15,723	15,358	15,756	16,564
Tax Audit Revenue	523	508	509	509
Miscellaneous Revenues(6)	5,980	4,293	4,231	4,263
Unrestricted Intergovernmental Aid	562	562	562	562
Anticipated Federal Actions(7)	50	—	—	—
Less: Intra-City Revenues	(1,189)	(1,130)	(1,129)	(1,129)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$33,250	$31,663	$32,531	$34,181
Other Categorical Grants	803	877	866	866
Inter-Fund Revenues(8)	349	335	331	331
Total City Funds and Inter-Fund Revenues	$34,402	$32,875	$33,728	$35,378
Federal Categorical Grants	4,957	4,576	4,559	4,549
Federal-FEMA Insurance Program	1,000	—	—	—
State Categorical Grants	8,709	8,594	8,670	8,741
Total Revenues	$49,068	$46,045	$46,957	$48,668
EXPENDITURES				
Personal Services				
Salaries and Wages	$17,205	$17,268	$17,256	$17,156
Pension	3,376	4,107	4,515	4,502
Fringe Benefits	5,160	5,431	5,724	6,069
Subtotal-Personal Services	$25,741	$26,806	$27,495	$27,727
Other Than Personal Services				
Medical Assistance	4,733	4,768	4,863	5,053
Public Assistance	2,353	2,302	2,303	2,303
Pay-As-You-Go Capital/Outstanding Debt Prepayment	200	200	200	200
All Other	14,029	12,859	13,033	13,211
Subtotal-Other Than Personal Services	$21,315	$20,129	$20,399	$20,767
Debt Service	2,207	2,905	4,068	4,350
Budget Stabilization & Prepayments(9)	574	—	—	—
MAC Debt Service(10)	120	—	—	—
General Reserve	300	300	300	300
	$50,257	$50,140	$52,262	$53,144
Less: Intra-City Expenses	(1,189)	(1,130)	(1,129)	(1,129)
Total Expenditures	$49,068	$49,010	$51,133	$52,015
GAP TO BE CLOSED	$ —	$(2,965)	$(4,176)	$(3,347)

(1) The four year financial plan for the 2005 through 2008 fiscal years, as submitted to the Control Board on June 29, 2004, contained the following projections for the 2005-2008 fiscal years: (i) for 2005, total revenues of $47.210 billion and total expenditures of $47.210 billion; (ii) for 2006, total revenues of $45.827 billion and total expenditures of $49.501 billion, with a

gap to be closed of $3.674 billion; (iii) for 2007, total revenues of $46.824 billion and total expenditures of $51.346 billion, with a gap to be closed of $4.522 billion; and (iv) for 2008, total revenues of $48.555 billion and total expenditures of $52.236 billion, with a gap to be closed of $3.681 billion. 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.

(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, operating expenses and contractual and other obligations incurred pursuant to the TFA indenture. 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, 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 $374 million from fiscal years 2005 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 which requires the approval of the federal government.

(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) Budget Stabilization and Prepayments in fiscal year 2005 reflects projected discretionary transfers of $574 million into the General Debt Service Fund to prepay debt service due in fiscal year 2006.

(10) The Financial Plan assumes the elimination of MAC debt service after fiscal year 2005 due to the refinancing of outstanding MAC debt by STAR Corp. For further information see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

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

In connection with the Financial Plan, the City has outlined an out-year gap-closing program in fiscal years 2005 through 2008 to close the $3.0 billion projected budget gap in fiscal year 2006 and reduce the $4.2 billion and $3.3 billion projected budget gaps by $1.9 billion and $1.7 billion for the 2007 and 2008 fiscal years, respectively. This program, which is not specified in detail, assumes savings from additional asset sales of $75 million, $315 million, $150 million and $150 million for the 2005 through 2008 fiscal years, respectively; State actions of $650 million, $400 million and $400 million in the 2006 through 2008 fiscal years, respectively; additional federal actions of $300 million in each of the 2006 through 2008 fiscal years; reduced expenditures for pensions and health benefits of $325 million in fiscal year 2006 and $200 million in fiscal year 2007; the elimination of $200 million for pay-as-you-go capital in each of fiscal years 2005 through 2008; the reduction of $575 million in debt service, subsidies and transfer payment costs in fiscal year 2006 due to fiscal year 2005 prepayments; and agency programs to reduce expenditures or increase revenues by $300 million in fiscal year 2005 and $600 million in each of fiscal years 2006, 2007 and 2008.

The City's projected budget gaps of $3.0 billion, $4.2 billion and $3.3 billion for the 2006 through 2008 fiscal years, respectively, do not reflect the savings expected to result from the out-year gap-closing program set forth in the Financial Plan. Thus, for example, recurring savings anticipated from the actions which the City proposes to take to balance the fiscal year 2006 budget are not taken into account in projecting the budget gaps for the 2007 and 2008 fiscal years.

Although the City has maintained balanced budgets in each of its last twenty-four fiscal years and is projected to achieve balanced operating results for the 2005 fiscal year, there can be no assurance that the gap-closing actions proposed in the Financial Plan can be successfully implemented or that the City will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

Assumptions

The 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 2005 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 a mild recovery in the City's economy 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 September 2004.

Forecast of Key Economic Indicators

	Calendar Years					
U.S. ECONOMY	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Economic Activity and Income						
Real GDP (billions of 2000 dollars)	10,381	10,828	11,193	11,518	11,932	12,314
Percent Change	3.0	4.3	3.4	2.9	3.6	3.2
Pre-tax Corporate Profits ($ billions)	875	988	1,346	1,385	1,442	1,437
Percent Change	15.4	13.0	36.3	2.9	4.1	(0.3)
Personal Income ($ billions)	9,162	9,647	10,072	10,586	11,073	11,582
Percent Change	3.2	5.3	4.4	5.1	4.6	4.6
Non-Agricultural Employment (millions)	129.9	131.2	133.7	135.2	136.8	138.7
Change From Prior Year	(0.4)	1.3	2.5	1.5	1.6	1.9
Unemployment Rate	6.0	5.5	5.4	5.5	5.5	5.6
CPI-All Urban (1982-84=100)	184.0	188.8	192.7	196.4	201.1	205.5
Percent Change	2.3	2.6	2.1	1.9	2.4	2.2
Wage Rate ($ per year)	39,277	40,638	41,973	43,595	45,295	46,867
Percent Change	2.9	3.5	3.3	3.9	3.9	3.5
10-Year Treasury Bond Rate	4.0	4.4	5.0	5.2	5.4	5.9
Federal Funds Rate	1.1	1.3	2.8	3.5	3.5	3.9
NEW YORK CITY ECONOMY						
Personal Income ($ billions)	315	332	346	362	380	400
Percent Change	4.0	5.4	4.2	4.8	4.9	5.3
Non-Agricultural Employment (thousands)	3,529	3,554	3,596	3,626	3,656	3,685
Change From Prior Year	(55.0)	25.7	41.3	30.8	30.1	28.7
Real Gross City Product (billions of 2000 dollars)	427	435	446	455	466	480
Percent Change	5.3	1.9	2.5	2.1	2.4	2.9
Wage Rate ($ per year)	60,355	63,561	65,329	67,808	70,455	73,416
Percent Change	1.5	5.3	2.8	3.8	3.9	4.2
CPI-All Urban NY-NJ Area (1982-84=100)	197.8	204.4	209.5	213.8	218.7	223.7
Percent Change	3.1	3.4	2.5	2.1	2.3	2.3
NEW YORK CITY REAL ESTATE MARKET						
Manhattan Primary Office Market						
Asking Rental Rate ($ per square foot)	48.35	47.36	47.94	48.28	49.2	50.73
Percent Change	(8.2)	(2.1)	1.2	0.7	1.9	3.1
Vacancy Rate – Percent	12.3	12.0	11.2	10.5	10.3	9.9

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 years 2004 and 2005 is projected to remain in effect for the forecast period 2006 through 2008.

