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") with respect to the Bonds and the Multi-Modal Bonds, 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.

$250,000,000

The City of New York

General Obligation Bonds, Fiscal 2006 Series E
Subseries E-1

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

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 page. The Bonds can be purchased in principal amounts of $5,000 or any integral multiple thereof. Other terms of the Bonds including redemption provisions are described herein. *A detailed schedule of the Bonds is set forth on the inside cover page.*

The Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters. The issuance of the Bonds is subject to the approval of the legality of the Bonds by Sidley Austin Brown & Wood LLP, New York, New York, Bond Counsel to the City, and certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the City by Willkie Farr & Gallagher LLP, New York, New York. Certain legal matters will be passed upon for the Underwriters by Clifford Chance US LLP, New York, New York. It is expected that the Bonds will be available for delivery in New York, New York, on or about August 17, 2005.

M.R. Beal & Company **Bear, Stearns & Co. Inc.** **Citigroup**
Morgan Stanley **UBS Financial Services Inc.**

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

Advest, Inc./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**

August 11, 2005

$550,000,000[1] General Obligation Bonds, Fiscal 2006 Series E

$250,000,000 General Obligation Bonds, Fiscal 2006 Subseries E-1

August 1	Principal Amount	Interest Rate	Price or Yield
2007	$ 8,960,000	2¾%	2.79%
2008	9,205,000	3	3.07
2009	11,035,000	3¼	3.33
2010	11,395,000	3½	100
2011	11,790,000	3½	3.66
2012	7,845,000	3¾	3.88
2012	4,355,000	5	3.88
2013	5,900,000	3⅞	3.96
2013	6,815,000	5	3.96
2014	13,285,000	4	4.02
2015 (2)	11,420,000	4	3.91
2015	2,395,000	5	4.13
2016	14,390,000	4	4.16
2017	7,485,000	4⅛	4.26
2017 (3)	3,025,000	5	4.26
2018 (4)	12,150,000	4	4.13
2019 (4)	2,265,000	4	4.16
2019 (3)	4,725,000	5	4.35
2020	6,865,000	4¼	4.31
2021 (4)	970,000	4⅛	4.20
2021 (3)	6,650,000	5	4.40
2022	305,000	4.35	4.42
2022 (3)	7,665,000	5	4.42
2023	710,000	4.35	4.44
2023 (3)	7,630,000	5	4.44
2024	4,690,000	4⅜	4.46
2024 (3)	4,040,000	5	4.46
2027	9,520,000	4½	4.52
2035 (5)	52,515,000	4½	4.68

(1) Includes $300,000,000 Multi-Modal Bonds not offered hereby.

(2) Insured by Ambac Assurance Corporation.

(3) Priced to first par call on August 1, 2015.

(4) Insured by CIFG Assurance North America, Inc.

(5) Term Bond.

Interest on the Subseries E-1 Bonds is payable on each February 1 and August 1 commencing February 1, 2006.

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.

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OFFICIAL STATEMENT
OF
THE CITY OF NEW YORK

This Official Statement provides certain information concerning The City of New York (the "City") in connection with the sale of $250,000,000 aggregate principal amount of the City's General Obligation Bonds, Fiscal 2006 Series E, Subseries E-1 (the "Bonds"). Concurrently with the delivery of the Bonds, the City will deliver $300,000,000 tax-exempt multi-modal bonds of Fiscal 2006 Series E, Subseries E-2, E-3 and E-4 (the "Multi-Modal Bonds"), which are described in a separate official statement and are not offered hereby.

INTRODUCTORY STATEMENT

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

The City, with a population of approximately 8,000,000, is an international center of business and culture. Its non-manufacturing economy is broadly based, with the banking and securities, life insurance, communications, publishing, fashion design, retailing and construction industries accounting for a significant portion of the City's total employment earnings. Additionally, the City is a leading tourist destination. Manufacturing activity in the City is conducted primarily in apparel and printing.

For each of the 1981 through 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." City fiscal years end on June 30 and are referred to by the calendar year in which they end. 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 and 2006 fiscal years and budget gaps for each of the 2007 through 2009 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 2004 Financial Plan"), Modification No. 05-4 to the June 2004 Financial Plan and the financial plan for the 2006 through 2009 fiscal years submitted to the Control Board on July 6, 2005. Modification No. 05-4 and the financial plan for the 2006 through 2009 fiscal years are referred to herein as the "2005-2009 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. 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. This Official Statement should be read in its entirety.

SECTION I: RECENT FINANCIAL DEVELOPMENTS

2005-2009 Financial Plan

For the 2004 fiscal year, the City's General Fund had an operating surplus of $1.928 billion, before discretionary 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 balanced operating results when reported in accordance with GAAP.

The City's expense and capital budgets for the 2005 fiscal year were adopted on June 25, 2004. The June 2004 Financial Plan was consistent with the City's expense and capital budgets as adopted for the 2005 fiscal year. The June 2004 Financial Plan projected revenues and expenditures for the 2005 fiscal year balanced in accordance with GAAP and gaps of $3.7 billion, $4.5 billion, $3.7 billon for fiscal years 2006, 2007, and 2008, respectively. See "Section VI: FINANCIAL OPERATIONS—Forecast of 2005 Results."

On July 6, 2005, the City submitted the Financial Plan to the Control Board. The Financial Plan relates to the City and certain entities that receive funds from the City and reflects changes as a result of the City's expense and capital budgets for the 2006 fiscal year which were adopted on June 30, 2005. The Financial Plan includes a modification to the June 2004 Financial Plan as subsequently modified by the financial plans submitted to the Control Board on October 21, 2004, February 2, 2005 and May 9, 2005 (the "May Financial Plan"). The Financial Plan projects revenues and expenditures for the 2005 and 2006 fiscal years balanced in accordance with GAAP, and projects gaps of $4.5 billion, $4.5 billion, and $3.9 billion in fiscal years 2007 through 2009, respectively, after implementation of a gap-closing program described below.

The Financial Plan reflects increases in projected net revenues since the June 2004 Financial Plan totaling $3.6 billion, $2.2 billion, $1.9 billion and $1.3 billion in fiscal years 2005 through 2008, respectively. Changes in projected revenues since the June 2004 Financial Plan include: (i) increases in projected net tax revenues of $3.5 billion, $2 billion, $1.9 billion and $1.3 billion in fiscal years 2005 through 2008, respectively, resulting primarily from increases in personal income and business tax revenues, reflecting securities industry profits and an improving economy, and increases in mortgage recording, real property transfer and sales tax revenues; (ii) increases in non-tax revenues of $274 million, $121 million, $51 million and $45 million in fiscal years 2005 through 2008, respectively, primarily due to increased investment earnings; (iii) reduction in anticipated federal assistance of $50 million in fiscal year 2005; and (iv) the delay from fiscal year 2005 to fiscal year 2006 of the receipt from TSASC, Inc. ("TSASC") of $120 million tobacco settlement receivables ("TSRs") retained in the TSASC trapping account. For information on the TSASC trapping requirement, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—4. Miscellaneous Revenues."

The Financial Plan also reflects increases in projected net expenditures since the June 2004 Financial Plan totaling $577 million, $2.4 billion, $2.3 billion and $2.7 billion in fiscal years 2005 through 2008, respectively. Increases in projected expenditures since the June 2004 Financial Plan include: (i) increased Medicaid expenses of $184 million, $334 million, $508 million and $699 million in fiscal years 2005 through 2008, respectively; (ii) interest payments associated with the financing by the Hudson Yards Infrastructure Corporation ("HYIC"), a local development corporation created by the City, of the planned Hudson Yards development on the west side of Manhattan of $6 million, $46 million, $95 million and $139 million in fiscal years 2005 through 2008, respectively; (iii) increased other debt service expenditures of $46 million in fiscal year 2008; (iv) increased pension and fringe benefit expenditures of $14 million, $711 million, $608 million and $514 million in fiscal years 2005 through 2008, respectively; (v) increased expenditures for education of $110 million in fiscal year 2005, $177 million in fiscal year 2006 and $116 million in each of fiscal years 2007 and 2008; (vi) increased agency spending of $114 million, $812 million, $333 million and $346 million in fiscal years 2005 through 2008, respectively; (vii) increased expenses for the next round of collective bargaining of $100 million, $350 million and $625 million in fiscal years 2006 through 2008, respectively; and (viii) a reserve available to cover increased expenditures, primarily for uniformed employees, expected to result from the eventual conclusion of the 2002-2005 round of bargaining of $778 million, $357 million, $282 million and $230 million in fiscal years 2005 through 2008, respectively. Decreases in projected expenditures since the June 2004 Financial Plan include decreased other debt service expenditures of $169 million, $145 million and $7 million in fiscal years 2005 through 2007, respectively. Prior years' expenses have been reduced by $200 million in fiscal year 2005 and the General Reserve has been reduced in fiscal year 2005 by $260 million.

The Financial Plan reflects a shortfall in anticipated State assistance of $201 million, $196 million, $94 million and $77 million in fiscal years 2005 through 2008, respectively. The Financial Plan also includes a proposed tax reduction program that would reduce tax revenues by $221 million, $233 million and $92 million in fiscal years 2006 through 2008, respectively, primarily due to the restoration of the local sales tax exemption on clothing and footwear purchases under $110, which has been approved by the State.

In addition, the Financial Plan sets forth gap-closing actions to eliminate the previously projected gap for the 2006 fiscal year and to reduce previously projected gaps for fiscal years 2007 and 2008. The gap-closing actions include: (i) reduced agency expenditures or increased revenues totaling $402 million, $477 million, $318 million and $317 million in fiscal years 2005 through 2008, respectively; (ii) debt service savings of $10 million and $85 million in fiscal years 2005 and 2006, respectively; (iii) $85 million in fiscal year 2005 from the lease with the Port Authority of New York and New Jersey (the "Port Authority") for LaGuardia and John F. Kennedy International Airports and taxi medallion sales; and (iv) State actions of $23 million, $317 million, $375 million and $443 million in fiscal years 2005 through 2008, respectively, and additional federal actions of $50 million in fiscal year 2006, which require the approval of the federal government.

The Financial Plan includes proposed discretionary transfers in fiscal year 2005 of $3.5 billion, reflecting early payment of debt service and other payments otherwise expected to be made in fiscal year 2006.

The Financial Plan makes provisions for wage increases for all City employees other than uniformed 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"). The Financial Plan provides a collective bargaining reserve sufficient to pay contract settlements for all uniformed employees consistent with the recent award to the police represented by the Patrolmen's Benevolent Association ("PBA"), including the productivity offsets contained therein. Any labor settlement in excess of such amounts could result in substantial additional costs to the City. Each incremental 1% wage increase for the portion of the City's workforce which does not yet have settled contracts for the 2002-2005 round of bargaining would cost approximately $135 million annually. Any incremental increases could be retroactive to as far back as the prior contracts' expiration dates, the vast majority of which were before July 1, 2003 and many of which were during the 2002 calendar year. The Financial Plan provides for 1.25% wage increases annually for all City employees for the next round of collective bargaining. For information regarding labor negotiations and 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."

The State

The State ended its 2004-2005 fiscal year on March 31, 2005 in balance on a cash basis, with a reported closing balance in the General Fund of $1.2 billion. The Governor's Executive Budget for the 2005-2006 fiscal year projected balance on a cash basis for the 2005-2006 fiscal year, with a closing balance in the General Fund of $1.8 billion, and projected gaps of $2.6 billion in fiscal year 2006-2007 and $2.5 billion in fiscal year 2007-2008, assuming all the Executive Budget savings proposals were enacted.

The State Legislature completed action on the budget for the 2005-2006 fiscal year on April 12, 2005 (the "Enacted Budget"). The State released its Annual Information Statement on May 4, 2005 (the "Annual Information Statement"). In the Annual Information Statement, the State Division of the Budget (the "State DOB") estimated that the Enacted Budget is balanced in fiscal year 2005-2006, with a projected closing fund balance in the General Fund of $1.8 billion, and gaps of approximately $3.2 billion in fiscal year 2006-2007 and $4.1 billion in fiscal year 2007-2008. The State has released its first quarterly update to its 2005-06 Financial Plan dated August 1, 2005, which, among other things, updates projections for its 2006-07 and 2007-08 fiscal years and an Annual Information Statement Update, dated August 8, 2005 (collectively, the "August Updates"). In the August Updates, the State DOB projects slightly improved operations in the current year, and gaps declining to approximately $2.9 billion in fiscal year 2006-2007 and $3.9 billion in fiscal year 2007-2008.

The Annual Information Statement and the August Updates identify a number of risks inherent in implementation of the Enacted Budget. Such risks include required court actions or legislative approval affecting receipts and disbursements included in the Enacted Budget; 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 large 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 page of this Official Statement. The Bonds will contain a pledge of the City's faith and credit for the payment of the principal of, redemption premium, if any, and interest on the Bonds. Interest on the Bonds, calculated on a 30/360 day basis, will be payable to the registered owners thereof as shown on the registration books of the City on the Record Date (the fifteenth day of the calendar month immediately preceding the applicable interest payment date). All real property subject to taxation by the City will be subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, to pay the principal of and interest on the Bonds.

Payment Mechanism

Pursuant to the 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. For further information on the expiration of the Act, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Emergency Act*."

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, to limit its issuance of bond anticipation notes as required by the Act, as in effect from time to time, to include as terms of the Multi-Modal Bonds the provisions applicable thereto, and to comply therewith and with the statutory restrictions.

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, including expenses of the City incurred in connection with the issuance and sale of the Bonds.

Optional Redemption

The Bonds maturing after 2015 will be subject to redemption at the option of the City, on or after August 1, 2015, 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 City may select amounts, coupons and maturities for redemption in its sole discretion. On and after any redemption date, interest will cease to accrue on the Bonds called for redemption.

Mandatory Redemption

The Bonds maturing in 2035 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:

August 1	Principal Amount to be Redeemed
2034	$21,995,000
2035(1)	30,520,000

(1) Stated maturity.

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

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

Bond Insurance

Principal and interest on the Bonds maturing in 2015 (4% coupon) 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 C. A specimen Ambac Assurance policy is set forth in Appendix D. Principal and interest on the Bonds maturing in 2018, 2019 (4% coupon) and 2021 (4⅛% coupon) are expected to be insured by CIFG Assurance North America, Inc. (the "CIFGNA Insured Bonds," and together with the Ambac Insured Bonds, the "Insured Bonds"). Information about CIFG Assurance North America, Inc. ("CIFGNA") is set forth in Appendix C. A specimen CIFGNA policy is set forth in Appendix D.

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 $88 billion as of June 30, 2005, 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 2004 fiscal year, which includes, among other things, the City's financial statements for the 2004 fiscal year, has received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the twenty-fourth consecutive year the CAFR of the Comptroller has won such award. The CAFR for the 2004 fiscal year was released on October 29, 2004.

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 June 30, 2005 aggregate pension assets were allocated approximately as follows: 48% U.S. equities; 28% U.S. fixed income; 18% international equities; 4% private equity and real estate; and 2% cash.

Financial Emergency Act

The Financial Emergency Act requires that the City submit to the Control Board, at least 50 days prior to the beginning of each fiscal year (or on such other date as the Control Board may approve), a financial plan for the City and certain State governmental agencies, public authorities or public benefit corporations ("PBCs") which receive or may receive monies from the City directly, indirectly or contingently (the "Covered Organizations") covering the four-year period beginning with such fiscal year. The New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, "New York City Transit" or "NYCT" or "Transit Authority"), 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. Prior to July 1, 2008, the Control Board 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.

In 2003, the State Legislature amended the Act to change its termination date from the *earlier* of July 1, 2008 or the date on which certain bonds are discharged to the *later* of July 1, 2008 or the date on which such bonds are discharged. The bonds referred to in the amended section of the Act are all bonds containing the State pledge and agreement authorized under section 5415 of the Act (the "State Covenant"). The State Covenant in those bonds effectively preserves the Act and its full powers until 2008.