Projections of real estate tax revenues include $98.3 million, $49.3 million, $47.3 million and $46.3 million net revenue from the sale of real property tax liens in fiscal years 2005 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 $151.9 million, $152.7 million, $155.1 million and $155.1 million in fiscal years 2005 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 $266 million, $278 million, $290 million and $303 million in fiscal years 2005 through 2008, respectively, and the cost of extending tax abatements through the Lower Manhattan Commercial Revitalization Program of $9 million, $7 million, $3 million and $3 million in fiscal years 2005 through 2008, respectively. Projections of real estate tax revenues reflect the 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.

The delinquency rate was 2.7% for the 2003 fiscal year and 2.4% for fiscal year 2004. The Financial Plan projects delinquency rates of 2.6%, 2.7%, 2.8% and 2.8% in the 2005 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.*"

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.

	2005	2006	2007	2008
	(In Millions)			
Personal Income(1)(2)	$ 5,033	$ 4,640	$ 4,630	$ 5,004
General Corporation	1,624	1,769	1,864	1,981
Banking Corporation	417	423	425	427
Unincorporated Business Income	941	1,010	1,064	1,110
Sales(2)	4,128	4,009	4,200	4,384
Commercial Rent	439	451	465	478
Real Property Transfer	598	573	590	597
Mortgage Recording	748	666	665	683
Utility	301	303	304	302
Cigarette	136	132	129	126
Hotel	241	261	277	291
All Other(3)	1,117	1,121	1,144	1,181
Total	$15,723	$15,358	$15,756	$16,564

Note: Totals may not add due to rounding.

(1) Personal Income does not include $530 million, $956 million, $977 million and $983 million of personal income tax revenues projected to be paid to the TFA for debt service and other expenses in the 2005 through 2008 fiscal years, respectively. In addition, grants to the TFA of $400 million in fiscal year 2004, increased personal income tax revenue projections by $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 $560 million, $564 million, $610 million and $646 million in the 2005 through 2008 fiscal

years, respectively. The State will reimburse the City for such reduced revenues. These projections include the effects of the earned income tax credit which will 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 $538 million and $308 million in fiscal years 2005 and 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 $118 million in fiscal year 2005; and the repeal of the sales tax exemption on clothing through May 31, 2005 which will generate $177 million in fiscal year 2005.

(3) All Other includes, among others, OTB net revenues, beer and liquor taxes, and the automobile use tax. All Other also includes $712 million, $717 million, $765 million and $801 million in fiscal years 2005 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 2006 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 in addition to a decline in refund payouts and overpayment liquidations which boost cash payments in fiscal year 2004, 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; (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 years 2004 and 2005 reflecting continued decline in interest rates and the attractiveness of real estate as commercial property investments, and a slowdown from fiscal years 2006 through 2008 reflecting a retreat from peak transaction levels in the commercial and residential markets as interest rates slowly rise and the national and local recoveries continue; (vii) with respect to mortgage recording tax revenues, a strong increase in fiscal year 2004 reflecting continued strength in refinancings, both commercial and residential, and a decline from fiscal years 2005 through 2007 as interest rate increases are forecast and flat growth in fiscal year 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 improving 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.

	2005	2006	2007	2008
		(In Millions)		
Licenses, Permits and Franchises	$ 358	$ 354	$ 352	$ 352
Interest Income	62	56	61	74
Charges for Services	521	518	512	511
Water and Sewer Payments(1)	933	930	946	967
Rental Income	861	173	176	176
Fines and Forfeitures	709	705	704	704
Other	1,347	427	351	350
Intra-City Revenues	1,189	1,130	1,129	1,129
Total	$5,980	$4,293	$4,231	$4,263

(1) Received from the Water Board. For further information regarding the Water Board, see "SECTION VII: FINANCIAL PLAN—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. The initial payment of approximately $780 million was received on November 29, 2004 and consists of an approximately $500 million lump sum payment and the annual rent payments for fiscal years 2002, 2003 and 2004. The payment is a result of the successful negotiation of an agreement between the City and the Port Authority to extend the current lease on John F. Kennedy International and LaGuardia Airports through 2050 and increase the annual lease payments, and a resolution of all property issues related to the present or former streets at the World Trade Center site.

Miscellaneous Revenues—Other reflects $181 million, $118 million, $122 million and $121 million of projected resources in fiscal years 2005 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 $60.3 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 $121 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 $374 million that have been or are expected to be retained by TSASC during fiscal years 2005 through 2008 for debt service, trapping requirements and operating expenses.

Miscellaneous Revenues—Other includes approximately $622 million in fiscal year 2005 to reimburse the City for revenues retained by MAC in fiscal years 2004 and 2005 due to the delayed implementation of the refinancing of outstanding MAC debt by STAR Corp. until the second quarter of fiscal year 2005. 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.

	2005	2006	2007	2008
	(In Millions)			
State Revenue Sharing	$327	$327	$327	$327
Other Aid	235	235	235	235
Total	$562	$562	$562	$562

The Other Aid category primarily consists of approximately $223 million annually in fiscal years 2005 through 2008 from aid associated with the State takeover of long-term care Medicaid costs and $12 million in prior year claims settlements annually in fiscal years 2005 through 2008.

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.

	2005	2006	2007	2008
	(In Millions)			
Federal				
Community Development	$ 294	$ 242	$ 242	$ 242
Welfare	2,071	2,026	2,034	2,033
Education	1,733	1,733	1,733	1,733
Other	1,859	575	550	541
Total	$5,957	$4,576	$4,559	$4,549
State				
Welfare	$1,792	$1,770	$1,767	$1,767
Education	5,871	5,881	5,949	6,019
Higher Education	177	178	178	178
Health and Mental Hygiene	485	474	482	482
Other	384	291	293	295
Total	$8,709	$8,594	$8,669	$8,741

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 federal aid of approximately $50 million in fiscal year 2005, which requires the approval of the federal government. As of September 30, 2004, approximately 14.3% 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 $27 million in the 2004 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, 2004, the City had an accumulated reserve of $277 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.

	2005	2006	2007	2008
		(In Millions)		
Wages and Salaries	$16,734	$16,794	$16,782	$16,682
Pensions	3,376	4,107	4,515	4,502
Other Fringe Benefits	5,160	5,431	5,724	6,069
Reserve for Collective Bargaining				
Department of Education	204	204	204	204
Other	267	270	270	270
Reserve Subtotal	471	474	474	474
Total	$25,741	$26,806	$27,495	$27,727

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 from an estimated level of 253,383 on June 30, 2005 to an estimated level of 254,226 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 consistent with the pattern established by the DC 37 settlement with ten additional unions, which collectively represent approximately 17,000 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.

In August 2004, an impasse was declared by PERB in the contract negotiations between the City and the Patrolmen's Benevolent Association ("PBA"). An arbitrator was appointed by PERB and hearings began November 16, 2004. Since August 2004, three mediation sessions have been held between the City and the Uniformed Firefighters Association ("UFA") and a fourth session is scheduled in January 2005. The UFA also has filed a request for a declaration of impasse with PERB. In April 2004 the United Federation of Teachers ("UFT") filed a request for a declaration of impasse with PERB but resumed negotiations with the City in May 2004. The UFT refiled the request with PERB in December 2004. The City does not believe that an impasse has been reached and believes that it is premature to request intervention.

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.

	2005	2006	2007	2008
	(In Millions)			
Administrative OTPS	$11,014	$10,508	$10,624	$10,739
Public Assistance	2,353	2,302	2,303	2,303
Medical Assistance	4,733	4,768	4,863	5,053
HHC Support	196	281	278	272
Other	3,019	2,270	2,331	2,400
Total	$21,315	$20,129	$20,399	$20,767

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 2005 through 2008, respectively. Energy costs for each of the 2005 through 2008 fiscal years are assumed to vary annually, with total energy expenditures projected at $639 million in fiscal year 2005 and increasing to $666 million by fiscal year 2008.

Public Assistance

The average number of persons receiving income benefits under public assistance programs was 431,959 per month in the 2004 fiscal year and is projected to increase to an average of 451,153 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 $4.595 billion for the 2005 fiscal year and is expected to increase to $4.915 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 2005 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 $833 million for the 2005 fiscal year, increasing to $938 million in fiscal year 2008. The City-funded expenditures in the 2005 fiscal year include $53 million for the care of prisoners and uniformed personnel, $8.45 million of general City support, $32.7 million for HHC debt service and $739 million for the City's share of HHC Medicaid payments.

HHC is projected to achieve balanced budgets in fiscal years 2005 through 2008 on a cash basis. Total receipts before implementation of the HHC gap-closing program are projected to be $4.084 billion, $4.127 billion, $4.165 billion and $4.184 billion in fiscal years 2005 through 2008, respectively. Total disbursements before implementation of the HHC gap-closing program are projected to be $4.478 billion, $4.645 billion, $4.676 billion and $4.732 billion in fiscal years 2005 through 2008, respectively. These projections assume: (i) increases in other than personal service costs and fringe benefits in fiscal years 2005 through 2008 and (ii) growth in Medicaid revenue between fiscal years 2005 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 June 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 July 29, 2004, the NYCT released a proposed Preliminary Budget for 2005 of $6.4 billion. The NYCT will hold hearings on the proposed budget and must act on it by December 31, 2004.

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. On July 29, 2004, the MTA released a proposed new 5 Year Capital Plan for 2005 through 2009 of $27.8 billion for its agencies, including $17.2 billion for its basic infrastructure program. The MTA has submitted this proposed Capital Plan to the CPRB which must approve it prior to its adoption by the MTA.

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, with respect to education in the City, the State was not in compliance with a State Constitutional mandate requiring the provision of a sound basic education to children. The court directed that by July 30, 2004, the State must have determined the actual cost of providing a sound basic education in the City and enacted appropriate reforms. The State did not implement a compliance plan by the deadline, and on August 3, 2004 the State Supreme Court issued an order appointing a three member panel to report on the measures taken by the State to bring the State's funding mechanism into Constitutional compliance and to identify the areas, if any, in which such compliance is lacking. The panel's report was released on November 30, 2004. It recommends additional operational funding of $5.63 billion per year for education in the City, phased in over four years beginning with $1.41 billion in fiscal year 2006, and additional spending on capital improvements for education in the City, over five years, of $9.179 billion. The report recommends that, in the first instance, the State Legislature should allocate the responsibility for providing such funds between the State and the City. The State Supreme Court has not yet acted in response to the report. The City maintains that the State is responsible for providing all required incremental education funding but the State has proposed that the City cover a substantial portion of such funding. The ultimate cost to the City is uncertain. For additional information concerning school funding costs, see "SECTION VII: FINANCIAL PLAN—Certain Reports."

Judgments and Claims

In the fiscal year ended on June 30, 2004, the City expended $591 million for judgments and claims, $159.8 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of $612.2 million, $640.7 million, $675.5 million and $717.8 million for the 2005 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, 2004 amounted to approximately $4.4 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, 2004 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2004, could amount to approximately $634 million. Provision has been made in the Financial Plan for estimated refunds of $164 million, $197 million, $224 million and $239 million for the 2005 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 2005 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. Such debt service estimates also include estimated payments pursuant to interest rate exchange agreements.

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 June 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 June 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 June 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 June Financial Plan by $146 million, $190 million and $137 million in fiscal years 2005 through 2007, respectively, and greater than projected in the June 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 June 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 June 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 December 8, 2004, the staff of the OSDC issued a report on the Financial Plan. The report noted that while the Financial Plan projected a net increase in tax revenues, large budget gaps reopen in the later years of the Financial Plan because the City continues to have a structural imbalance between revenues and expenditures, due to expenditures growing at a faster rate than revenues. The report identified net risks of $140 million, $611 million, $710 million and $653 million for fiscal years 2005 through 2008, respectively, which, when added to the gaps projected in the Financial Plan, would result in gaps of $140 million, $3.6 billion, $4.9 billion and $4.0 billion in fiscal years 2005 through 2008, respectively. The risks to the Financial Plan identified in the report include: (i) 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; (ii) possible additional Medicaid costs of $130 million in fiscal year 2006 and $200 million in each of fiscal years 2007 and 2008; (iii) possible increased spending for uniformed agency overtime of $100 million in each of fiscal years 2006 through 2008; and (iv) possible increased spending for education totaling $200 million annually in fiscal years 2005 through 2008, respectively. The report noted that such risks could be offset by smaller pension fund contributions of $30 million, $75 million, $135 million and $210 million in fiscal years 2005 through 2008, respectively, due to higher-than-planned investment earnings in 2004.

In addition, the report noted other risks and potential offsets including the possibility that the City will be required to reduce by $121 million in fiscal year 2005, and approximately $60 million annually in fiscal years 2006 through 2008, respectively, the projected TSRs with respect to outstanding TSASC bonds that would otherwise accrue to the City's budget and the payment of future wage increases without productivity savings at the projected inflation rate resulting in potential costs of $220 million, $700 million and $1.2 billion in fiscal years 2006 through 2008, respectively. The report identified offsets of $250 million in fiscal year 2005 from savings from prior years' expenses and $300 million in each of fiscal years 2005 through 2008 from the City's general reserve.