The State Covenant is authorized to be included in bonds of the Municipal Assistance Corporation For The City of New York ("MAC") and bonds of the City. Since enactment of this amendment to the Act, all of MAC's bonds have been discharged and the City has not issued bonds containing the State Covenant. However, many City bonds issued prior to the amendment do contain the State Covenant. Because the City has issued such bonds with maturities as long as 30 years, the effect of the amendment was to postpone termination of the Act from July 1, 2008 to 2033 (or earlier if all City bonds containing the State Covenant are discharged), unless terminated earlier than 2033 by further legislation which the State could pass at any time.

However the power to impose or continue a Control Period terminates in 2008. The power to impose or continue a Control Period is covered by a different legal provision, which was not amended, providing that no Control Period shall continue beyond the earlier of July 1, 2008 or the date on which all bonds containing the State Covenant are discharged. The State Legislature did not amend this provision. Therefore, under current law, although the Act may continue in effect beyond July 1, 2008, no Control Period may be imposed after July 1, 2008.

In addition, the State Legislature could, without violation of the State Covenant contained in the City's outstanding bonds, enact legislation that would terminate the Control Board and the Act on or after July 1, 2008 because, at the time of issuance of those bonds, the termination date of the Act was July 1, 2008 (or the date of the earlier discharge of such bonds).

Under current law, the Control Board is funded by MAC, using the City sales tax. Because MAC's existence terminates on July 1, 2008, there will be no source of funding for the Control Board thereafter unless legislative action is taken.

The New York City Charter Revision Commission, appointed by the Mayor to consider possible revisions to the City Charter, approved a ballot initiative that, if approved by voters in November 2005, would amend the City Charter to incorporate many provisions of the Act such as balanced budget requirements, additional restrictions on short term debt and additional conditions on the annual audit of the City's accounts.

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 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 70.0% of total revenues in the 2006 fiscal year while federal aid, including categorical grants, will provide 10.3%, and State aid, including unrestricted aid and categorical grants, will provide 19.7%. 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 41.1% of its total tax revenues and 24.8% of its total revenues for the 2006 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 the debt service levy represents of 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)							
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
2006	13,668.1	11,633.5	1,141.0	8.3	11,666.5	99.7	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% real estate tax increase effective January 1, 2003 which resulted in approximately $837 million, $1.7 billion, $1.8 billion and $1.9 billion in increased collections in the 2003 through 2006 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 2006 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 2004 market value survey.

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)
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		0.2056		485,671,680,734
2005.	103,676,971,611		0.2067		501,581,865,559
2006.	111,397,956,330		0.2028		549,299,587,426
				Average:	$470,509,861,766

(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 2005 fiscal year, the billable assessed value of all real estate (taxable and exempt) was $181.6 billion comprised of $69.7 billion of fully exempt real estate, $38.9 billion of partially taxable real estate and $73.1 billion of fully taxable real estate.

(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 2006 fiscal year. These figures differ from the assessed and full valuation of taxable real estate reported in the CAFR 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 2006, class one was assessed at approximately 6% 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 2006 tax rates were set on June 30, 2005, and reflect a 5% limitation on the market value adjustment for 2006 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 estate 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 estate 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 estate 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, 1999, and 2000 growing 0.7%, 2.6%, and 3.4%, respectively, as the local recovery began to accelerate and office vacancy rates dropped below twelve percent.

For fiscal year 2001, billable assessed valuation rose by $3.2 billion to $83.3 billion. The billable assessed valuation as determined by the Department of Finance and as reported in the CAFR of the City Comptroller rose to $88.3 billion, $93.3 billion, $98.6 billion and $102.4 billion for fiscal years 2002 through 2005 respectively. The Department of Finance released the final assessment roll for fiscal year 2006 on June 6, 2005. The billable assessed value rose by $7.6 billion over the 2005 final assessment roll to $110.0 billion. Billable assessed valuations are forecast to grow by 5.6% in fiscal year 2007 and 4.9% and 4.4% in fiscal years 2008 and 2009, 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 with an assessed value of $80,000 or less except in the case of (i) any parcel with respect to which the real estate 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 estate 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 2001, 2002, 2003, 2004 and 2005, the City sold to separate statutory trusts real estate tax liens for which the City received net proceeds of approximately $211 million, $44.5 million, $22.6 million, $89.8 million and $43.3 million, respectively. The City currently expects to receive $66.3 million in fiscal year 2006 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)				
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	12,250.7	11,370.3	92.8	180.1	(195.1)	(591.0)	(289.3)	2.36	89.8
2005(6)	12,720.0	11,540.1	90.7	139.0	(227.0)	(889.4)	(290.5)	2.28	43.3
2006(6)	13,668.1	12,456.6	91.1	136.0	(227.0)	(891.5)	(320.0)	2.34	66.3

(1) As approved by the City Council through fiscal year 2006.
(2) Quarterly collections on current year levy.
(3) Includes repurchases of defective tax liens amounting to $15.1 million, $3.9 million, $11.1 million, $5.6 million, and $3 million in the 2001, 2002, 2003, 2004, and 2005 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 58.9% of its total tax revenues for the 2006 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 estate 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 real estate 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 estate 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. Until the defeasance of all of MAC's outstanding bonds with the proceeds of Sales Tax Asset Receivable Corporation ("STAR Corp.") bonds and MAC funds on November 4, 2004, such sales tax and stock transfer tax revenues were made available first to MAC for payment of MAC debt service, reserve fund requirements, operating expenses, and State oversight costs with the balance payable to the City. Sales tax and stock transfer tax revenues are currently made available first to MAC for payment of MAC operating expenses and State oversight costs with the balance payable to the City. Such costs are expected to total approximately $10 million in fiscal year 2006. A portion of sales tax payments payable to the City would be paid to the New York City Transitional Finance Authority ("TFA") if personal income tax revenues do not satisfy specified debt service ratios.

Revenues from taxes other than the real estate 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 estate 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	487
Audits	416	401	485	571	576
Total	$14,409	$14,965	$12,957	$13,297	$16,583

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 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 body corporate and politic, constituting 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 TSRs from the settlement of litigation with certain cigarette manufacturers, that are not retained by 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 costs related to or arising from the September 11 attack ("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 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. For information on TFA borrowing for Recovery Costs, see "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

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. The City has been largely reimbursed by the federal government for its direct costs for response and remediation of the World Trade Center site following 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 September 30, 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 appoint one member. The number of pupils in the school system is estimated to be approximately 1 million in each of the 2006 through 2009 fiscal years. Actual enrollment in fiscal years 2001 through 2005 has been 1,072,677, 1,068,849, 1,065,471, 1,060,414 and 1,048,474, 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 41.1% of the costs of the Community Colleges in the 2006 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. For those employees, wages, hours or working conditions may be changed only as provided for under collective bargaining agreements. Although State law prohibits strikes by municipal employees, strikes and work stoppages by employees of the City and the Covered Organizations have occurred.

Collective bargaining for City employees is under the jurisdiction of either the New York City Office of Collective Bargaining ("OCB"), which was created under the New York City Collective Bargaining

Law, or the State Public Employment Relations Board ("PERB"), which was created under the State Employees Fair Employment Act. Collective bargaining matters relating to police, firefighters and pedagogical employees are under the jurisdiction of PERB. Under applicable law, the terms of future wage settlements could be determined through an impasse procedure which, except in the case of pedagogical employees, can result in the imposition of a binding settlement. Pedagogical employees do not have access to binding arbitration but are covered by a fact-finding impasse procedure under which a binding settlement may not be imposed.

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 May 5, 2005, the City published the Ten-Year Capital Strategy for fiscal years 2006 through 2015. The Ten-Year Capital Strategy totals $62.4 billion, of which approximately 85% 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) $17.6 billion to construct new schools and improve existing educational facilities; (ii) $15.8 billion for improvements to the water and sewer system; (iii) $4.1 billion for expanding and upgrading the City's housing stock; (iv) $3.1 billion for reconstruction or resurfacing of City streets; (v) $743 million for continued City-funded investment in mass transit; (vi) $4.9 billion for the continued reconstruction and rehabilitation of all four East River bridges and 149 other bridge structures; (vii) $1.6 billion to expand current jail capacity; and (viii) $582 million 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

$24.4 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
			(In Millions)			
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	$5,133	$24,430

(1) Excludes the Transit Authority's non-City portion of the Metropolitan Transportation Authority ("MTA") 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	16,583
Miscellaneous Revenues(3)	3,089	3,623	3,799	4,648	3,370
Other Categorical Grants	432	492	615	1,006	956
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) Other Taxes and MAC Debt Service Funding include amounts paid to MAC by the State for debt service, operating expenses and State oversight costs from sales tax receipts, stock transfer tax receipts and State per capita aid otherwise payable by the State to the City. For more information see ''SECTION IV: SOURCES OF CITY REVENUES—Other Taxes.'' 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. 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 2005 fiscal year contained in the June 2004 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 July 6, 2005 (the "July 2005 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	July 2005 Forecast	Increase/(Decrease) from June 2004 Forecast
		(In Millions)	
REVENUES			
Taxes			
General Property Tax	$11,550	$11,495	$ (55)
Other Taxes	14,603	18,368	3,765 (1)
Discretionary Transfer	400	400	—
Tax Audit Revenue	508	525	17
Miscellaneous Revenues	5,784	6,429	645 (2)
Unrestricted Intergovernmental Aid	562	562	—
Anticipated State and Federal Actions	450	—	(450)(3)
Less: Intra-City Revenues	(1,146)	(1,319)	(173)
Disallowances Against Categorical Grants	(15)	(15)	—
Subtotal – City Funds	$32,696	$36,445	$3,749
Other Categorical Grants	807	902	95
Inter-Fund Revenues	348	349	1
Total City Funds & Inter-Fund Revenues	$33,851	$37,696	$3,845
Federal Categorical Grants	4,733	6,921	2,188 (4)
State Categorical Grants	8,626	9,031	405 (5)
Total Revenues	$47,210	$53,648	$6,438
EXPENDITURES			
Personal Services			
Salaries and Wages	$17,062	$18,364	$1,302 (6)
Pensions	3,376	3,372	(4)
Fringe Benefits	5,152	5,188	36
Total – Personal Services	$25,590	$26,924	$1,334
Other Than Personal Services			
Medical Assistance	4,766	4,917	151
Public Assistance	2,293	2,606	313
Pay-As-You-Go Capital/Prepay Outstanding Debt	200	200	—
All Other	13,168	15,009	1,841 (7)
Total – Other Than Personal Services	$20,427	$22,732	$2,305
Debt Service	3,339	3,138	(201)(8)
FY 2004 Budget Stabilization & Discretionary Transfers	(1,520)	(1,523)	(3)
FY 2005 Budget Stabilization & Discretionary Transfers	220	3,528	3,308 (9)
MAC Debt Service	—	128	128 (10)
General Reserve	300	40	(260)
Total Expenditures	$48,356	$54,967	$6,611
Less: Intra-City Expenses	(1,146)	(1,319)	(173)
Net Total Expenditures	$47,210	$53,648	$6,438

(1) The increase in Other Taxes is due to increases in personal income taxes of $1.069 billion, sales and use taxes of $399 million, banking corporation tax of $284 million, general corporation tax of $304 million, unincorporated business tax of $175 million, mortgage recording tax of $742 million, real property transfer tax of $596 million, utility tax of $42 million, hotel occupancy tax of $28 million, commercial rent tax of $6 million and all other taxes of $55 million and the State's STAR Program aid of $75 million offset by decreases of $11 million in cigarette taxes.

(2) The increase in Miscellaneous Revenues is due to increases of approximately $130 million in reimbursement to the City for revenues retained by MAC, $115 million in interest income, approximately $33 million in the sale of taxi medallions, $76 million in charges for services, $81 million in airport settlement and other rent, net $30 million from licenses, permits and franchises, $32 million in fines, $173 million in intra-City revenues, $74 million from asset sales, $99 million in recovery of prior expenditures, and a net increase of approximately $61 million in other revenues offset by decreases of approximately $107 million in TSRs, $2 million in water and sewer charges, and the elimination of $150 million of asset sales to the Battery Park City Authority.

(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, the elimination of $201 million of anticipated State actions and $50 million of anticipated federal actions that did not occur.

(4) The increase in Federal Categorical Grants is due to $1 billion reimbursement from FEMA for insurance for claims relating to work at the World Trade Center site following the September 11 attack, $1.109 billion in categorical budget modifications processed between July 2004 and June 30, 2005, increases of $178 million in other grants offset by a decrease of $98.9 million in social services funding. For further information on the insurance claims, see ''SECTION IX: OTHER INFORMATION—Litigation—*Miscellaneous*.''

(5) The increase in State Categorical Grants is due to $416.3 million in categorical budget modifications processed between July 2004 and June 30, 2005, increases of approximately $29 million in other grants offset by a decrease of approximately $40 million in mental health grants.

(6) The increase in Personal Services is due to net increases of $46 million in education spending, $815 million for a reserve available to cover increased collective bargaining expenditures and $487 million in categorical budget modifications processed from July 2004 through June 30, 2005, offset by decreases of $46 million in all other spending.

(7) The increase in Other Than Personal Services — All Other is due primarily to $1.915 billion in categorical budget modifications processed from July 2004 through June 30, 2005 including payment of $1 billion for insurance for claims relating to work at the World Trade Center site following the September 11 attack, offset by agency reduction programs of $91 million, a reduction of $200 million in prior year payables and all other net decreases of $104 million. For further information on the $1 billion for insurance, 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 FY 2005 Budget Stabilization & Discretionary Transfers 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 and early payment in fiscal year 2005 of subsidies otherwise expected to be made 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 IV: SOURCES OF CITY REVENUES—Other Taxes.''

SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 2005 through 2009 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."

	Fiscal Years(1)(2)				
	2005	2006	2007	2008	2009
			(In Millions)		
REVENUES					
Taxes					
General Property Tax(3)	$11,495	$12,452	$13,136	$14,067	$14,722
Other Taxes(4)(5)	18,368	16,644	16,749	16,697	17,646
Discretionary Transfers(6)	400	947	—	—	—
Tax Audit Revenue	525	512	509	509	509
Tax Reduction Program(7)	—	(221)	(233)	(92)	(141)
Miscellaneous Revenues(8)	6,429	4,826	4,486	4,506	4,528
Unrestricted Intergovernmental Aid	562	562	562	562	562
Anticipated Federal Actions(9)	—	50	—	—	—
Less: Intra-City Revenues	(1,319)	(1,289)	(1,271)	(1,270)	(1,271)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$36,445	$34,468	$33,923	$34,964	$36,540
Other Categorical Grants	902	927	923	928	934
Inter-Fund Revenues(10)	349	364	355	344	343
Total City Funds and Inter-Fund Revenues	$37,696	$35,759	$35,201	$36,236	$37,817
Federal Categorical Grants	6,921	5,109	4,860	4,850	4,850
State Categorical Grants	9,031	9,320	9,372	9,432	9,475
Total Revenues	$53,648	$50,188	$49,433	$50,518	$52,142
EXPENDITURES					
Personal Services					
Salaries and Wages	$18,364	$18,151	$18,260	$18,437	$18,651
Pension	3,372	4,735	5,086	4,979	4,851
Fringe Benefits	5,188	5,549	5,804	6,145	6,467
Subtotal-Personal Services	$26,924	$28,435	$29,150	$29,561	$29,969
Other Than Personal Services					
Medical Assistance	4,917	5,024	5,172	5,319	5,458
Public Assistance	2,606	2,516	2,504	2,504	2,504
Pay-As-You-Go Capital/Prepay Outstanding Debt	200	200	200	200	200
All Other	15,009	14,246	13,769	13,886	14,066
Subtotal-Other Than Personal Services	$22,732	$21,986	$21,645	$21,909	$22,228
Debt Service	3,138	3,327	4,106	4,478	4,841
FY 2004 Budget Stabilization & Discretionary Transfers(6)(11)	(1,523)	—	—	—	—
FY 2005 Budget Stabilization & Discretionary Transfers(6)(12)	3,528	(2,581)	—	—	—
MAC Debt Service & Administrative Expenses(13)	128	10	10	10	—
General Reserve	40	300	300	300	300
	$54,967	$51,477	$55,211	$56,258	$57,338
Less: Intra-City Expenses	(1,319)	(1,289)	(1,271)	(1,270)	(1,271)
Total Expenditures	$53,648	$50,188	$53,940	$54,988	$56,067
GAP TO BE CLOSED	$ —	$ —	$(4,507)	$(4,470)	$(3,925)

(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 real estate tax increase effective January 1, 2003, the State's STAR Program, the property tax rebates to owner-occupants of houses, co-ops and condominiums, and other real estate 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) Discretionary Transfers reflects grants to the TFA of $400 million in fiscal year 2004 which increased personal income tax revenue by that amount in fiscal year 2005 and $947 million in fiscal year 2005 which will increase personal income tax revenue by that amount in fiscal year 2006.