The report further noted the existence of a number of issues that could have a significant impact on the City during the Financial Plan period, including the possible need for additional education spending to comply with the need to address the Court of Appeals ruling that the current State education distribution formula provides insufficient funding to the City, the possibility of larger wage increases for teachers and uniformed City employees in current negotiations than projected in the Financial Plan and the impact of financial difficulties at HHC and MTA. With respect to the possible need for additional education spending, the report noted that a panel appointed by the trial court hearing a challenge to the State education distribution formula had recommended that the State implement a funding plan that would phase in over a four-year period beginning next year an increase of $5.6 billion for City schools as well as provide for an additional $9.2 billion over a five year period for capital projects for City schools. The panel stated that the State legislature should determine how these additional costs are split between the State and the City but that the burden placed on the City cannot be arbitrary or unreasonable. In a previous report, OSDC stated that there was a risk that the City could be required to increase its funding for education but that the amount at risk could not be quantified, The report also expressed concern that rising interest rates, large federal deficits and other factors, including the impact of international events, could effect the strength of the City's economy.

The report noted that 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.

On July 12, 2004, the staff of the Control Board issued a report reviewing the June 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 June 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 June 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, water and sewer facilities, 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 Plan 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 $7.1 billion in fiscal year 2005. City-funded expenditures are forecast at $5.2 billion in fiscal year 2005; total expenditures are forecast at $6.2 billion in fiscal year 2005. 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 2005 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.*"

2005-2008 CAPITAL COMMITMENT PLAN

	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
	(In Millions)									
Mass Transit(1)	$ 124	$ 124	$ 68	$ 68	$ 68	$ 68	$ 66	$ 66	$ 326	$ 326
Roadway, Bridges	801	1,004	720	780	754	1,039	521	656	2,797	3,479
Environmental Protection(2)	2,637	2,776	2,114	2,209	1,890	1,917	1,188	1,215	7,829	8,117
Education	1,426	2,739	1,317	2,629	1,313	2,625	1,313	2,625	5,368	10,619
Housing	412	573	335	462	299	357	286	433	1,332	1,825
Sanitation	642	642	141	141	204	204	212	212	1,199	1,199
City Operations/Facilities	4,420	4,971	1,815	1,920	984	1,044	993	1,019	8,212	8,955
Economic and Port Development	463	676	216	216	140	140	85	85	904	1,117
Reserve for Unattained Commitments	(3,820)	(3,820)	129	129	421	421	493	493	(2,777)	(2,777)
Total Commitments(3)	$ 7,105	$ 9,685	$6,855	$8,555	$6,073	$7,815	$5,157	$6,804	$25,190	$32,859
Total Expenditures(4)	$ 5,248	$ 6,213	$5,790	$7,148	$6,171	$7,601	$6,191	$7,733	$23,400	$28,695

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 November 2004, the City issued an Asset Information Management System Report (the "AIMS Report"), which is 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. 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 $4.88 billion in capital investment would be needed for fiscal years 2006 through 2009 to bring the assets to a state of good repair. The report also estimated that $313 million, $180 million, $214 million and $197 million should be spent on maintenance in fiscal years 2006 through 2009, 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

	2005	2006	2007	2008	Total
			(In Millions)		
City General Obligation Bonds	$3,830	$3,950	$4,300	$4,320	$16,400
TSASC (1)	49	—	—	—	49
Water Authority (2)	1,413	1,682	1,773	1,736	6,604
Conduit Debt	86	—	86	—	172
Total	$5,378	$5,632	$6,159	$6,056	$23,225

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 $584 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 Four-Year Capital Plan for fiscal years 2005 through 2008 reflects total anticipated City-funded water and sewer commitments of $7.8 billion which are expected to be financed with the proceeds of Water Authority debt.

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 October 25, 2004, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Notes A.14 and E.2." As of September 30, 2004, the total marked-to-market value of such agreements was ($52,353,736).

Seasonal Financing Requirements

The City since 1981 has fully satisfied its seasonal financing needs in the public credit markets, repaying all short-term obligations within their fiscal year of issuance. To 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. The City does not expect that it will issue any short-term obligations during fiscal year 2005.

SECTION VIII: INDEBTEDNESS

Indebtedness of the City and Certain Other Entities

Outstanding City, MAC and PBC Indebtedness

The following table sets forth outstanding indebtedness having an initial maturity greater than one year from the date of issuance of the City, MAC and the PBCs as of September 30, 2004.

(In Thousands)

Gross City Long-Term Indebtedness(1)	$30,840,601	
Less: Assets Held for Debt Service(1)	(57,886)	
Net City Long-Term Indebtedness		$30,782,715
Gross MAC Long-Term Indebtedness(2)(3)	1,758,015	
Less: Assets Held for Debt Service(2)(3)	(201)	
Net MAC Long-Term Indebtedness		1,757,814
PBC Indebtedness(4)		
Bonds Payable	407,376	
Capital Lease Obligations	1,707,167	
Gross PBC Indebtedness	2,114,543	
Less: Assets Held for Debt Service	(86,448)	
Net PBC Indebtedness		2,028,095
Combined Net City, MAC and PBC Indebtedness(3)		$34,568,624

(1) With respect to City long-term indebtedness, "Assets Held for Debt Service" consists of General Debt Service Fund assets, and $38.9 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 $13.279 billion (including $2 billion of Recovery Bonds) and $1.270 billion, respectively, as of September 30, 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) On November 4, 2004, all of MAC's outstanding bonds were defeased with the proceeds of STAR Corp. bonds and MAC reserve funds.

(4) "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 2004 and at September 30, 2004.

	City(1)		MAC(2)			
	Long-Term Debt(3)	Short-Term Debt	Long-Term Net Debt(4)	Short-Term Debt	PBC Bonds and Capital Leases(3)	Total
			(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
2004	30,498	—	1,734	—	1,766	33,998
September 30, 2004	30,783	—	1,758	—	2,028	34,569

(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 $13.279 billion (including $2 billion of Recovery Bonds and Notes) and $1.256 billion, respectively, as of September 30, 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, $2,151 million and $1,758 million as of June 30 of each of the years 1994 through 2004.

(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. On November 4, 2004, all of MAC's outstanding bonds were defeased with the proceeds of STAR Corp. bonds and MAC reserve funds.

Rapidity of Principal Retirement

The following table details, as of September 30, 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	21.57%
10 years	47.10
15 years	69.32
20 years	87.53
25 years	96.71
30 years	99.93

City, MAC and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of September 30, 2004, on City and MAC term and serial bonds outstanding and City obligations to certain PBCs.

Fiscal Years	City Long-Term Debt: Principal of Bonds(1)	City Long-Term Debt: Interest(1)	MAC Debt Service(2)	PBC Bonds and Capital Leases(3)	Total
			(In Thousands)		
2005	$ 1,384,401	$ 827,524	$ 495,536	$ 172,942	$ 2,880,403
2006	1,499,653	1,269,117	497,098	188,062	3,453,930
2007	1,661,480	1,221,961	492,496	185,892	3,561,829
2008	1,643,665	1,145,847	494,461	184,472	3,468,445
2009 through 2147	25,593,516	9,753,017	—	2,612,491	37,959,024
Total	$30,782,715	$14,217,466	$1,979,591	$3,343,859	$50,323,361

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

(2) All of MAC's outstanding debt has been defeased with the proceeds of bonds issued by STAR Corp. and MAC reserves. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

(3) 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 1995 through 2004, 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.