(7) Tax Reduction Program reflects the restoration of the local sales tax exemption on clothing purchases under $110 which has been approved by the State and the extension of specific property tax exemptions to certain Mitchell-Lama properties and other tax relief programs, some of which require City legislative and State approval. For information on the sales tax exemption, see ''SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—3. Other Taxes.''

(8) 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 and operating expenses totaling approximately $473 million from fiscal years 2005 through 2009. The Financial Plan assumes that any amounts required to be trapped by TSASC will be released to the City. For information on TSASC trapping requirements, see ''SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—4. Miscellaneous Revenues.'' Estimates of debt service do not include debt service on TSASC obligations.

(9) The Financial Plan assumes additional federal assistance of $50 million in fiscal year 2006 which requires the approval of the federal government. For further information, see ''SECTION I: RECENT FINANCIAL DEVELOPMENTS.''

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

(11) FY 2004 Budget Stabilization & Discretionary Transfers reflects, in fiscal year 2004, the early payment of $480 million in subsidies otherwise expected to be made in fiscal year 2005 and the discretionary transfer of $1.043 billion for the early payment of debt service otherwise expected to be made in fiscal year 2005. Budget stabilization and discretionary transfers totaled $1.923 billion in fiscal year 2004.

(12) FY 2005 Budget Stabilization & Discretionary Transfers reflects projected discretionary transfers of $1.936 billion for the early payment of debt service otherwise expected to be made in fiscal year 2006, the early payment in fiscal year 2005 of $645 million in other subsidies otherwise expected to be made in fiscal year 2006, and a $947 million grant to the TFA in fiscal year 2005 which will increase personal income tax revenue by that amount in fiscal year 2006. Budget stabilization and discretionary transfers total $3.528 billion in fiscal year 2005.

(13) MAC Debt Service & Administrative Expenses after fiscal year 2005 reflects retention by MAC of sales tax revenues for State oversight costs and MAC operating expenses. All outstanding MAC bonds were defeased with the proceeds of STAR Corp. bonds in November 2004. For further information see "SECTION IV: SOURCES OF CITY REVENUES— Other Taxes."

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

Actions to Close the Remaining Gaps

Although the City has maintained balanced budgets in each of its last twenty-four fiscal years and is projected to achieve balanced operating results for the 2005 and 2006 fiscal years, there can be no assurance that the gap-closing actions proposed in the Financial Plan can be successfully implemented or that the City will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

Assumptions

The Financial Plan is based on numerous assumptions, including the condition of the City's and the region's economies and the concomitant receipt of economically sensitive tax revenues in the amounts projected. The Financial Plan is subject to various other uncertainties and contingencies relating to, among other factors, the continuing 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 2009 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 after three consecutive years of contraction, the City's economy experienced a respectable rebound in calendar year 2004. The economic projections contained therein assume that moderate growth will continue through calendar year 2005 with improvements in the labor market.

The following table presents a forecast of the key economic indicators for the calendar years 2004 through 2009. This forecast is based upon information available in April 2005.

FORECAST OF KEY ECONOMIC INDICATORS

U.S. ECONOMY	Calendar Years 2004	2005	2006	2007	2008	2009
Economic Activity and Income						
Real GDP (billions of 2000 dollars)	10,842	11,248	11,589	11,939	12,312	12,701
Percent Change	4.4	3.7	3.0	3.0	3.1	3.2
Pre-tax Corporate Profits ($ billions)	979	1,313	1,292	1,326	1,345	1,367
Percent Change	12.0	34.1	(1.6)	2.6	1.4	1.7
Personal Income ($ billions)	9,671	10,220	10,756	11,326	11,962	12,619
Percent Change	5.6	5.7	5.2	5.3	5.6	5.5
Non-Agricultural Employment (millions)	131.5	133.7	135.4	136.5	137.5	138.5
Change From Prior Year	1.5	2.3	1.6	1.2	0.9	1.1
Unemployment Rate	5.5	5.2	5.1	5.2	5.2	5.2
CPI-All Urban (1982-84=100)	188.9	193.9	197.7	202.0	206.9	211.8
Percent Change	2.7	2.6	2.0	2.2	2.4	2.4
Wage Rate ($ per year)	40,738	42,246	44,076	45,776	47,625	49,502
Percent Change	3.8	4.1	3.9	3.9	4.0	3.9
10-Year Treasury Bond Rate	4.3	5.0	5.9	5.8	5.8	6.1
Federal Funds Rate	1.3	3.2	4.3	4.5	4.5	4.9
NEW YORK CITY ECONOMY						
Personal Income ($ billions)	333	352	369	384	403	427
Percent Change	5.9	5.6	4.9	4.0	5.0	5.9
Non-Agricultural Employment (thousands)	3,542	3,582	3,619	3,644	3,671	3,702
Change From Prior Year	10.0	39.9	37.8	24.8	26.4	31.4
Real Gross City Product (billions of 2000 dollars)	438	450	457	460	478	497
Percent Change	3.3	2.6	1.7	0.6	3.9	4.0
Wage Rate ($ per year)	64,344	67,483	69,825	71,645	74,034	77,919
Percent Change	6.6	4.9	3.5	2.6	3.3	5.2
CPI-All Urban NY-NJ Area (1982-84=100)	204.8	211.0	216.1	221.8	227.2	232.9
Percent Change	3.5	3.0	2.4	2.6	2.4	2.5
NEW YORK CITY REAL ESTATE MARKET						
Manhattan Primary Office Market						
Asking Rental Rate ($ per square foot)	47.09	47.03	48.07	49.89	50.17	51.63
Percent Change	(2.6)	(0.1)	2.2	3.8	0.6	2.9
Vacancy Rate – Percent	11.7	10.3	10.5	10.6	10.5	9.7

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 began in the second half of fiscal year 2003 and is projected to remain in effect for the forecast period through 2009.

Projections of real estate tax revenues include $40.3 million, $66.3 million, $47.3 million, $46.3 million and $45.3 million net revenue from the sale of real property tax liens in fiscal years 2005 through 2009, respectively. Projections of real estate tax revenues include the effects of the State's STAR Program which will reduce the real estate tax revenues by an estimated $151.9 million, $157.0 million, $159.0 million, $162.0 million and $162.0 million in fiscal years 2005 through 2009, 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 $259 million, $279 million, $295 million, $311 million and $324 million in fiscal years 2005 through 2009, respectively, and the cost of extending tax abatements through the Lower Manhattan Commercial Revitalization Program of $8 million, $7 million, $6 million, $6 million and $6 million in fiscal years 2005 through 2009, respectively. Projections of real estate tax revenues reflect the real estate tax rebate of $400 to owner-occupants of houses, co-ops and condominiums which has an estimated cost of $256 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 2.3% in each of the 2005 and 2006 fiscal years and 2.6% in each of the 2007 through 2009 fiscal years. For information concerning the delinquency rates for prior years, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Collection of the Real Estate Tax.*" For a description of proceedings seeking real estate tax refunds from the City, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes.*"

3. OTHER TAXES

The following table sets forth amounts of revenues (net of refunds) from taxes other than the real estate tax projected to be received by the City in the Financial Plan. The amounts set forth below exclude the Criminal Justice Fund and audit revenues.

	2005	2006	2007	2008	2009
			(In Millions)		
Personal Income(1)(2)	$ 5,605	$ 5,044	$ 5,088	$ 5,050	$ 5,465
General Corporation	1,977	1,908	2,052	2,091	2,249
Banking Corporation	582	497	496	456	452
Unincorporated Business Income	1,109	1,077	1,123	1,156	1,212
Sales(2)	4,383	4,345	4,470	4,418	4,655
Commercial Rent	445	456	466	480	493
Real Property Transfer	1,072	716	608	595	609
Mortgage Recording	1,256	736	584	554	554
Utility	325	306	309	312	314
Cigarette	125	120	118	114	112
Hotel	254	267	277	291	306
All Other(3)	1,235	1,172	1,158	1,180	1,225
Total	$18,368	$16,644	$16,749	$16,697	$17,646

Note: Totals may not add due to rounding.

(1) Personal Income does not include $497 million, $762 million, $983 million and $988 million of personal income tax revenues projected to be paid to the TFA for debt service and other expenses in the 2005, 2007, 2008 and 2009 fiscal years, respectively. Personal Income does not include the grants to the TFA of $400 million and $947 million in fiscal years 2004 and 2005, respectively, which increases personal income tax revenues by $400 million and $947 million in fiscal years 2005 and 2006, respectively. Personal income includes $193 million of additional personal income tax revenues reflecting the early payment of debt service to the TFA otherwise expected to be made in fiscal year 2007. These projections include the effects of the State's STAR Program, which will reduce personal income tax revenues by an estimated $632 million, $595 million, $605 million, $622 million and $668 million in the 2005 through 2009 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 $57 million, $57 million, $62 million, $67 million and $72 million in fiscal years 2005 through 2009, 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 $184 million in fiscal year 2005. Sales does not include the early restoration of the local sales tax exemption on clothing purchases under $110 which will reduce sales tax revenues by $184 million and $166 million in fiscal years 2006 and 2007, respectively.

(3) All Other includes, among others, OTB net revenues, beer and liquor taxes, and the automobile use tax. All Other also includes $784 million, $752 million, $764 million, $784 million and $830 million in fiscal years 2005 through 2009, 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, strong growth in fiscal year 2005 resulting from growth in wage earnings from employment gains, strong finance sector bonuses on tax year 2004 coupled with robust growth in capital gains in calendar year 2004 and modest growth in capital gains in calendar year 2005 with declining growth in fiscal year 2006, modest growth in fiscal year 2007, flat growth in fiscal year 2008, returning to trend growth in fiscal year 2009, paralleling the national and local economies; (ii) with respect to general corporation tax revenues, a rebound in fiscal year 2005, reflecting strong New York Stock Exchange ("NYSE") member firm profits in calendar year 2004 and robust corporate profits reflecting a rebounding local economy, with slowing growth in 2006 as the recovery matures and continuing on trend growth from fiscal years 2007 through 2009; (iii) with respect to banking corporation tax revenues, a continued rebound in fiscal year 2005 reflecting strength in capital markets in calendar year 2004, declining growth from fiscal years 2006 through 2009 reflecting narrowing interest rate margins and the slow growth of the national and local economies; (iv) with respect to unincorporated business tax revenues, growth in fiscal year 2005 reflecting continued strength in securities industry earnings and growth in service sector employment, declining growth in fiscal year 2006 reflecting modest growth in NYSE member firm profits and moderate growth in fiscal years 2007 through 2009 paralleling growth in the national and local economies; (v) with respect to sales tax revenues, growth in fiscal year 2005 reflecting wage earnings growth and continued recovery in the hotel and tourism industry, slightly declining growth in fiscal year 2006 and moderate growth in fiscal years 2007 through 2009, reflecting growth in the national and local economies; (vi) with respect to real property transfer tax revenues, robust growth in fiscal year 2005 reflecting low mortgage interest rates and the attractiveness of New York City real estate as commercial property investments, and a slowdown in fiscal year 2006 reflecting a retreat from peak transaction levels in the commercial and residential markets as interest rates slowly rise, and declining growth from fiscal year 2007 through 2008 returning to moderate growth in fiscal year 2009 as the national and local recoveries continue; (vii) with respect to mortgage recording tax revenues, a strong increase in fiscal year 2005 reflecting continued strength in refinancing, both commercial and residential, and a decline in fiscal year 2006 as interest rates increase, and declining growth from fiscal year 2007 through 2008 returning to flat growth in fiscal year 2009 as the national and local recoveries continue; and (viii) with respect to the commercial rent tax revenues, moderate growth in fiscal year 2005 through 2009 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	2009
	(In Millions)				
Licenses, Permits and Franchises	$ 388	$ 379	$ 371	$ 372	$ 369
Interest Income	151	159	115	123	134
Charges for Services	597	530	512	512	512
Water and Sewer Payments(1)	932	998	1,002	1,017	1,037
Rental Income	942	177	181	179	171
Fines and Forfeitures	740	692	691	691	690
Other	1,360	602	343	342	344
Intra-City Revenues	1,319	1,289	1,271	1,270	1,271
Total	$6,429	$4,826	$4,486	$4,506	$4,528

(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 $838 million in fiscal year 2005, and approximately $93.5 million in fiscal years 2006, 2007, 2008 and 2009, respectively, for back rent and renegotiated 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 $68 million, $238 million, $121 million, $120 million and $122 million of projected resources in fiscal years 2005 through 2009, respectively, from the receipt by the City of TSRs. The downgrade of major tobacco companies below investment grade has resulted in a trapping event 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 approximately $120 million trapped by TSASC in fiscal years 2004 and 2005 will be released to the City in fiscal year 2006 and that the requirement to trap TSRs will be eliminated in fiscal years 2006 through 2009. If the requirement to trap TSRs were to continue, the City would not receive approximately $180 million in fiscal year 2006 and approximately $60 million in each of fiscal years 2007 and 2008 of the amounts currently assumed in the Financial Plan. In addition, economic and legal uncertainties relating to the tobacco industry and the settlement, including pending anti-trust litigation challenging a State statute implementing the settlement agreement, may significantly affect the receipt of TSRs by TSASC and the City. Miscellaneous Revenues—Other does not reflect a total of $473 million that have been or are expected to be retained by TSASC during fiscal years 2005 through 2009 for debt service and operating expenses.

Miscellaneous Revenues—Other includes approximately $631 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 IV: SOURCES OF CITY REVENUES—Other Taxes." Miscellaneous Revenues—Other includes, in fiscal year 2005, $97.9 million from the sale of 273 taxi medallions, approximately $45 million from the sale of the former BOE headquarters, and $99 million from the refund of prior year expenditures.

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	2009
			(In Millions)		
State Revenue Sharing	$327	$327	$327	$327	$327
Other Aid	235	235	235	235	235
Total	$562	$562	$562	$562	$562

The Other Aid category primarily consists of approximately $223 million annually in fiscal years 2005 through 2009 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 2009.

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	2009
			(In Millions)		
Federal					
Community Development	$ 324	$ 269	$ 247	$ 247	$ 247
Welfare	2,373	2,131	2,035	2,035	2,035
Education	1,945	1,808	1,808	1,808	1,808
Other	2,279	901	770	760	760
Total	$6,921	$5,109	$4,860	$4,850	$4,850
State					
Welfare	$1,818	$1,837	$1,879	$1,879	$1,879
Education	6,181	6,516	6,549	6,607	6,643
Higher Education	175	188	188	188	188
Health and Mental Hygiene	451	430	435	439	443
Other	406	349	321	319	322
Total	$9,031	$9,320	$9,372	$9,432	$9,475

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 receipt of $1 billion reimbursement from FEMA for insurance 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.*" As of May 30, 2005, approximately 15.18% 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. The federal government has released its audit report on the portion of such claims relating to speech services. For additional information see "Section IX: Other Information—Litigation—*Miscellaneous*." 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	2009
			(In Millions)		
Wages and Salaries	$17,257	$17,319	$17,232	$17,172	$17,153
Pensions	3,372	4,735	5,086	4,979	4,851
Other Fringe Benefits	5,188	5,549	5,804	6,145	6,467
Reserve for Collective Bargaining					
Department of Education	181	181	181	181	181
Other	926	651	847	1,084	1,317
Reserve Subtotal	1,107	832	1,028	1,265	1,498
Total	$26,924	$28,435	$29,150	$29,561	$29,969

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 255,302 on June 30, 2005 to an estimated level of 256,463 by June 30, 2009.

The Financial Plan reflects the costs of collective bargaining increases in the 2002-2005 round of bargaining consistent with the settlement with DC 37. DC 37 represents approximately 79,000 City employees. The DC 37 settlement provided for a $1,000 lump sum payment at settlement and a 3% wage increase on the first day of the second year and provided 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 and an additional 1% was provided for with the recent identification by the City and DC 37 of additional savings to offset the cost. Subsequent to the DC 37 settlement, the City reached settlements on terms substantially consistent with the pattern established by the DC 37 settlement with seventeen additional unions, which collectively represent approximately 33,000 employees.

The arbitration panel appointed by PERB in the PBA impasse recently issued an award. This two year award is binding on the parties and calls for a 5% wage increase on the first day of the agreement and an additional 5% wage increase on the first day of the second year. In addition, the award grants significant productivity savings including a sharply reduced hiring rate which is not retroactive but grows over time. The Financial Plan provides a reserve sufficient to cover the PBA award.

The Reserve for Collective Bargaining contains funds for the cost of collective bargaining increases for the 2002-2005 round of bargaining for all unsettled education employees, consistent with the recent DC 37 settlement; all uniformed employees excluding the PBA consistent with the recent PBA award; a 1% wage increase for all civilian employees; 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. In addition, the Reserve for Collective Bargaining contains funds for providing all employees a 1.25% wage increase in each year beyond current contracts. In all cases it is assumed for funding purposes that all of the contracts for the 2002-2005 round will be for the same term and at the same rates as the DC 37 settlement.

Since August 2004, five mediation sessions have been held between the City and the Uniformed Firefighters Association ("UFA"). The UFA also requested a declaration of impasse with PERB. The Sergeants Benevolent Association ("SBA") requested a declaration of impasse with PERB in January 2005 and two mediation sessions have been held. The Detectives' Endowment Association ("DEA") requested a declaration of impasse with PERB and four mediation sessions have been held. A fifth session is scheduled for September 15, 2005.

The United Federation of Teachers ("UFT") requested a declaration of impasse with PERB and on March 15, 2005, PERB upheld the UFT request and ordered the appointment of a fact-finding panel. The parties selected a panel and hearings were held in June 2005.

Police, firefighters and UFT members are subject to the jurisdiction of PERB which, in the case of police and firefighters, can declare an impasse which can result in a binding settlement. UFT members are covered by a fact-finding procedure under which a binding settlement may not be imposed. 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	2009
			(In Millions)		
Administrative OTPS	$11,514	$11,624	$11,349	$11,407	$11,519
Public Assistance	2,606	2,516	2,504	2,504	2,504
Medical Assistance	4,917	5,024	5,172	5,319	5,458
HHC Support	375	303	261	248	241
Pay-As-You-Go Capital/Prepay Outstanding Debt	200	200	200	200	200
Other	3,120	2,319	2,159	2,231	2,306
Total	$22,732	$21,986	$21,645	$21,909	$22,228

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 2005 and 2006 fiscal years. Thereafter, to account for inflation, OTPS expenditures are projected to rise by approximately 2.5% in fiscal years 2007 through 2009, respectively. Energy costs for each of the 2005 through 2009 fiscal years are assumed to vary annually, with total energy expenditures projected at $654 million in fiscal year 2005 and increasing to $705 million by fiscal year 2009.

Public Assistance

The average number of persons receiving income benefits under public assistance programs was 427,033 per month in the 2005 fiscal year and is projected to average 437,371 per month in the 2006 fiscal year. Of total public assistance expenditures in the City for the 2006 fiscal year, the City-funded portion is projected to be $528.4 million and is projected to increase to $534.3 million in fiscal year 2009.

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 $4.0 billion for the 2005 fiscal year and is expected to increase to $4.5 billion in fiscal year 2009. 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 $989 million in fiscal year 2005 due to the State having assumed such costs, and projects such savings will increase to $1.1 billion in fiscal year 2009.

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 $1.4 billion for the 2005 fiscal year, decreasing to $1.3 billion in fiscal year 2009. The City-funded expenditures in the 2005 fiscal year include $52.6 million for the care of prisoners and uniformed personnel, $172 million for prepayment of fiscal year 2006 City subsidy, $33.7 million for HHC debt service and $754 million for the City's share of HHC Medicaid payments.

HHC is projected to achieve balanced budgets in fiscal years 2005 through 2009 on a cash basis. Total receipts before implementation of the HHC gap-closing program are projected to be $4.6 billion in fiscal year 2005 decreasing to $4.3 billion in fiscal year 2009. Total disbursements before implementation of the HHC gap-closing program are projected to be $4.5 billion, in fiscal year 2005 increasing to $5.0 billion in fiscal year 2009. These projections assume: (i) increases in other than personal services costs and fringe benefits in fiscal years 2005 through 2009 and (ii) growth in Medicaid revenue between fiscal years 2005 and 2009. 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," and the payment of $1 billion for insurance for claims relating to work at the World Trade Center site following the September 11 attack. For more information, see "SECTION IX: OTHER INFORMATION—Litigation—*Miscellaneous*." 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 2005, the City prepared a financial plan for NYCT covering its 2005 through 2008 fiscal years. NYCT's fiscal year coincides with the calendar year. For 2005, the NYCT financial plan projects $5.5 billion in revenues and $6.9 billion in expenses, leaving a budget gap of $1.5 billion. This gap will be offset by a $981.6 million depreciation adjustment, approximately $173.2 million in anticipated cash flow adjustments including reserve funds and additional receipts, $16.7 million in an MTA gap-closing program, and funds made available from a $366.0 million cash basis surplus in 2004 leaving a net surplus of $79 million in 2005. NYCT's cash basis budget will be balanced for fiscal year 2005. City assistance in 2005 to NYCT's operating budget is $251.2 million, in addition to $232.6 million in real estate tax revenue dedicated for NYCT's use.

The NYCT financial plan forecasts budget gaps of $668 million, $867.3 billion, and $1.02 billion in 2006 through 2008, respectively, after depreciation, before the implementation of cash flow adjustments and additional gap-closing actions. The Financial Plan does not require that the NYCT financial plan out-year gaps be funded by the City. The Financial Plan assumes that the gaps in 2006 through 2008 will be closed by NYCT in part by productivity measures, increased user charges, additional management actions, reduced service levels, or some combination of these actions.

On July 29, 2004, the MTA Board approved a proposed new five-year, $27.8 billion capital plan for the MTA for 2005 through 2009 (the "2005-2009 Capital Program"), including $17.2 billion for its basic infrastructure program, to be funded with federal, State and City capital funds, MTA bonds, and other MTA resources. The 2005-2009 Capital Program proposed to invest $12 billion of that $17.2 billion in the NYCT core system and over $5 billion in NYCT network expansion and security upgrades. The Capital Program Review Board ("CPRB") rejected the 2005-2009 Capital Program and on April 28, 2005, the MTA Board released an amended 2005-2009 Capital Program (the "Amended 2005-2009 Capital Program"). The Amended 2005-2009 Capital Program includes $21.15 billion for all MTA agencies, including $16 billion for its basic infrastructure program, $11.3 billion of which would be invested in the NYCT core system, and over $5 billion for NYCT network expansion and security upgrades. The Amended 2005-2009 Capital Program includes approximately $437.4 million to be funded with proceeds of City general obligation bonds and approximately $2 billion for extension of the Number 7 subway line expected to be funded with proceeds of bonds to be issued by HYIC, which will be secured by and payable from payments in lieu of taxes and other revenues generated by development in the Hudson Yards area. To the extent such payments in lieu of taxes and other revenues are insufficient to pay interest on the HYIC bonds, the interest is expected to be paid by the City, subject to appropriation. The Amended 2005-2009 Capital Program was approved by the CPRB on July 13, 2005.

The Amended 2005-2009 Capital Program follows the $17.9 billion capital program for 2000 through 2004, which included $12.3 billion for NYCT. The capital program for 2000 through 2004 superseded the previous capital program for the period 1995 through 1999, which totaled $13.2 billion, with $9.3 billion in projects for NYCT.

There can be no assurance that all the necessary governmental actions for the Amended 2005-2009 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. On February 14, 2005, the State Supreme Court confirmed the panel's report. The State filed an appeal on April 18, 2005. 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 $570.2 million, $600.7 million, $646.5 million, $689.8 million and $742.7 million for the 2005 through 2009 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 $159.9 million in fiscal year 2005 and $189.9 million for each of fiscal years 2006 through 2009. 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 fiscal 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 $224 million, $227 million, $215 million, $210 million and $205 million for the 2005 through 2009 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 2009 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 28, 2005, the City Comptroller released a report on the adopted budget for fiscal year 2006 and the Financial Plan. The report stated that the fiscal 2006 adopted budget is balanced, and that the potential risks may be offset through additional revenues. The report included an assessment of the budget gaps in fiscal years 2007 through 2009 of the Financial Plan, and stated that their magnitude poses a significant fiscal challenge to the City that, if coupled with a recession or other event that places further stress on the budget, would require additional service cuts, tax increases, or both.

In his report, the City Comptroller identified net risks and possible resources for fiscal years 2006 through 2009 which, when added to the projected results in the Financial Plan, would result in a surplus of $899 million in fiscal year 2006 and gaps of $4.0 billion, $4.2 billion and $4.3 billion in fiscal years 2007 through 2009, respectively. The risks and possible resources set forth in the City Comptroller's report include: (i) the possibility that tax revenues could be greater than projected in the Financial Plan by $1.1 billion, $575 million and $365 million in fiscal years 2006 through 2008, respectively, and less than projected by $240 million in fiscal year 2009; (ii) increased overtime expenditures of $181 million in fiscal year 2006 and $75 million per year in fiscal years 2007 through 2009; (iii) a $30 million increased cost of an eventual retroactive settlement of the teachers' contract if patterned after the existing DC 37 labor contract, in fiscal year 2006; and (iv) possible increased City expenses for certain welfare services resulting from the State's implementation of a block grant program that consolidates funding for certain welfare services and reduces overall State support, creating risks of $10 million per year in fiscal years 2007 through 2009.

In addition to the risks and possible resources quantified in the report, the report identified additional issues, the impacts of which are uncertain with respect to timing and magnitude. The report noted that the Executive Budget includes reserves to support wage increases for teachers patterned after the DC 37 agreement for civilian employees and noted that if a teachers' settlement instead follows the pattern of the recent PBA award, costs in excess of the reserves in fiscal year 2006 would reach $980 million for retroactive payments and $120 million for annual wages. Furthermore, the report noted that the next round of collective bargaining is funded by the City at half the projected rate of inflation, and that this level of funding will require that new collective bargaining agreements contain substantial productivity savings. The report stated that the court order in the Campaign for Fiscal Equity litigation, which is under appeal, would require a phased-in goal of $5.6 billion in additional education spending each year, and that while it is unknown whether this amount will stand on appeal or how much, if any, will be the City's liability, this matter is unlikely to have an impact in fiscal year 2006. The report stated that certain recommendations of the City's Chief Actuary, if entirely implemented, would reduce the City's projected pension outlays by $855 million in fiscal year 2006 and $528 million in fiscal year 2007, although they would lead to additional expense in subsequent years.

The report also forecast strong economic growth in the City in 2005, with 30,000 new jobs, followed by job growth of 28,000, 26,000, 25,000 and 28,000 jobs per year in the years 2006 through 2009, which, the report noted, are approximately 10,000 fewer jobs per year in 2005 and 2006, 1,000 more jobs in 2007, 1,000 fewer jobs in 2008 and 3,000 fewer jobs in 2009 than estimated by OMB in the Financial Plan. The report estimated the City's Gross City Product will grow by 3.3 percent in 2005, 2.9 percent in 2006, 2.7 percent in 2007 and 2.4 percent in each of the years 2008 and 2009, which the report compared to the 2.6 percent in 2005, 1.7 percent in 2006, 0.6 percent in 2007, 3.9 percent in 2008 and 4.0 percent in 2009 estimated by OMB in the Executive Budget.

On July 26, 2005, the staff of OSDC issued a report on the Financial Plan. The report stated that the City ended fiscal year 2005 with an estimated surplus of $3.5 billion, projects a balanced budget for fiscal year 2006 and shows budget gaps of $4.5 billion in each of fiscal years 2007 and 2008. The report stated that the fiscal year 2007 gap represents 13.3 percent of City fund revenues, and results from the use of non-recurring resources to balance the fiscal year 2006 budget including the entire estimated surplus of $3.5 billion from fiscal year 2005, the expiration of temporary taxes, and the growth in non-discretionary expenses.

The risks to the Financial Plan identified in the report include: (i) possible increased spending for uniformed agency overtime of $40 million in fiscal years 2006 and $25 million in fiscal years 2007 through 2009; and (ii) possible failure to receive $50 million of federal assistance in fiscal year 2006. The report noted that such risks could be offset by possible additional revenues, including: (i) additional tax revenues of $450 million and $200 million in fiscal years 2006 and 2007, respectively, (ii) $200 million in fiscal year 2006 from the re-estimation of prior year expenses, (iii) $150 million in fiscal year 2006 from the sale of an asset to the Battery Park City Authority, (iv) $50 million in fiscal year 2006 from delayed hiring, and (v) lower pension contributions of $10 million in fiscal year 2006, $25 million in fiscal year 2007, $50 million in fiscal year 2008 and $75 million in fiscal year 2009 resulting from increased pension fund earnings in fiscal year 2005. These risks and offsets, when added to the results projected in the Financial Plan, would produce a surplus of $770 million in fiscal year 2006 and result in gaps of $4.3 billion, $4.4 billion and $3.9 billion in fiscal years 2007 through 2009, respectively.

In addition, the report identified other issues which could have a significant impact on the City, including the possibility of substantial payments for wage increases, possible increased funding for education and various possible effects of changes in assumptions and methodologies used to calculate pension contributions. The report identified the completion of the current round of collective bargaining as a budget risk and estimated that a settlement with the UFT, if patterned after the economic terms in the recent PBA award rather than the DC 37 agreement, would cost about $1 billion more than the City set aside through fiscal year 2006 and an additional $500 million annually thereafter. These costs could be reduced if the City and the UFT reach an agreement on productivity improvements.

The report also stated that although the Financial Plan assumes that all employees will self-fund wage increases in fiscal year 2005 with productivity and other savings, and includes a reserve for collective bargaining that is sufficient to fund annual wage increases of 1.25 percent beginning in fiscal year 2006, actual settlements could increase City costs. For example, wage increases at the projected inflation rate for all employees who have yet to reach new agreements covering fiscal year 2005, and for all employees beginning in fiscal year 2006, would exceed the City reserve for this purpose in fiscal years 2006 through 2009 by $750 million, $950 million, $1.2 billion and $1.5 billion, respectively. These potential liabilities could be reduced to the extent that the City and the municipal unions reach agreements that include productivity savings.