Fiscal Year	Debt Per Capita	Debt as % of Total Taxable Real Property By: Assessed Valuation	Debt as % of Total Taxable Real Property By: Estimated Full Valuation(1)
1995	$4,118	40.6%	4.5
1996	4,290	42.3	7.7
1997	4,344	43.1	8.9
1998	4,510	44.5	9.8
1999	4,791	45.8	11.4
2000	4,967	46.0	11.6
2001	5,048	44.7	11.2
2002	5,318	43.9	10.5
2003	5,877	46.2	11.0
2004	6,223	47.1	9.6

Source: CAFR for the fiscal year ended June 30, 2004.

(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 1995 through 2002, 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.

Fiscal Year	Debt per Capita	Personal Income per Capita(1)	Debt per Capita as % of Personal Income per Capita
1995	4,118	$28,981	14.21%
1996	4,290	30,407	14.11
1997	4,344	31,590	13.75
1998	4,510	33,341	13.53
1999	4,791	34,658	13.82
2000	4,967	36,916	13.45
2001	5,048	37,631	13.42
2002	5,318	37,476	14.19

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 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) is 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 October 31, 2004.

(In Thousands)

Total City Debt-Incurring Power under General Debt Limit		$43,115,213
Gross Debt-Funded	$30,462,837	
Less: Excluded Debt	(460,821)	
	30,002,016	
Less: Fiscal Year 2005 Appropriations for Principal of Debt	(357,534)	
	29,644,482	
Contracts and Other Liabilities, Net of Prior TSASC and TFA Financings and Restricted Cash	6,425,264	
Total Indebtedness	36,069,747	
Less: Anticipated TSASC Debt-Incurring Power	(18,214)	36,051,532
City and TSASC Debt-Incurring Power(1)		$ 7,063,680

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 October 31, 2004, would have been exceeded by $5.5 billion.

At the end of fiscal years 2005 through 2008, OMB projects that the debt incurring power of the City will be approximately $3.2 billion, $1.7 billion, $1.2 billion and $1 billion, respectively.

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. MAC issued 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 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. As of September 30, 2004, MAC had outstanding an aggregate of approximately $1.758 billion of its bonds. However, on November 4, 2004, all of MAC's outstanding bonds were defeased with the proceeds of STAR Corp. bonds and MAC reserve funds. Further issuance of MAC debt is not anticipated and, accordingly, future MAC revenue requirements are expected to be limited to operating expenses. For more information, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

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 September 30, 2004, approximately $107.2 million principal amount of ECF bonds to finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF's leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

New York State Housing Finance Agency

As of September 30, 2004, $140.9 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 September 30, 2004, $640.0 million principal amount and $883.5 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 September 30, 2004, approximately $590.1 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 September 30, 2004, $42.7 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 2004, 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, 2003, plus the other pension expenditures were approximately $2.444 billion. Expense projections for fiscal years 2005 through 2008 are estimated at $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.

June 30	Unfunded Pension Liability Amount(1) (In Billions)
1995	$4.03
1996	4.29
1997	4.28
1998	4.64
1999	.15
2000	.17
2001	.21
2002	.19
2003	.33

(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, 2004 amounted to approximately $4.4 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 $634 million at June 30, 2004. 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 an action pending in State court, plaintiffs seek broad injunctive relief directed toward the City's lead paint poisoning prevention activities. In that action, 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. In August 2004, the trial court dismissed the lawsuits after ruling that plaintiffs in both cases did not have standing. That ruling has been appealed. 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. 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 102 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 of Department of Sanitation employees, firefighters, police officers and construction workers allegedly injured either at the World Trade Center site or the Fresh Kills landfill. 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. The City has formed a not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the "WTC Insurance Company") to cover claims against the City and its private contractors relating to debris removal work at the World Trade Center site. The insurance company has recently been funded by a grant from the Federal Emergency Management Agency in the amount of $999,900,000. Most of the claims set forth above that arise from such debris removal are expected to be eligible for coverage by the WTC Insurance Company. No assurance can be given that such insurance will be sufficient to cover all liability that might arise from such claims.

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. Defendant's motion to dismiss was denied by the Court with leave to renew at a later date.

4. 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 Bonds will not be includable in the gross income of the owners of the Bonds for purposes of federal income taxation under existing law. Interest on the 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 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 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 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 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 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 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 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 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 Bonds. In general, the issue price of a maturity of the Bonds is the first price at which a substantial amount of 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 Bonds purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." Bond premium is amortized over the term of such 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 Bonds are required to decrease their adjusted basis in such Bonds by the amount of amortizable bond premium attributable to each taxable year such Bonds are held. The amortizable bond premium on such 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 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 Bonds and with respect to the state and local tax consequences of owning and disposing of such Bonds.

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

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"), respectively. The ratings on the Insured Bonds will be based on the insurance policies to be issued by Ambac Assurance and CIFGNA. 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 F 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.

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 Bonds are being purchased for reoffering by the Underwriters for whom UBS Financial Services Inc., Bear, Stearns & Co. Inc., Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Bonds shall be $6,267,129.22.

All of the Bonds will be purchased if any are purchased.

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 "2000-2004 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. Filings may be made either directly with such repositories or through a central information repository approved in accordance with Rule 15c2-12.

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. The Financial Plan assumes continued recovery of the City's economy in calendar years 2004 and 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 5.6% 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(1)

Year	Total NYC Personal Income ($ billions)	Per Capita Personal Income NYC	Per Capita Personal Income U.S.	NYC as a Percent of U.S.
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	234.1	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	296.0	36,916	29,848	123.7
2001	303.1	37,631	30,572	123.1
2002	302.5	37,476	30,804	121.7

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census. Data as of November 18, 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 October 2004, total employment in the City was approximately 3,567,600 compared to approximately 3,534,700 in October 2003, an increase of approximately 0.9%.

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

EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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)

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
Goods Producing Sectors				
Mining	0.0%	0.4%	0.3%	0.8%
Construction	3.2	5.2	3.1	6.2
Manufacturing	3.9	11.7	2.8	13.3
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	4.2	4.1	2.3	3.1
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)

	Employment				Earnings(2)			
	1980		2000		1980		2000	
	NYC	U.S.	NYC	U.S.	NYC	U.S.	NYC	U.S.
Private Sector:								
Non-Manufacturing:								
Services	27.0%	19.8%	39.1%	30.7%	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	0.0	1.1	0.0	0.4	0.4	2.1	0.1	1.0
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	10.6	9.0	4.9	5.6	9.5	8.9	4.8	6.1
Total Manufacturing	15.0	22.4	6.5	14.0	13.2	24.8	6.1	16.6
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 ("SICS").
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 October 2004, the total unemployment rate in the City was 6.2% compared to 8.4% in October 2003.

ANNUAL UNEMPLOYMENT RATE(1)(2)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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 October 2004, the number of persons receiving public assistance in the City was 437,693 compared to 432,789 in October 2003.