The report noted that the Financial Plan incorporates the recommendations of an independent actuarial consultant and other technical re-estimates, which increased planned pension contributions by $862 million in fiscal year 2006 and $718 million in fiscal year 2007 and about $450 million annually thereafter, but does not incorporate the possible effects of changes in methodologies recommended by the City Actuary. In May 2005, the City Actuary submitted to the boards of the five actuarial pension funds a proposal that included both revised actuarial assumptions and methodologies, but the pension boards did not approve the proposed revisions. The City Actuary is expected to resubmit his proposal to the five boards in fiscal year 2006; if approved, pension contributions could be lower than anticipated in the Financial Plan by $640 million in fiscal year 2006 and $490 million in fiscal year 2007, but higher than anticipated in the Financial Plan by $20 million in fiscal year 2008 and $200 million in fiscal year 2009. Elements of these recommendations would also require State approval. The report noted that if the Court of Appeals upholds the lower court ruling in the Campaign for Fiscal Equity litigation, and if the State Legislature requires the City to contribute 40 percent of the additional education funding as recommended by the Governor, City education costs could increase by as much as $575 million in fiscal year 2007, $1.1 billion in fiscal year 2008, $1.6 billion in fiscal year 2009 and $2.3 billion in fiscal year 2010.

The report included a review of several years' current-year operating results, considered without regard to the discretionary transfer of surplus resources from prior years. The report noted that although the Financial Plan projects a balanced budget for fiscal year 2006, the use of the $3.5 billion surplus from fiscal year 2005 to achieve this result indicates that the City is on track to end fiscal year 2006 with a current-year operating deficit of $3.5 billion without taking account of discretionary transfers, and that although this deficit will narrow as the City takes actions to help balance the fiscal year 2007 budget, the City may not generate a current year operating surplus in fiscal year 2006. The report compared that projection to recent current-year operating results, which included deficits, without taking into account discretionary transfers, of $2.6 billion and $795 million in fiscal years 2002 and 2003, respectively, a surplus of $511 million in fiscal year 2004 and an estimated surplus of $1.6 billion in fiscal year 2005.

The report noted that high oil prices and interest rates are two major factors that will continue to determine economic growth in the City, and that other risks to the City's economy include high consumer and business debt levels, widening federal budget and trade deficits, the effects of revaluation of the Chinese yuan, and sluggish economic growth overseas.

The report also noted that a number of City-related public authorities also face fiscal challenges. The report noted that the Off-Track Betting Corporation projects increased losses during the financial plan period, that while the MTA is on track to balance its budget in calendar years 2006 and 2007, it still faces long-term fiscal challenges and that HHC is making progress balancing this year's budget on a cash basis, but continues to operate in a difficult financial environment.

On July 28, 2005, the staff of the Control Board issued a report on the Financial Plan. The report noted that the City has adopted a fiscal year 2006 budget that will likely end the year in balance but that the reliance on the large fiscal year 2005 surplus to balance the fiscal year 2006 budget leaves fiscal year 2007 with a large projected deficit of $4.5 billion. The report also noted that the City expects fiscal year 2006 revenues and expenditures to decline by $4 billion.

The report quantified certain small risks and possible resources. The report identified possible net resources of $137 million for fiscal year 2006, and net risks of $55 million in each of fiscal years 2007 through 2009, which, when combined with the results projected in the Financial Plan, result in an estimated surplus of $137 million in fiscal year 2006 and estimated gaps of $4.6 billion, $4.5 billion and $4.0 billion for fiscal years 2007 through 2009, respectively. The risk identified is the possibility that overtime could be greater than expected by $188 million in fiscal year 2006 and $205 million in each of fiscal years 2007 through 2009. The report further noted that this risk could be partially offset by greater than projected non-property tax revenues of $200 million in fiscal year 2006 and by increased miscellaneous revenues of $125 million in fiscal year 2006 and $150 million in each of fiscal years 2007 through 2009.

In addition to the risks quantified in the report, the report noted two significant risks that were not quantifiable and might impact fiscal years 2006 or 2007. First, the report noted the City's unsettled labor situation, stating that although the recent PBA award settled retroactive terms for the police for fiscal years 2003 and 2004, the other uniformed services and the UFT do not yet have contracts for that round of bargaining or beyond, and no City employees have contracts for fiscal year 2006 or beyond. The report noted that there is a significant risk that the amounts provided in the Financial Plan for future settlements may be inadequate. The second significant risk noted was the possibility of increased expenditures for education that could result from a final decision in the unresolved Campaign for Fiscal Equity litigation.

The report also identified fringe benefits, pensions, Medicaid and debt service as sources of spending growth in the Financial Plan.

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 $6.9 billion in fiscal year 2005. City-funded expenditures are forecast at $5.3 billion in fiscal year 2005; total expenditures are forecast at $5.9 billion in fiscal year 2005. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2006 through 2015, 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 2009 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.*"

2005-2009 CAPITAL COMMITMENT PLAN

	2005		2006		2007		2008		2009		Total	
	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds	City Funds	All Funds
	(In Millions)											
Mass Transit(1)	$ 185	$ 185	$ 86	$ 250	$ 70	$ 92	$ 66	$ 66	$ 66	$ 66	$ 474	$ 660
Roadway, Bridges	429	614	930	1,031	971	1,230	588	776	614	799	3,533	4,451
Environmental Protection(2)	2,703	2,846	2,100	2,214	2,393	2,421	1,331	1,359	1,273	1,301	9,799	10,141
Education	2,739	2,739	814	2,630	910	2,625	1,010	2,625	1,210	2,625	6,681	13,245
Housing	420	583	393	553	319	417	266	413	238	300	1,637	2,267
Sanitation	139	139	660	660	212	212	252	252	108	108	1,372	1,372
City Operations/Facilities	3,554	3,811	3,227	3,523	2,184	2,228	1,440	1,465	990	1,021	11,396	12,047
Economic and Port Development	462	629	399	425	604	604	137	137	63	63	1,664	1,859
Reserve for Unattained Commitments	(3,717)	(3,717)	(597)	(597)	123	123	943	943	514	514	(2,734)	(2,734)
Total Commitments(3)	$ 6,913	$ 7,830	$8,013	$10,691	$7,785	$9,951	$6,033	$8,036	$5,077	$6,798	$33,821	$43,306
Total Expenditures(4)	$ 5,323	$ 5,901	$6,018	$ 7,004	$6,546	$7,896	$6,755	$8,545	$6,369	$8,301	$31,011	$37,647

Note: Totals may not add due to rounding.

(1) Excludes NYCT's non-City portion of the MTA 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 2005, concluded that the capital investment in the Four-Year Capital Plan for the specifically identified inventoried assets funds 47% of the total investment recommended in the preceding AIMS Report issued in November 2004. Capital investment allocated in the Ten-Year Capital Strategy published in April 2005 will fund an additional portion of the recommended investment. In the same Reconciliation Report, OMB estimated that 35% 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 2006 through 2009 fiscal years to implement the Four-Year Capital Program. See "SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities."

2006-2009 FINANCING PROGRAM

	2006	2007	2008	2009	Total
			(In Millions)		
City General Obligation Bonds	$4,200	$4,660	$4,880	$4,520	$18,260
Water Authority (1)	1,687	1,675	1,746	1,713	6,821
Total	$5,887	$6,335	$6,626	$6,233	$25,081

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

(1) Water Authority includes a total allocation for reserve funds and costs of issuance of $637 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 Ten-Year

Capital Strategy applicable to the City's water and sewer system covering fiscal years 2006 through 2015, projects City-funded water and sewer investment (which is expected to be financed with proceeds of Water Authority debt) at approximately $15.6 billion. The City's Capital Commitment Plan for fiscal years 2005 through 2009 reflects total anticipated City-funded water and sewer commitments of $9.8 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 2006 through 2015 totals $62.4 billion, of which approximately 85% 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 entered into prior to October 25, 2004, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements— Notes A.14 and E.2."

Since October 25, 2004, the City has entered into three interest rate exchange agreements with Bear Stearns Financial Products Inc. with effective dates of March 3, 2005, in connection with the City's Fiscal 2005 Series K General Obligation Bonds. Pursuant to the first of these agreements, which has a notional amount of $11,980,000, the City pays a fixed rate of 4.55% and receives an amount equal to the interest payable on its Fiscal 2005 Series K General Obligation Bonds maturing in 2015, which bear interest at a variable rate based on changes to the Consumer Price Index plus 1.5%. This agreement will terminate on August 1, 2015. Pursuant to the second of these agreements, which has a notional amount of $14,125,000, the City pays a fixed rate of 4.63% and receives an amount equal to the interest payable on its Fiscal 2005 Series K General Obligation Bonds maturing in 2016, which bear interest at a variable rate based on changes to the Consumer Price Index plus 1.55%. This agreement will terminate on August 1, 2016. Pursuant to the third of these agreements, which has a notional amount of $18,040,000, the City pays a fixed rate of 4.71% and receives an amount equal to the interest payable on its Fiscal 2005 Series K General Obligation Bonds maturing in 2017, which bear interest at a variable rate based on changes to the Consumer Price Index plus 1.6%. This agreement will terminate on August 1, 2017.

As of June 30, 2005, the total marked-to-market value of the City's interest rate exchange agreements was ($73,820,458).

In addition, in connection with its Courts Facilities Lease Revenue Bonds (The City of New York Issue) Series 2005A and B, DASNY entered into interest rate exchange agreements with Goldman Sachs Mitsui Marine Derivative Products, L.P. and JPMorgan Chase Bank, National Association. Pursuant to such agreements with a notional amount of $125,500,000, an effective date of May 15, 2013 and a termination date of May 15, 2032, DASNY is to make payments based on the BMA Municipal Swap Index and receive a fixed rate of 4.179%. Pursuant to such agreements with a notional amount of $125,500,000, an effective date of June 15, 2005 and a termination date of May 15, 2039, DASNY is to pay a fixed rate of 3.017% and receive payments based on a LIBOR-indexed variable rate. The City is obligated, subject to appropriation, to make lease payments to DASNY reflecting DASNY's obligations under these interest rate exchange agreements. As of June 30, 2005, the marked-to-market value of these agreements was ($1,387,974).

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 Financial Plan reflects the projected issuance of $1.5 billion of short-term obligations during fiscal year 2006 to satisfy the City's seasonal financing needs.

SECTION VIII: INDEBTEDNESS

Indebtedness of the City and Certain Other Entities

Outstanding City 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 and the PBCs as of June 30, 2005.

(In Thousands)

Gross City Long-Term Indebtedness(1)	$33,729,240	
Less: Assets Held for Debt Service(1)	(41,342)	
Net City Long-Term Indebtedness		$33,687,898
PBC Indebtedness(2)		
Bonds Payable	381,780	
Capital Lease Obligations	1,670,530	
Gross PBC Indebtedness	2,052,310	
Less: Assets Held for Debt Service	(111,242)	
Net PBC Indebtedness		1,941,068
Combined Net City and PBC Indebtedness		$35,628,966

(1) With respect to City long-term indebtedness, "Assets Held for Debt Service" consists of General Debt Service Fund assets, and $38.852 million principal amount of City bonds held by MAC. Amounts include general obligation bonds only, and do not include the indebtedness of the TFA and TSASC, which were $12.977 billion (including $2 billion of Recovery Bonds) and $1.284 billion, respectively, as of June 30, 2005.

(2) "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 and PBC Indebtedness

The following table shows the trend in the outstanding long-term and short-term debt of the City and in PBC indebtedness as of June 30 of each of the fiscal years 1994 through 2004 and at June 30, 2005.

	City(1)		PBC Bonds and Capital Leases(2)	Total
	Long-Term Debt(2)	Short-Term Debt		
	(In Millions)			
1994	$21,731	$—	$1,114	$22,845
1995	23,258	—	1,098	24,356
1996	25,052	—	1,155	26,207
1997	26,180	—	1,182	27,362
1998	25,917	—	1,129	27,046
1999	26,287	—	1,403	27,690
2000	25,543	—	1,575	27,118
2001	25,609	—	1,533	27,142
2002	27,312	—	1,537	28,849
2003	29,043	—	2,059	31,102
2004	30,498	—	1,766	32,264
June 30, 2005	33,688	—	1,941	35,629

(1) Amounts do not include City bonds held by MAC. See "*Outstanding City and PBC Indebtedness*—note 1." Amounts include general obligation bonds only, and do not include indebtedness of the TFA and TSASC, which were $12.977 billion (including $2 billion of Recovery Bonds and Notes) and $1.284 billion, respectively, as of June 30, 2005.

(2) Net of reserves. See "Outstanding City 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.

Rapidity of Principal Retirement

The following table details, as of June 30, 2005, the cumulative percentage of total City general obligation debt outstanding that is scheduled to be retired in accordance with its terms in each prospective five-year period.

Period	Cumulative Percentage of Debt Scheduled for Retirement
5 years	24.76%
10 years	49.11
15 years	70.71
20 years	88.10
25 years	96.53
30 years	99.95

City and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of June 30, 2005, on City term and serial bonds outstanding and City obligations to certain PBCs.

Fiscal Years	City Long-Term Debt		PBC Bonds and Capital Leases(2)	Total
	Principal of Bonds(1)	Interest(1)		
	(In Thousands)			
2005	$ 1,417,796	$ 1,463,213	$ 94,197	$ 2,975,206
2006	1,711,327	1,405,689	101,084	3,218,100
2007	1,704,570	1,341,734	106,060	3,152,364
2008	1,724,775	1,280,736	76,871	3,082,382
2009 through 2147	27,129,430	11,060,269	1,562,856	39,752,555
Total	$33,687,898	$16,551,641	$1,941,068	$52,180,607

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

(2) 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.

		Debt as % of Total Taxable Real Property By	
Fiscal Year	**Debt Per Capita**	**Assessed Valuation**	**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*." 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 Water Authority, TFA or TSASC 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 bonds and notes ("Recovery Bonds") to pay Recovery Costs of which approximately $2 billion is outstanding. The City used $1.5 billion of proceeds of Recovery Bonds in fiscal year 2003 to compensate for revenue losses that are Recovery Costs. The City may seek legislation authorizing the TFA to issue additional bonds for capital purposes. TSASC does not intend to issue any additional bonds under its current indenture. 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 as of July 1, 2005.

(In Thousands)

Total City Debt-Incurring Power under General Debt Limit		$47,050,986
Gross Debt-Funded	$33,376,715	
Less: Excluded Debt	(457,453)	
	32,919,262	
Less: Fiscal Year 2006 Appropriations for Payment of Principal	(1,398,772)	
	31,520,490	
Contracts and Other Liabilities, Net of Prior Financings Thereof	6,231,095	
Total Indebtedness		37,751,585
City Debt-Incurring Power(1)		$ 9,299,400

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 July 1, 2005, would have been exceeded by $3.2 billion.

Federal Bankruptcy Code

Under the Federal Bankruptcy Code, a petition may be filed in the federal bankruptcy court by a municipality which is insolvent or unable to meet its debts as they mature. The filing of such a petition would operate as a stay of any proceeding to enforce a claim against the City. The Federal Bankruptcy Code requires the municipality to file a plan for the adjustment of its debts, which may modify or alter the rights of creditors and may provide for the municipality to issue indebtedness, which could have priority over existing creditors and which could be secured. Any plan of adjustment confirmed by the court must be approved by the requisite majority of creditors. If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it. Each of the City and the Control Board, acting on behalf of the City, has the legal capacity to file a petition under the Federal Bankruptcy Code.