PUBLIC ASSISTANCE(1)

(Annual Averages in Thousands)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
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. The total taxable sales volume has grown steadily since 1993 with a growth rate averaging over 5%. It is projected that total taxable sales will increase in 2003 after having decreased in 2002. The following table illustrates the volume of sales and purchases subject to the sales tax from 1991 to 2001.

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

Year(1)	Retail(2)	Utility & Communication Sales(3)	Services(4)	Manufacturing	Other(5)	All Total
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
2000(6)	29.9	9.8	19.4	2.1	15.4	76.6
2001(6)	25.1	13.3	21.4	2.2	19.0	81.0

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

(1) For 1991 through 1999, 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. For 2000 and 2001 the yearly data is for the period from March 1 of the year prior to the listed year through the last day of February of the listed year.

(*Footnotes continued on the next page*)

(Footnotes continued from previous page)

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

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

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

(5) Other sales include construction, wholesale trade and others. Beginning in 2000, Other sales also includes arts, entertainment and recreation.

(6) Prior to 2000, the sectors were classified according to SICS. Beginning in 2000, the sectors are classified according to NAICS. The definitions of certain categories have changed.

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

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

Note: Figures do not include an undetermined number of undocumented aliens.
Source: U.S. Department of Commerce, Bureau of the Census.

The following table sets forth the distribution of the City's population by age between 1990 and 2000.

DISTRIBUTION OF POPULATION BY AGE

	1990		2000	
Age		% of Total		% of Total
Under 5	509,740	7.0	540,878	6.8
5 to 14	907,549	12.4	1,091,931	13.6
15 to 19	470,786	6.4	520,641	6.5
20 to 24	576,581	7.9	589,831	7.4
25 to 34	1,369,510	18.7	1,368,021	17.1
35 to 44	1,116,610	15.2	1,263,280	15.8
45 to 54	773,842	10.6	1,012,385	12.6
55 to 64	644,729	8.8	683,454	8.5
65 and Over	953,317	13.0	937,857	11.7

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

Housing

In 1999, the housing stock in the City consisted of approximately 3,039,000 housing units, excluding certain special types of units primarily in institutions such as hospitals and universities ("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 Thousands)

Ownership/Occupancy Status	1981	1984	1987	1991	1993	1996	1999	2002
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.

Property	2005 Fiscal Year Assessed Valuation	Property	2005 Fiscal Year Assessed Valuation
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.

FINANCIAL STATEMENTS

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.

Series	Dated Date	Maturities	Payment Date	Amount
1991B	December 20, 1990	June 1, 2006	June 1, 2006	$18,000,000(1)
1994E	December 29, 1993	August 1, 2006 (5.60%)	January 24, 2005	4,085,000(2)
1994F	December 29, 1993	August 1, 2006	January 24, 2005	2,435,000(2)
1996A	August 14, 1995	August 1, 2005	August 1, 2005	1,015,000(2)
1996F	January 9, 1996	February 1, 2015	February 1, 2006	7,820,000(2)(3)
		February 1, 2019	February 1, 2006	605,000(2)(3)
1996G	January 9, 1996	February 1, 2006	February 1, 2006	6,905,000(2)
		February 1, 2017	February 1, 2006	10,835,000(2)(3)
1996I	March 14, 1996	March 15, 2013	March 15, 2006	525,000(2)
		March 15, 2018	March 15, 2006	5,360,000(2)(3)
1996J	February 15, 1996	February 15, 2019	February 15, 2006	735,000(2)(3)
		February 15, 2024	February 15, 2006	590,000(2)(3)
1997B	August 15, 1996	August 15, 2005	August 15, 2005	4,510,000(2)
		August 15, 2007	August 15, 2006	7,245,000(2)
		August 15, 2026	August 15, 2006	6,355,000(2)(3)
1997C	August 15, 1996	February 1, 2022	August 1, 2006	10,570,000(2)(3)
1997D	August 15, 1996	November 1, 2007	November 1, 2006	2,840,000(2)
1997E	November 21, 1996	August 1, 2005 (5.00%)	August 1, 2005	3,990,000(2)
		August 1, 2007 (6.00%)	August 1, 2006	5,485,000(2)
		August 1, 2008 (5.20%)	August 1, 2006	3,415,000(2)
		August 1, 2009	August 1, 2006	12,460,000(2)
		August 1, 2016	August 1, 2006	12,635,000(2)(3)
1997F	November 21, 1996	August 1, 2006	August 1, 2006	3,255,000(2)
		August 1, 2007	August 1, 2006	7,030,000(2)
		August 1, 2016	August 1, 2006	1,040,000(2)(3)
1997G	January 7, 1997	October 15, 2010	October 15, 2007	22,230,000(1)
		October 15, 2012	October 15, 2007	24,950,000(1)
		October 15, 2013	October 15, 2007	26,380,000(1)
		October 15, 2016	October 15, 2007	7,140,000(1)(3)
		October 15, 2026	October 15, 2007	5,170,000(1)(3)
1997H	January 28, 1997	August 1, 2008	August 1, 2007	570,000(2)
		August 1, 2009 (5.375%)	August 1, 2007	425,000(2)
		August 1, 2009 (5.90%)	August 1, 2007	260,000(2)
		August 1, 2010	August 1, 2007	500,000(2)
		August 1, 2011	August 1, 2007	560,000(2)
		August 1, 2013	August 1, 2007	640,000(2)
		August 1, 2015	August 1, 2007	6,575,000(2)