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 June 30, 2005, $96.13 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 June 30, 2005, $111.3 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 June 30, 2005, $630.0 million principal amount and $865.4 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 June 30, 2005, approximately $560.7 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 June 30, 2005, $41.27 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, 2004 consisted of approximately 348,000 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 270,000 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 2009 are estimated at $3.372 billion, $4.735 billion, $5.086 billion, $4.979 billion and $4.851 billion, respectively, and, for fiscal years 2006 through 2009, are based on proposed actuarial valuation estimates and reflect revised funding assumptions that principally follow the recommendations of an independent audit. These projections incorporate the additional costs of significant benefit enhancements enacted in 2000, including automatic cost of living adjustments ("COLA") for eligible retirees and beneficiaries which are being funded over a ten-year period. The projections also incorporate the impact of actual pension fund investment performance since 2000 which include significant losses in fiscal years 2001 through 2003, respectively, followed by investment gains in 2004. The assumed rate of return on pension investments is eight percent as governed by State law. The costs or incremental benefit of the return on pension investments in any given year is phased in over the subsequent five-year period.

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 2004 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 22% 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, which reflect the current funding assumptions which commenced in fiscal year 2000, of approximately $506.4 million and approximately $201.6 million, respectively, were recorded as of June 30, 2004.

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, 2003, and 2004) 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
2004	.27

(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

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."

Miscellaneous

1. In March 2005, the UFT, the union that represents the teachers in the New York City public school system, commenced an action and an Article 78 proceeding in New York Supreme Court, New York County, against the Teachers Retirement System and the City alleging that, due to certain miscalculations relating, *inter alia*, to the interest earned on member contributions to a retirement plan known as the 20 Year Pension Plan, teachers who retired under this plan do not receive the entire amount of retirement benefits to which they are entitled. Plaintiffs seek declaratory relief and an award to 20 Year Pension Plan members of not less than $800 million to equal the difference between what plaintiffs allege they are entitled to under the 20 Year Pension Plan and the amount actually received. If plaintiffs were to prevail in this matter, it could result in substantial 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. On November 19, 2003, the defendants moved for summary judgment. On May 2, 2005, the Supreme Court denied defendants' motion and ordered the matter to trial. If the plaintiff were to prevail in this action, it could result in substantial costs to the City.

3. Numerous actions alleging respiratory or other injuries from alleged toxic exposures to World Trade Center dust and debris at the World Trade Center site or the Fresh Kills landfill have been commenced against the City. Plaintiffs include Department of Sanitation employees, firefighters, police officers, construction workers and others. There are currently one hundred seventy-five such actions seeking approximately $500 million in damages. Additionally, in May 2005, a Summons with Notice representing 1,958 plaintiffs alleging similar World Trade Center related injuries was served on the City naming the City and numerous other parties as defendants. The amount of damages has not yet been alleged. Complaints have subsequently been served on behalf of many of the plaintiffs and most do not name the City as a defendant. It is not possible yet to evaluate the magnitude of liability arising from these claims. The actions 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) ("Air Transportation Act"), which grants exclusive federal jurisdiction for all claims related to or resulting from the September 11 attack. On March 10, 2004, the Southern District dismissed a case filed on behalf of 12 firefighters alleging wrongful death. Plaintiffs appealed this decision, and on April 29, 2005 the Second Circuit Court of Appeals upheld the District Court decision dismissing the action. On July 15, 2005, the Court of Appeals for the Second Circuit denied plaintiffs' petition for a rehearing. 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 appealed this decision and on July 14, 2005, the Court of Appeals for the Second Circuit issued an opinion that reversed the District Court and held that all current actions alleging respiratory related injuries, regardless of when or where the alleged exposure took place, are to be litigated in federal court. 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 and the Fresh Kills landfill. The insurance company has 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. Plaintiff has submitted to the Court a claim form required of all property damage plaintiffs in the September 11 litigation in the amount of approximately $750 million for damages suffered at several different locations in the aftermath of the September 11, 2001 attacks. Although it is not clear what portion of the increased damages plaintiff alleges to be the responsibility of the City, it appears that no part of the increased claim can be attributed to the City's actions. Defendant's motion to dismiss was denied by the Court on November 30, 2004. In denying the motion to dismiss, the judge granted the City the right to renew the motion as one for summary judgment after the conduct of limited discovery. That motion was argued on July 28, 2005 and a decision has not yet been rendered.

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. On August 3, 2005, plaintiffs brought a motion to dismiss the limitation complaint.

5. On June 16, 2005, the Office of the Inspector General of the United States Department of Health and Human Services ("HHS") issued its audit report on claims submitted to the New York State Medicaid program by the New York City Department of Education (then known as the Board of Education) with respect to speech services for students with disabilities for the period 1993 through 2001. The audit states generally that the State of New York improperly billed HHS nearly $436 million in Federal Financial Participation ("FFP") for State Medicaid expenditures for speech services that were not sufficiently supported by documentation establishing the provision of such services in accordance with applicable standards. The audit may be the subject of further administrative or judicial review that may result in changes in amounts alleged to be owed by the State. In the event that FFP is ultimately disallowed and found to be owed by the State to HHS, the State may in turn seek to collect amounts received by the Department of Education for speech services that are the subject of such disallowances, or may attempt to offset amounts owed to the Department of Education. The State has indicated that it will respond to the audit findings.

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") with respect to the Bonds and the Multi-Modal Bonds, 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 or the proceedings with respect to the Multi-Modal Bonds 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 the 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 the 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 the Bonds are required to decrease their adjusted basis in the Bonds by the amount of amortizable bond premium attributable to each taxable year the Bonds are held. The amortizable bond premium on the 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 the Bonds. Owners of the 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 the Bonds and with respect to the state and local tax consequences of owning and disposing of the 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 “A1” 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 and CIFGNA. The City expects the Insured Bonds to 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.

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 E 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.

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

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.

Underwriting

The Bonds are being purchased for reoffering by the Underwriters for whom M.R. Beal & Company, Bear, Stearns & Co. Inc., Citigroup Global Markets Inc., Morgan Stanley & Co. Incorporated and UBS Financial Services Inc. are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Bonds shall be $1,514,639.87.

All of the Bonds will be purchased if any are purchased. It is a condition of the issuance of the Bonds that the Multi-Modal Bonds be issued simultaneously.

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 purchaser or any holders of the Bonds.

THE CITY OF NEW YORK

APPENDIX A

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, professional and business services, 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 came to an end in 2004. The Financial Plan assumes continued moderate growth in calendar year 2005.

Personal Income

Total personal income for City residents, unadjusted for the effects of inflation and the differential in living costs, increased from 1993 to 2003 (the most recent year for which City personal income data are available). From 1993 to 2003, personal income in the City averaged 4.3% growth compared to 5.1% for the nation. After increasing by 2.5% in 2003, total personal income is estimated by OMB to have increased in 2004. The following table sets forth information regarding personal income in the City from 1993 to 2003.

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.
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	36,912	29,847	123.7
2001	302.7	37,520	30,572	122.7
2002	299.3	36,989	30,806	120.1
2003	306.7	37,815	31,476	120.1

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census. Data as of March 15, 2005.

(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 approximately 108,600 and 51,800 jobs, respectively. In 2004, average annual employment in the City increased by 10,000 jobs. As of June 2005, total employment in the City was approximately 3,596,500 compared to approximately 3,562,500 in June 2004, an increase of approximately 1.0%.

The table below shows the distribution of employment from 1994 to 2004.

EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Goods Producing Sectors											
Construction	88	90	91	93	101	112	120	122	116	113	111
Manufacturing	212	208	200	201	196	187	177	156	139	127	120
Service Producing Sectors											
Trade Transportation and Utilities	526	533	533	538	542	556	570	557	536	534	538
Information	152	154	159	163	166	173	187	200	177	164	162
Financial Activities	472	467	464	468	477	481	489	474	445	434	435
Professional and Business Services	437	445	468	494	525	553	587	582	550	537	537
Education and Health Services	536	552	565	576	589	606	620	627	646	658	667
Leisure and Hospitality	201	208	217	228	236	244	257	260	255	260	269
Other Services	121	123	125	129	134	142	147	149	150	149	150
Total Private	2,744	2,779	2,823	2,890	2,966	3,053	3,154	3,127	3,015	2,975	2,988
Government	578	560	546	552	561	567	569	565	569	557	554
Total	3,322	3,339	3,369	3,442	3,528	3,621	3,723	3,692	3,584	3,532	3,542

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 2003, 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 2003, 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 47%. In the nation, those same service producing sectors accounted for only approximately 18% of employment and 25% of earnings in 2003. 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 2003 are set forth in the following table.

Sectoral Distribution of Employment and Earnings in 2003(1)

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
Goods Producing Sectors				
Mining	0.0%	0.4%	0.2%	0.8%
Construction	3.2	5.2	3.2	6.1
Manufacturing	3.6	11.2	2.7	13.5
Total Goods Producing	6.8	16.8	6.1	20.4
Service Producing Sectors				
Trade, Transportation and Utilities	15.1	19.5	9.3	16.3
Information	4.6	2.5	7.7	3.9
Financial Activities	12.3	6.1	27.2	10.0
Professional and Business Services	15.2	12.3	19.4	14.8
Education and Health Services	18.6	12.8	11.1	10.8
Leisure & Hospitality	7.4	9.4	3.8	3.9
Other Services	4.2	4.2	2.5	3.0
Total Service Producing	77.4	66.6	81.1	62.8
Total Private Sector	84.2	83.4	88.8	83.5
Government(3)	15.8	16.6	11.2	16.5

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 2003 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

As of June 2005, the total unemployment rate in the City was 5.3% compared to 7.3% in June 2004. The annual unemployment rate of the City's resident labor force is shown in the following table.

ANNUAL UNEMPLOYMENT RATE(1)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
New York City	8.7%	8.2%	8.8%	9.4%	8.0%	6.7%	5.7%	6.0%	7.9%	8.4%	7.1%
United States	6.1%	5.6%	5.4%	5.0%	4.5%	4.2%	4.0%	4.8%	5.8%	6.0%	5.5%

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).

Public Assistance

As of June 2005, the number of persons receiving public assistance in the City was 416,164 compared to 437,453 in June 2004. The following table sets forth the number of persons receiving public assistance in the City.

PUBLIC ASSISTANCE(1)

(Annual Averages in Thousands)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1,140.7	1,109.5	1,003.3	873.6	760.1	668.2	573.0	492.8	434.0	424.7	434.8

(1) Figures do not include aged, disabled or blind persons who were transferred from public assistance to the SSI program, which is primarily federally funded.

Taxable Sales

The City is a major retail trade market with the greatest volume of retail sales of any city in the nation. The sales tax is levied on a variety of economic activities including retail sales, utility and communication sales, services and manufacturing. 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 and 2004 after having decreased in 2002. The following table illustrates the volume of sales and purchases subject to the sales tax from 1992 to 2002.

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
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	11.3	21.4	2.2	19.0	79.1
2002(6)	25.0	11.8	20.5	1.9	16.2	75.4

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

(1) For 1992 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 through 2002 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.

(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.

(Footnotes continued on the next page)

(Footnotes continued from previous page)

(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 2006 fiscal year, the billable assessed valuation of real estate of utility corporations is $10.2 billion. The following table presents the 40 non-utility properties having the greatest assessed valuation in the 2006 fiscal year as indicated in the tax rolls.

Property	2006 Fiscal Year Assessed Valuation	Property	2006 Fiscal Year Assessed Valuation
Met Life Building	$266,252,000	666 Fifth Avenue	$162,213,200
General Motors Building	262,595,000	Chase World Headquarters	161,410,000
International Building	242,642,467	Morgan Stanley	150,810,000
McGraw-Hill Building	230,130,000	Morgan Guaranty	146,220,000
Stuyvesant Town	227,880,000	Simon & Schuster Building	146,196,000
Sperry Rand Building	226,998,000	Waldorf-Astoria	145,234,000
Solow Building	221,870,000	595 Lexington Avenue	139,490,000
Credit Lyonnais	221,099,998	One Astor Plaza	139,340,000
Time & Life	214,990,000	Kalikow Building	138,310,000
Bear Stearns Building	205,458,185	617 Lexington Avenue	138,257,100
Celanese Building	201,340,000	1 Liberty Plaza	136,470,233
Alliance Capital	200,570,000	Time Warner Center	135,000,000
World Trade Center	200,276,458	399 Park Avenue	133,307,910
Empire State Building	197,100,000	Carpet Center	132,960,000
One Penn Plaza	193,770,000	1 Chase Manhattan Plaza	129,725,000
Bristol Meyers	189,360,000	Park Avenue Plaza	126,500,000
UBS Financial Services Building	186,599,993	Continental Illinois	126,430,000
Worldwide Plaza	182,550,000	IBM Tower	125,610,000
Paramount Plaza	178,040,000	1335 6 Avenue	124,504,500
Equitable Tower	165,180,000	Park Avenue Atrium	120,600,000

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

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BASIC FINANCIAL STATEMENTS OF THE CITY OF NEW YORK

June 30, 2004 and 2003

INDEX

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Independent Auditors' Report

The People of The City of New York

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New York, New York, (the "City") as of and for the years ended June 30, 2004 and 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of New York's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of those entities disclosed in Note E.1 which represent 36 percent and 17 percent and 37 percent and 19 percent, as of and for the years ended June 30, 2004 and 2003 respectively, of the assets and revenues of the government-wide financial statements and 20 percent and 17 percent and 20 percent and 26 percent, as of and for the years ended June 30, 2004 and 2003 respectively, of the assets and revenues of the fund financial statements of the City of New York. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities disclosed in Note E.1, is based on the report of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City New York, New York, as of June 30, 2004 and 2003, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 2004 and 2003 supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

October 25, 2004

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of The City of New York (City) for the fiscal years ended June 30, 2004 and 2003. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-wide financial statements

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

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

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

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

Fund financial statements

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

Governmental funds

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

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

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

Fiduciary funds

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

Notes to the financial statements

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

Financial Reporting Entity

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

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

Blended Component Units

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

Municipal Assistance Corporation for The City of New York (MAC)
New York City Transitional Finance Authority (TFA)
New York City Samurai Funding Corporation (SFC) (dissolved in fiscal year 2004)
TSASC, Inc. (TSASC)
New York City Educational Construction Fund (ECF)
New York City School Construction Authority (SCA)

Discretely Presented Component Units

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

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

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

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

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

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

Financial Analysis of the Government-wide Financial statements

In the government-wide financial statements, all of the activities of the City, aside from its discretely presented component units, are considered governmental activities. Governmental activities increased the City's net assets by $83.106 million during fiscal year 2004, and decreased net assets by $3.064 billion during fiscal year 2003 and by $3.837 billion during fiscal year 2002.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2004 governmental funds statement of revenues, expenditures, and changes in fund balances which reports an increase of $1.5 billion in fund balances and the reported increase in the excess of assets over liabilities reported in the government-wide statement of activities $83.1 million, a difference of $1.4 billion. A similar reconciliation is provided for fiscal year 2003 amounts.

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

Key elements of these changes are as follows:

	Governmental Activities for the fiscal years ended June 30,		
	2004	2003	2002
		(in thousands)	
Revenues:			
Program revenues:			
Charges for services	$ 3,286,407	$ 2,790,609	$ 3,001,330
Operating grants and contributions	14,507,980	14,515,404	14,336,509
Capital grants and contributions	477,280	455,520	493,798
General revenues:			
Taxes	28,493,546	23,412,848	21,939,595
Investment income	49,677	102,433	155,122
Other Federal and State aid	1,254,101	1,743,466	975,281
Other	348,915	377,613	416,553
Total revenues	48,417,906	43,397,893	41,318,188
Expenses:			
General government	2,602,630	1,928,755	2,124,613
Public safety and judicial	9,566,889	8,762,321	9,519,218
Education	14,539,644	14,499,037	13,249,344
City University	668,841	558,417	591,345
Social services	10,283,512	9,785,682	9,567,970
Environmental protection	2,453,205	2,055,835	2,171,605
Transportation services	1,702,394	2,083,259	1,246,997
Parks, recreation and cultural activities	560,670	607,787	705,691
Housing	745,544	787,584	896,743
Health (including payments to HHC)	2,853,898	2,709,563	2,816,360
Libraries	263,976	377,647	161,250
Debt service interest	2,093,597	2,306,469	2,103,685
Total expenses	48,334,800	46,462,356	45,154,821
Change in net assets	83,106	(3,064,463)	(3,836,633)
Net Deficit—Beginning	(26,604,520)	(23,540,057)	(19,703,424)
Net Deficit—Ending	$(26,521,414)	$(26,604,520)	$(23,540,057)

In fiscal year 2004, government-wide revenues increased from fiscal year 2003 levels by approximately $5.0 billion, while government-wide expenses grew by approximately $1.9 billion.

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

- An increase in real estate tax resulting from full-year impact of the 18.5% tax rate increase effective January 1, 2003 and a continuing increase in billable assessed values on the fiscal year 2004 final roll.
- An increase in the sales tax resulting from the .125% increase in the sales tax rate effective June 4, 2003 and the expiration of the exemption on clothing and footwear purchases under $100 dollars effective June 1, 2003. In addition, an increase in underlying sales activity resulting from the strength in durable sales spurred by the booming real estate transaction market as well as the local economic recovery and the recovery in tourism.
- An increase in personal income tax resulting from the temporary upper income tax increase implementing two new top tax rates effective for calendar years 2003 through 2005, yet implemented through a withholding table increase effective July 1, 2003. In addition, personal income tax payments on underlying liability increased as a result of the near record Wall Street profits seen in calendar year 2003 and the consequent high bonus payouts.
- An increase in other income taxes (the general corporation, banking corporation and the unincorporated business tax) resulting from the rebound in Wall Street profits in calendar year 2003 as well as significant declines in refund payouts as payments on account from prior year overpayments of tax are liquidated.
- An increase in other taxes resulting primarily from the skyrocketing real property transaction tax revenues (real property transfer tax and mortgage recording tax) as further declines in interest rates spur real estate transactions and lead to a peak in mortgage refinancing.
- A decrease in other Federal and State Aid as compared to fiscal 2003, when funding from FEMA was received for previously incurred costs related to the September 11, 2001 World Trade Center (WTC) disaster.
- Increases in charges for services primarily resulting from increases in the charges and enforcement activity for parking violations and the sales of new taxi medallions.

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

- Increases in pension costs for city workers, especially in the uniform forces, as well as increase in health insurance costs.
- An increase in social service spending reflecting increased number of eligible clients and inflation of medical services and pharmaceutical costs in the Medicaid program, as well as increased case loads in the public assistance program.
- An increase in education spending offset, in part, by reductions in long-term liabilities for related employees' vacation and sick leave.

In fiscal year 2003, government-wide revenues increased from fiscal year 2002 levels by approximately $2.1 billion, while government-wide expenses grew by approximately $1.3 billion.

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

- An increase in real estate tax, resulting from a real estate tax rate increase of 18.5% for the second half of the fiscal year and the continuing increase in real property valuation.

- An increase in non-property taxes, resulting from the increase in sales taxes driven by rebounding tourism, a cigarette tax rate increase, and real property transaction taxes driven by a boom in real estate sales and refinancing. These were partially offset by declines in income taxes, which reflect the continued weakness of other sectors of the economy.

- An increase in other Federal and State aid, resulting from the funding by FEMA of additional costs previously incurred by the City as a result of the WTC disaster.

- Changes in operating grants composed primarily of decreases in Federal FEMA reimbursements for costs of the September 11, 2001 WTC disaster and offset in part by increases from:

  – State and Federal aid for the City's Department of Education;

  – receipt from HHC to reimburse the City for a portion of the judgments and settlement payments made by the City for HHC related claims;

  – Medicaid reimbursements for the Department of Health and Mental Hygiene services that were increased to reflect the expansion of the early intervention program, and a one-time retroactive claim;

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

- an increase in education spending primarily as a result of collectively bargained salary increases;

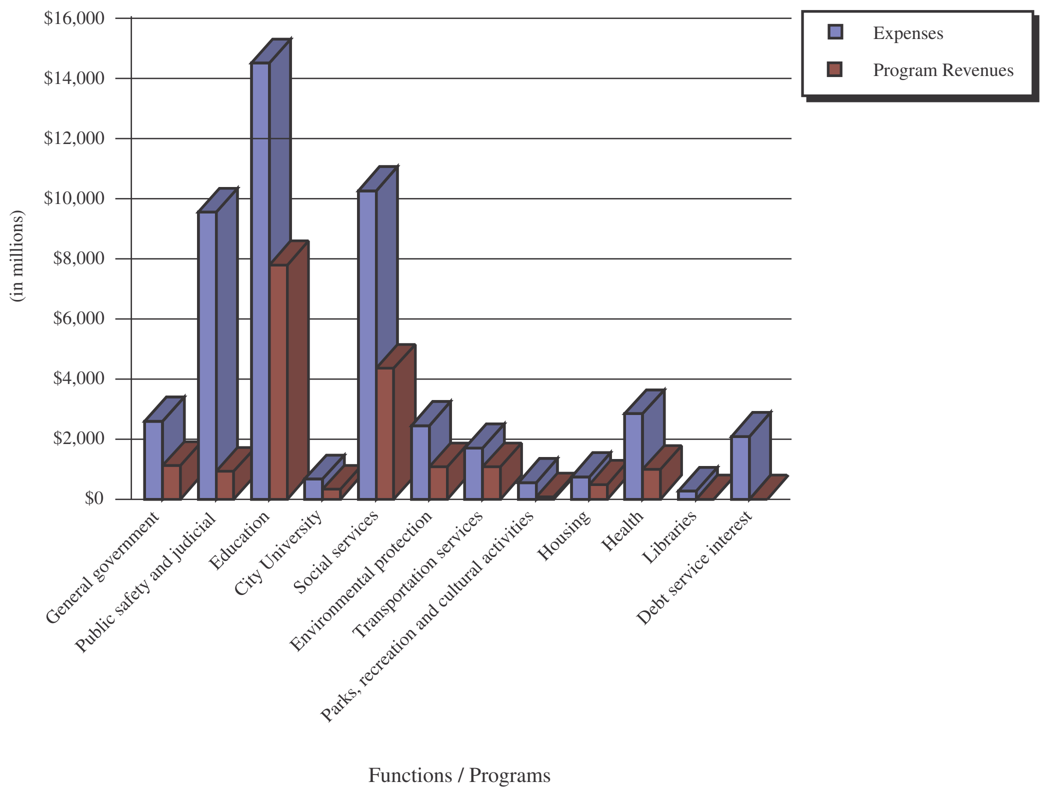
- an increase in transportation spending due to the acceleration of payments (discretionary transfers) to the NYC Transit Authority in City fiscal year 2001 (which reduced fiscal year 2002 payments) and fiscal year 2003;

- an increase in social service spending reflecting increased Medicaid costs and larger numbers of homeless families and individuals seeking shelter; and

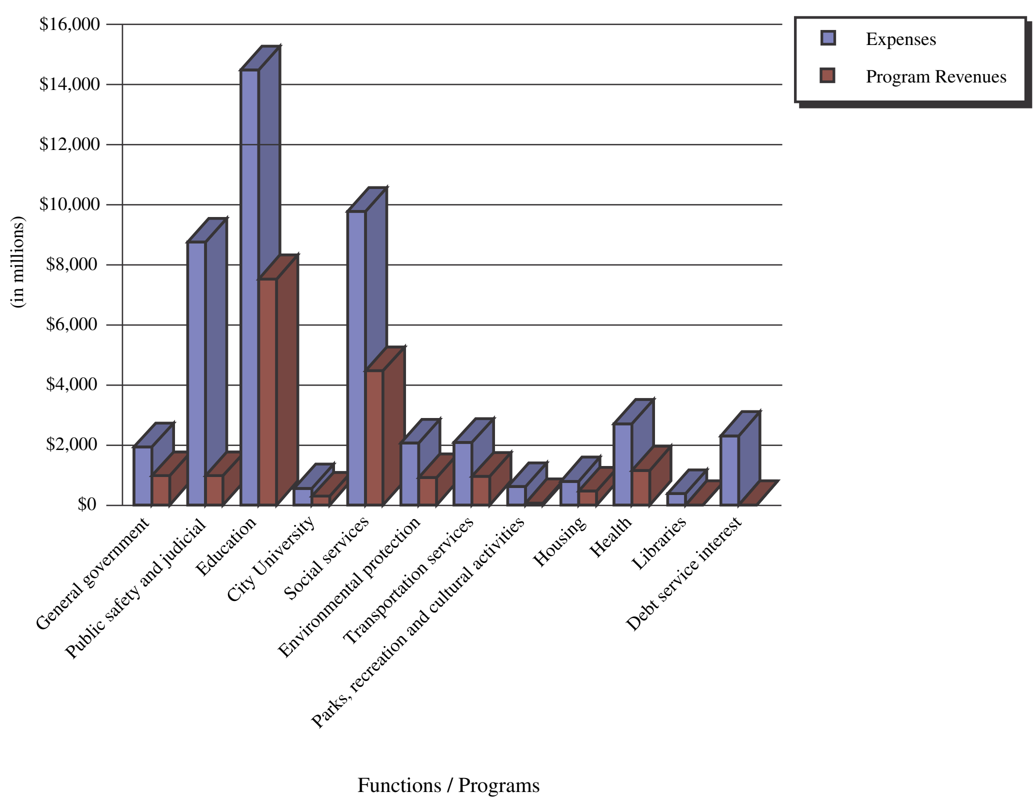
- the fiscal year 2002 results included significant spending in general government, public safety, environmental protection, and health functions related to the recovery and clean-up efforts following the September 11, 2001 attack on the WTC. Hence, decreased spending was seen in these areas in fiscal year 2003.

The following two charts compare the expenses for each of the City's programs with the revenues that are derived from each program for fiscal years 2004 and 2003. The excess of program expenses over revenues represents the net cost of each program that must be financed from the City's general revenues.

Expenses and Program Revenues — Governmental Activities
June 30, 2004

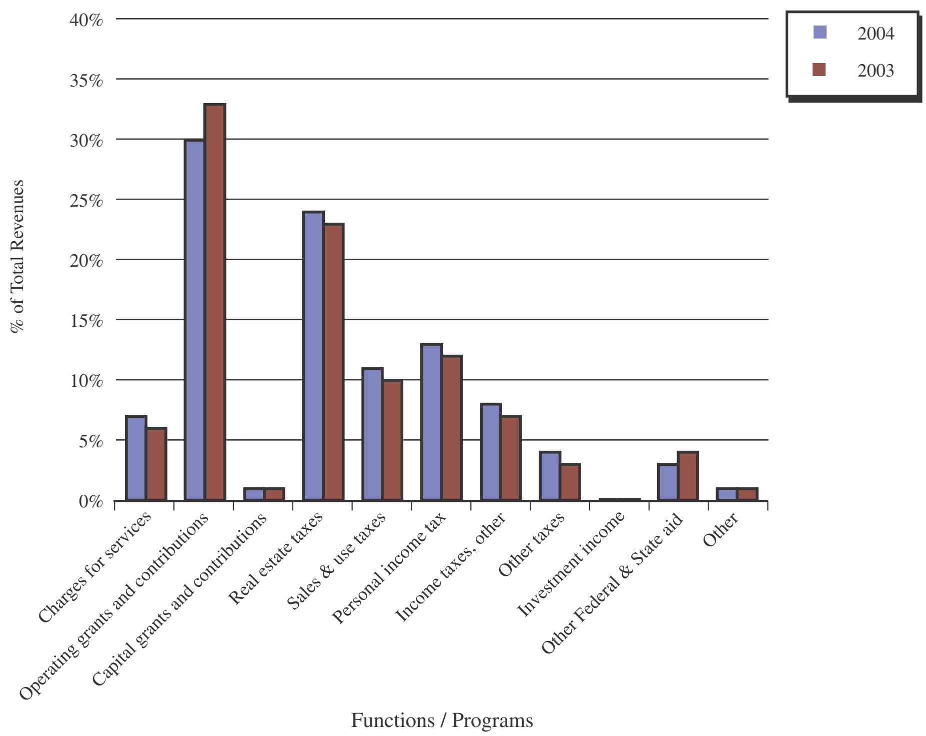


Expenses and Program Revenues — Governmental Activities
June 30, 2003



The following chart compares the amounts of program and general revenues for fiscal years 2004 and 2003:

Revenues by Source — Governmental Activities for the Years Ended June 30, 2004 and 2003



As noted earlier, increases and decreases of net assets may over time serve as a useful indicator of changes in a government's financial position. In the case of the City, liabilities exceed assets by $26.5 billion at the close of the most recent fiscal year, a decrease of $.1 billion from June 30, 2003, which had increased $3.064 billion from June 30, 2002.

	Governmental Activities		
	2004	2003	2002
		(in thousands)	
Current and other assets	$ 19,691,909	$ 17,635,396	$ 17,520,338
Capital assets	29,958,556	28,894,866	26,659,071
Total assets	49,650,465	46,530,262	44,179,409
Long-term liabilities outstanding	61,288,787	59,455,298	54,684,089
Other liabilities	14,883,092	13,679,484	13,035,377
Total liabilities	76,171,879	73,134,782	67,719,466
Net assets:			
Invested in capital assets, net of related debt	(6,157,298)	(4,770,629)	(2,372,441)
Restricted	2,239,532	1,651,595	2,519,338
Unrestricted	(22,603,648)	(23,485,486)	(23,686,954)
Total net deficit	$(26,521,414)	$(26,604,520)	$(23,540,057)

The excess of liabilities over assets reported on the government-wide statement of net assets is a result of several factors. The largest component of the net deficit is the result of the City having long-term debt with no corresponding capital assets. The following summarizes the main components of the negative net assets value as of June 30, 2004 and 2003:

Components of Negative Net Assets Value	2004	2003
	(in billions)	
Net Assets Invested in Capital Assets		
Some City-owned assets have a depreciable life used for financial reporting that is different from the period over which the related debt principal is being repaid. Schools and related education assets depreciate more quickly than their related debt is paid, and they comprise the largest component of this difference	$ (6.1)	$ (4.8)
Net Assets Restricted for:		
Debt Service	2.0	1.0
Capital Projects	0.2	0.7
Total net assets restricted	2.2	1.7
Unrestricted Net Assets		
MAC issued debt during the 1970's which funded some City operating expenses. This is the remaining MAC debt outstanding as of year end	(1.8)	(2.2)
TFA issued debt to finance costs related to the recovery from the September 11, 2001 World Trade Center disaster, which are operating expenses of the City	(2.1)	(2.1)
The City has issued debt for the acquistion and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority, NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end	(11.9)	(11.1)
Certain long-term obligations do not require current funding:		
Judgments and claims	(4.4)	(4.5)
Vacation and sick leave	(2.6)	(2.6)
Pension liability	(0.7)	(0.6)
Landfill closure and postclosure costs	(1.3)	(1.3)
Other:	2.2	0.9
Total unrestricted net assets	(22.6)	(23.5)
Total net deficit	$(26.5)	$(26.6)

Financial Analysis of the Governmental Funds

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

Governmental Funds

	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustment/ Eliminations	Total
			(in thousands)			
Fund balances (deficit), July 1, 2002	$ 403,140	$(1,466,231)	$ 697,419	$ (530,805)	$ (41,561)	$ (938,038)
Revenues	42,641,200	1,639,094	75,581	2,680,702	(1,339,793)	45,696,784
Expenditures	(41,992,043)	(5,733,809)	(2,390,629)	(3,016,628)	1,392,122	(51,740,987)
Other financing sources (uses)	(644,219)	4,156,303	2,117,058	989,658	(8,120)	6,610,680
Fund balances (deficit), June 30, 2003	408,078	(1,404,643)	499,429	122,927	2,648	(371,561)
Revenues	47,275,666	1,936,966	76,508	1,687,004	(1,059,953)	49,916,191
Expenditures	(43,252,777)	(5,754,507)	(2,836,801)	(2,365,764)	1,005,764	(53,204,085)
Other financing sources (uses)	(4,018,231)	3,569,376	3,454,913	1,831,622	—	4,837,680
Fund balances (deficit), June 30, 2004	$ 412,736	$(1,652,808)	$ 1,194,049	$ 1,275,789	$ (51,541)	$ 1,178,225

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

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of $1.928 billion and $1.422 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2004 and 2003, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of $5 million in both fiscal years 2004 and 2003, which resulted in an increase in fund balance by this amount.