Series	Dated Date	Maturities	Payment Date	Amount
		August 1, 2017	August 1, 2007	$ 1,600,000(2)(3)
		August 1, 2025	August 1, 2007	25,940,000(2)(3)
1997I	April 24, 1997	April 15, 2008	April 15, 2007	5,435,000(2)
		April 15, 2013	April 15, 2007	355,000(2)
		April 15, 2017	April 15, 2007	645,000(2)(3)
		April 15, 2027	April 15, 2007	655,000(2)(3)
1997J	April 24, 1997	August 1, 2005	August 1, 2005	145,000(2)
		August 1, 2006	August 1, 2006	5,645,000(2)
		August 1, 2008	August 1, 2007	6,755,000(2)
		August 1, 2009	August 1, 2007	7,175,000(2)
		August 1, 2010	August 1, 2007	7,485,000(2)
		August 1, 2011	August 1, 2007	8,130,000(2)
		August 1, 2017	August 1, 2007	22,705,000(2)(3)
		August 1, 2021	August 1, 2007	3,875,000(2)(3)
1997L	June 10, 1997	August 1, 2005 (5.45%)	August 1, 2005	7,245,000(2)
		August 1, 2008	August 1, 2007	17,415,000(2)
		August 1, 2009	August 1, 2007	4,240,000(2)
		August 1, 2010	August 1, 2007	4,840,000(2)
		August 1, 2011	August 1, 2007	3,145,000(2)
		August 1, 2012	August 1, 2007	6,390,000(2)
		August 1, 2013	August 1, 2007	5,745,000(2)
		August 1, 2014	August 1, 2007	7,205,000(2)
		August 1, 2015	August 1, 2007	5,240,000(2)
		August 1, 2016	August 1, 2007	60,000(2)
1997M	June 10, 1997	June 1, 2006	June 1, 2006	460,000(2)
		June 1, 2007	June 1, 2007	1,510,000(2)
		June 1, 2011	June 1, 2007	4,660,000(2)
		June 1, 2012	June 1, 2007	4,910,000(2)
		June 1, 2013	June 1, 2007	2,910,000(2)
		June 1, 2014	June 1, 2007	5,445,000(2)
		June 1, 2017	June 1, 2007	15,540,000(2)(3)
		June 1, 2022	June 1, 2007	8,530,000(2)(3)
1998C	November 18, 1997	November 15, 2009	November 15, 2007	3,775,000(2)
		November 15, 2012	November 15, 2007	945,000(2)
		November 15, 2013	November 15, 2007	1,000,000(2)
		November 15, 2014	November 15, 2007	1,050,000(2)
		November 15, 2015	November 15, 2007	1,110,000(2)
1998D	November 18, 1997	August 1, 2006	August 1, 2006	4,470,000(2)
		August 1, 2011	August 1, 2007	5,950,000(2)
		August 1, 2012	August 1, 2007	1,840,000(2)
		August 1, 2013	August 1, 2007	450,000(2)
1998E	January 6, 1998	February 1, 2006	February 1, 2006	55,000(2)
1998F	January 6, 1998	August 1, 2006	August 1, 2006	280,000(2)
2000A	June 1, 2000	May 15, 2007	May 15, 2007	3,755,000(2)
		May 15, 2012	May 15, 2010	17,070,000(2)
		May 15, 2013	May 15, 2010	2,260,000(2)
		May 15, 2015 (6.00%)	May 15, 2010	1,005,000(2)
		May 15, 2016	May 15, 2010	2,885,000(2)
		May 15, 2017 (6.10%)	May 15, 2010	7,125,000(2)
		May 15, 2018 (6.00%)	May 15, 2010	16,015,000(2)
		May 15, 2018 (6.10%)	May 15, 2010	5,540,000(2)
		May 15, 2020 (6.00%)	May 15, 2010	20,895,000(2)
		May 15, 2020 (6.125%)	May 15, 2010	1,490,000(2)
		May 15, 2022	May 15, 2010	16,855,000(2)

Series	Dated Date	Maturities	Payment Date	Amount
2000C	June 1, 2000	August 1, 2018	August 1, 2010	$ 320,000(2)
		August 1, 2019	August 1, 2010	335,000(2)
2001A	July 6, 2000	May 15, 2007	May 15, 2007	2,225,000(1)
		May 15, 2015	May 15, 2010	5,670,000(2)
		May 15, 2016	May 15, 2010	5,925,000(2)
2003F	January 22, 2003	January 15, 2006	January 15, 2006	200,000(2)
		January 15, 2021 (6.00%)	January 15, 2013	5,485,000(2)
2004C	September 25, 2003	September 15, 2005	September 15, 2005	4,765,000(1)

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

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

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

1996F
2015 Term Bond

February 1	Amount
2014	$ 450,000
2015	7,370,000

1996F
2019 Term Bond

February 1	Amount
2016	$235,000
2019	370,000

1996G
2017 Term Bond

February 1	Amount
2015	$10,835,000

1996I
2018 Term Bond

March 15	Amount
2015	$ 225,000
2016	235,000
2017	4,900,000

1996J
2019 Term Bond

February 15	Amount
2017	$735,000

1996J
2024 Term Bond

February 15	Amount
2020	$185,000
2021	200,000
2022	205,000

1997B
2026 Term Bond

August 15	Amount
2018	$2,900,000
2019	3,455,000

1997C
2022 Term Bond

February 1	Amount
2017	$4,950,000
2022	5,620,000

1997E
2016 Term Bond

August 1	Amount
2015	$12,635,000

1997F
2016 Term Bond

August 1	Amount
2014	$1,040,000

1997G
2016 Term Bond

October 15	Amount
2015	$2,250,000
2016	4,890,000

1997G
2026 Term Bond

October 15	Amount
2017	$5,170,000

1997H
2017 Term Bond

August 1	Amount
2016	$710,000
2017	890,000

1997I
2017 Term Bond

April 15	Amount
2014	$275,000
2015	105,000
2016	130,000
2017	135,000

1997J
2017 Term Bond

August 1	Amount
2016	$11,010,000
2017	11,695,000

1997M
2017 Term Bond

June 1	Amount
2015	$5,740,000
2016	3,415,000
2017	6,385,000

1997H
2025 Term Bond

August 1	Amount
2018	$13,905,000
2020	12,035,000

1997I
2027 Term Bond

April 15	Amount
2018	$145,000
2019	155,000
2021	170,000
2022	185,000

1997J
2021 Term Bond

August 1	Amount
2021	$3,875,000

1997M
2022 Term Bond

June 1	Amount
2018	$1,850,000
2019	1,105,000
2020	2,050,000
2021	1,225,000
2022	2,300,000

BOND INSURERS

The following information pertaining to Ambac Assurance Corporation ("Ambac Assurance") and to CDC IXIS Financial Guaranty North America, Inc. ("CIFGNA") has been supplied by Ambac Assurance and CIFGNA. The City makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the dates indicated. Summaries of or references to the insurance polices to be issued by Ambac Assurance and CIFGNA 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 POLICIES."

Ambac Assurance

Ambac Assurance Corporation has made a commitment to issue a Financial Guaranty Insurance Policy relating to the Series G Bonds maturing in 2016 (4% coupon), 2017 (4% coupon), 2018 (4% coupon), 2019 (4.10% coupon) and 2022 (5% coupon, 4.31% yield) (the "Ambac Insured Bonds"), effective as of the date of issuance of the Ambac Insured Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Ambac Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Fiscal Agent. The insurance will extend for the term of the Ambac Insured Bonds and, once issued, cannot be cancelled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates, in case of principal, and on stated dates for payment, in case of interest. If the Ambac Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Ambac Insured Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the Ambac Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been acceleration.

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

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

1. payment on acceleration, as a result of a call for redemption or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

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

Upon payment of the insurance benefits, Ambac Assurance will become the holder of the Ambac Insured Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Ambac Insured Bonds and will be fully subrogated to the surrendering Bondholder's rights to payment.

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

Ambac Assurance Corporation

Ambac Assurance Corporation is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $8,069,000,000 (unaudited) and statutory capital of approximately $5,015,000,000 (unaudited) as of September 30, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have assigned a triple-A financial strength rating to Ambac Assurance.

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

Ambac Assurance makes no representation regarding the Ambac Insured Bonds or the advisability of investing in the Ambac Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented in this Appendix D.

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. ("Ambac Financial"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including Ambac Financial. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by Ambac Financial with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. Ambac Financial's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;

2. Ambac Financial's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004; and

3. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004.

4. Ambac Financial's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;

5. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;

6. Ambac Financial's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004;

7. Ambac Financial's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004; and

8. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004.

All documents subsequently filed by Ambac Financial pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "—Available Information."

CDC IXIS Financial Guaranty North America, Inc.

Concurrently with the issuance of the Bonds, CIFGNA will issue its Financial Guaranty Insurance Policy for the Series G Bonds maturing in 2014 (3.85% coupon) and the Series H Bonds maturing in 2014 (5% coupon, 3.87% yield) (collectively, the "CIFGNA Insured Bonds"). The Financial Guaranty Insurance Policy guarantees the scheduled payment of principal of and interest on the CIFGNA Insured Bonds when due as set forth in the form of the Financial Guaranty Insurance Policy included as an exhibit to this Official Statement.

CIFGNA is a monoline financial guaranty insurance company incorporated under the laws of the State of New York, with its principal place of business in New York City.

The claims-paying ability (also referred to as its financial strength) of CIFGNA is rated "AAA" by Fitch, "Aaa" by Moody's, and "AAA" by Standard and Poor's, the highest rating assigned by each such Rating Agency. Each rating of CIFGNA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of CIFGNA and its ability to pay claims on its policies of insurance based upon, among other factors, the adequacy of the net worth maintenance and reinsurance agreements provided by CIFG described below under "—Capitalization". Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold the CIFGNA Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the Rating Agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the CIFGNA Insured Bonds. CIFGNA does not guarantee the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

CIFGNA is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile, and is licensed to do business in over 40 jurisdictions. CIFGNA is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of such insurers to financial guaranty insurance and related lines, requires that each such insurer maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for each such insurer, and limits the size of individual transactions ("single risks") and the volume of transactions ("aggregate risks") that may be underwritten by such insurers. Other provisions of the New York Insurance Law applicable to non-life insurance companies such as CIFGNA regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings. CIFGNA is required to file quarterly and annual statutory financial statements with the New York State Insurance Department ("NYSID"), and is subject to statutory restrictions concerning the types and quality of its investments and the filing and use of policy forms and premium rates. Additionally, CIFGNA's accounts and operations are subject to periodic examination by the NYSID.

THE INSURANCE PROVIDED BY THE FINANCIAL GUARANTY INSURANCE POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED BY THE INSURANCE LAWS OF THE STATE OF NEW YORK.

Capitalization

In addition to its capital and surplus as set forth below, CIFGNA is supported by a net worth maintenance agreement from its indirect parent, CDC IXIS Financial Guaranty, a French reinsurance corporation ("CIFG"). The net worth maintenance agreement provides that CIFG will maintain CIFGNA's U.S. statutory capital and surplus at no less than $80 million. In addition, through a facultative reinsurance agreement, CIFGNA may cede up to 90% of its exposure on each transaction to CIFG; however, the facultative reinsurance agreement does not require that CIFG reinsure its exposure under any transaction. CIFG's claims paying ability is rated "Aaa" by Moody's, "AAA" by Standard & Poor's and "AAA" by Fitch, the highest rating assigned by each such Rating Agency. *Notwithstanding these net worth maintenance and reinsurance agreements, the holders of the CIFGNA Insured Bonds will have direct recourse against CIFGNA only, and neither CIFG nor any other affiliate of CIFGNA will be directly liable to the holders of the CIFGNA Insured Bonds.*

The following table sets forth the capitalization of CIFGNA as of September 30, 2004, on the basis of accounting principles prescribed or permitted by the NYSID (in thousands):

Common capital stock	$ 19,700
Gross paid in and contributed surplus	110,925
Unassigned funds (retained deficit)	(37,406)
Surplus as regards policyholders	$ 93,219

There has been no material adverse change in the capitalization of CIFGNA from September 30, 2004 to the date of this Official Statement.

Audited financial statements of CIFGNA as of December 31, 2003, prepared in accordance with statutory accounting principles applicable to insurance companies, may be obtained by writing to CIFGNA at 825 Third Avenue, 6th Floor, New York, New York 10022, Attention: Finance Department. The toll-free telephone number of CIFGNA is (866) CIFG 212.

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

SPECIMEN INSURANCE POLICIES

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President Secretary

Effective Date: Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

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

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

President

SEAL

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)

CIFG
IXIS FINANCIAL GUARANTY

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

FINANCIAL GUARANTY INSURANCE POLICY

ISSUER: ____________________ Policy No.: CIFG NA-##

CUSIP: ____________________ Effective Date: ________, 200_

OBLIGATIONS: ____

CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC. ("CIFG NA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to each Policyholder, subject only to the terms and conditions of this Policy (which includes each endorsement hereto), the full and complete payment by or on behalf of the Issuer of Regular Payments of principal of and interest on the Obligations.

For the further protection of each Policyholder, CIFG NA irrevocably and unconditionally guarantees:

(1) payment of any amount required to be paid under this Policy by CIFG NA following CIFG NA's receipt of notice and instruments of assignment as described in Endorsement No. 1 hereto and

(2) payment of the amount of any distribution of principal of and interest on the Obligations made during the Term of this Policy to such Policyholder that is subsequently avoided in whole or in part as a preference payment under applicable law, all as described in Endorsement No. 1 hereto.

CIFG NA shall be subrogated to the rights of each Policyholder to receive payments under the Obligations to the extent of any payment by CIFG NA hereunder. Upon disbursement in respect of an Obligation, CIFG NA shall become the owner of the Obligation, appurtenant coupon, if any, and all rights to payment of principal thereof or interest thereon.

The following terms shall have the meanings specified below, subject to and including any modifications set forth in any endorsement hereto, for all purposes of this Policy. "Effective Date," "Issuer" and "Obligations" mean, respectively, the Effective Date, Issuer and Obligations referenced above. "Policyholder" means, if the Obligations are in book-entry form, the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Issuer for such purpose or, if the Obligations are in bearer form, the holder of any Obligation; *provided, however,* that any trustee acting on behalf of and for the benefit of such registered owner or holder shall be deemed to be the Policyholder to the extent of such trustee's authority. "Regular Payments" means payments of interest and principal which are agreed to be made during the Term of this Policy in accordance with the original terms of the Obligations when issued and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Issuer or any other person, (b) an election by the Issuer to pay principal or other amounts on an accelerated basis or (c) any other cause, shall not constitute "Regular Payments" unless CIFG NA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "Term of this Policy" has the meaning set forth in Endorsement No. 1 hereto.

This Policy sets forth in full the undertaking of CIFG NA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto or to the Obligations (except a contemporaneous or subsequent agreement or instrument given by CIFG NA or to which CIFG NA has given its written consent) or by the merger, consolidation or dissolution of the Issuer. The premiums paid in respect of this Policy are nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Policy may not be cancelled or revoked during the Term of this Policy, including for nonpayment of premium due to CIFG NA. Payments under this Policy may not be accelerated except at the sole option of CIFG NA.

In witness whereof, CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CDC IXIS FINANCIAL GUARANTY NORTH AMERICA, INC.

By ____
Authorized Officer

CIFGNA Bonds-1 (8-04)

SIDLEY AUSTIN BROWN & WOOD LLP

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SHANGHAI
SINGAPORE
TOKYO
WASHINGTON, D.C.

December 21, 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 G, H and I (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 Bonds is not includable in the gross income of the owners of the Bonds for purposes of federal income taxation under existing law. Interest on the 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 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 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 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 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 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,