The General Debt Service Fund receives transfers (discretionary and other) from the General Fund from which it pays the City's debt service requirements. Its fund balance at June 30, 2004 can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling $972 million in fiscal year 2004. Similar transfers in fiscal year 2003 of $407 million also primarily account for the General Debt Service Fund fund balance at June 30, 2003.

The New York City Capital Projects Fund accounts for the financing of the City's capital program. The primary resources are obtained from the issuance of City debt as well as transfers from TFA and TSASC. Capital-related expenditures are first paid from the General Fund, which is reimbursed for these expenditures by the New York City Capital Projects Fund. To the extent that capital expenditures exceed proceeds from bond issuances, transfers from TFA and TSASC and other revenues and financing sources, the Capital Projects Fund will have a deficit. The deficit fund balances at June 30, 2004 and 2003 are primarily attributed to amounts that are owed to the General Fund to repay it for advances related to the City's capital program.

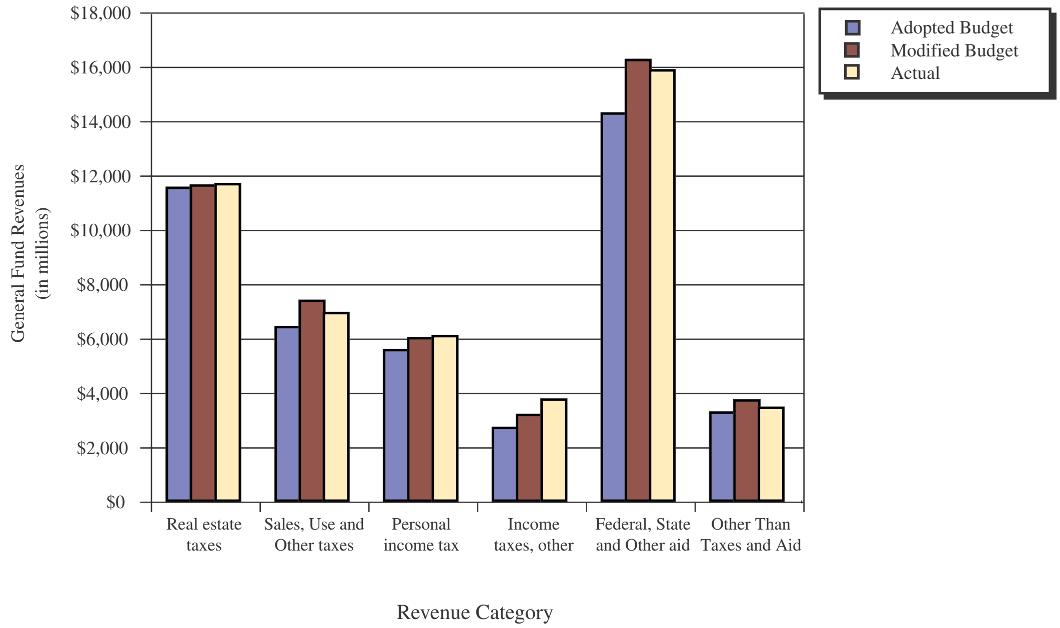
General Fund Budgetary Highlights

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

General Fund Revenues

The following charts and tables summarize actual revenues by category for fiscal years 2004 and 2003 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

General Fund Revenues
Fiscal Year 2004

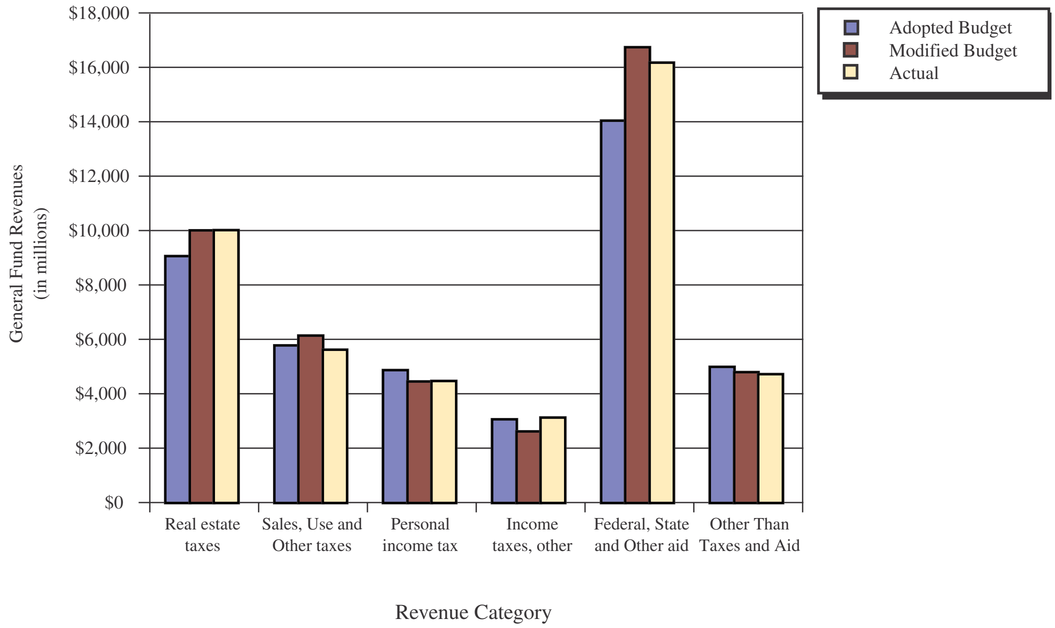


General Fund Revenues

Fiscal Year 2004
(in millions)

	Adopted Budget	Modified Budget	Actual
Taxes (net of refunds):			
Real estate taxes	$11,447	$11,534	$11,582
Sales and use taxes	4,470	5,019	5,081
Personal income tax	5,505	5,934	6,013
Income taxes, other	2,648	3,125	3,691
Other taxes	1,877	2,288	1,777
Taxes (net of refunds)	25,947	27,900	28,144
Federal, State and Other aid:			
Categorical	13,622	15,142	14,799
Unrestricted	555	991	963
Federal, State and Other aid	14,177	16,133	15,762
Other Than Taxes and Aid:			
Charges for services	1,667	1,563	1,603
Other revenues	1,526	2,071	1,767
OTB Transfers	20	20	21
Other Than Taxes and Aid	3,213	3,654	3,391
Total Revenues	$43,337	$47,687	$47,297

General Fund Revenues
Fiscal Year 2003



General Fund Revenues

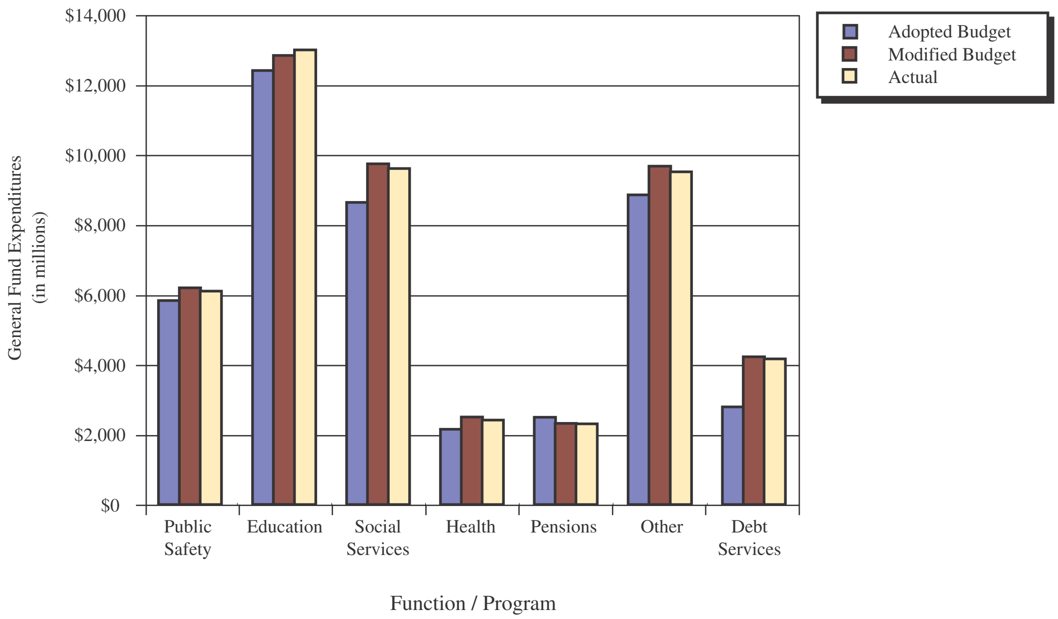
Fiscal Year 2003
(in millions)

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

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2004 and 2003 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

General Fund Expenditures
Fiscal Year 2004

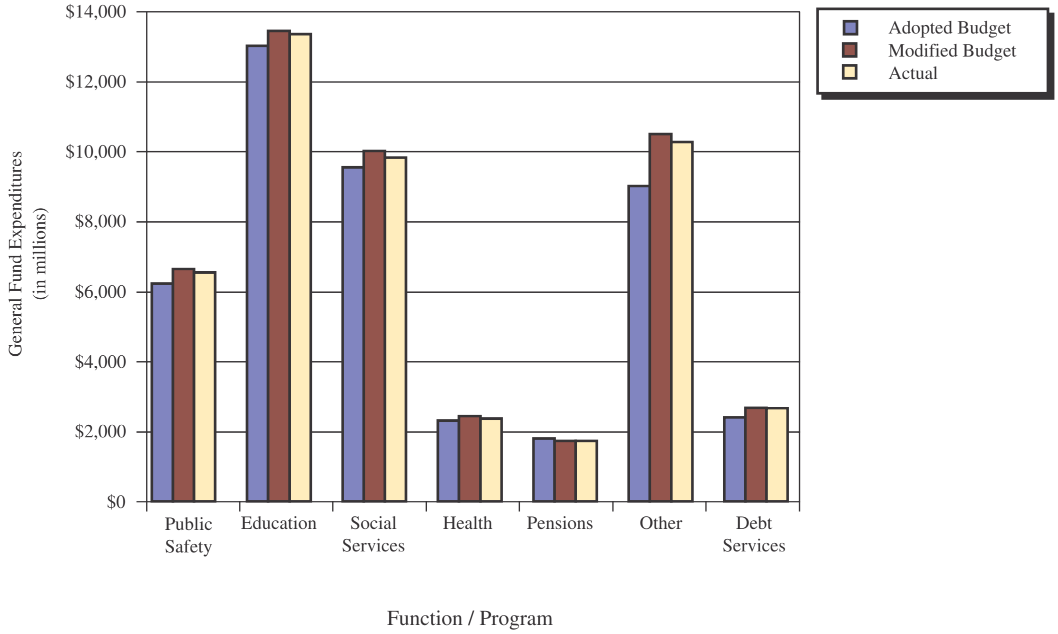


General Fund Expenditures

Fiscal Year 2004
(in millions)

	Adopted Budget	Modified Budget	Actual
General Government	$ 1,360	$ 1,416	$ 1,347
Public Safety and Judicial	5,851	6,221	6,125
Education	12,472	12,905	13,061
City University	467	525	493
Social Services	8,678	9,782	9,650
Environmental Protection	1,654	1,662	1,639
Transportation Services	511	884	840
Parks, Recreation, and Cultural Activities	289	323	317
Housing	434	492	449
Health (including HHC)	2,153	2,506	2,418
Libraries	123	242	242
Pensions	2,495	2,318	2,308
Judgments and Claims	643	592	591
Fringe Benefits and Other Benefit Payments	2,736	2,753	2,755
Other	675	828	884
Transfers and Other Payments for Debt Service	2,796	4,238	4,173
Total Expenditures	$43,337	$47,687	$47,292

General Fund Expenditures
Fiscal Year 2003



General Fund Expenditures

Fiscal Year 2003
(in millions)

	Adopted Budget	Modified Budget	Actual
General Government	$ 1,172	$ 1,287	$ 1,238
Public Safety and Judicial	5,898	6,298	6,204
Education	12,354	12,757	12,673
City University	465	478	444
Social Services	9,054	9,499	9,321
Environmental Protection	1,658	1,687	1,638
Transportation Services	763	1,039	1,016
Parks, Recreation, and Cultural Activities	298	297	293
Housing	420	456	437
Health (including HHC)	2,187	2,309	2,241
Libraries	251	338	338
Pensions	1,701	1,630	1,631
Judgments and Claims	419	613	627
Fringe Benefits and Other Benefit Payments	2,217	2,604	2,607
Other	822	1,151	1,097
Transfers and Other Payments for Debt Service	2,337	2,537	2,535
Total Expenditures	$42,016	$44,980	$44,340

General Fund Surplus

The City had General Fund operating surpluses of $1.928 billion, $1.422 billion and $686 million before certain expenditures and transfers (discretionary and other) for fiscal years 2004, 2003 and 2002, respectively. For the fiscal years 2004, 2003 and 2002, the General Fund surplus was $5 million after expenditures and transfers (discretionary and other).

The expenditures and transfers (discretionary and other) made by the City after the adoption of its fiscal years 2004, 2003 and 2002 budgets follow:

	2004	2003	2002
		(in millions)	
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service	$ 307	$ 166	$ 509
Discretionary transfers to the General Debt Service Fund	662	237	154
Net equity contribution in bond refunding that accrued to future years debt service savings	3	4	4
Debt service prepayments for lease purchase debt service due in the fiscal year	71	73	—
Grant to TFA	400	624	—
Advance cash subsidies to the Public Library system	112	107	—
Advance cash subsidies to the Transit Authority	209	206	14
Advance cash subsidies to the HHC	159	—	—
Total expenditures and transfers (discretionary and other)	1,923	1,417	681
Reported Operating Surplus	5	5	5
Total Operating Surplus	$ 1,928	$ 1,422	$ 686

Fiscal Year 2004

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2004 Adopted Budget:

	2004
	(in millions)
Additional Resources:	
Federal categorical aid (including FEMA reimbursement)	$ 793
Higher than expected property tax revenue collections	135
Higher than expected personal income tax revenue collections	463
Higher than expected major business income tax revenue collections	560
Higher than expected mortgage tax revenue collections	438
Higher than expected general sales tax revenue collections	171
Higher than expected net all other tax revenue collections, net of tax audit revenues	432
Unrestricted aid	408
State categorical aid	281
Lower than expected debt service and interest on short-term notes	385
Lower than expected administrative costs for supplies, equipment and other OTPS	308
Other miscellaneous revenues, including asset sales	209
Non-grant revenue	115
General government charges	124
Lower than anticipated pension costs	170
Lower than anticipated judgment and claims	49
Licenses, permits, privileges, and franchises	23
Rental income - other	17
Other charges for services	18
Higher than expected revenues from fines and forfeitures	15
Lower than anticipated Medicaid funding to the Health and Hospitals Corporation	25
General Reserve	300
Total	5,439
Enabled the City to provide for:	
Higher than anticipated personal services costs excluding pensions, health insurance, and overtime	491
Higher than expected other fixed and miscellaneous charges	99
Higher than expected public assistance	116
Increased MAC debt service costs	502
Lower than expected rental income for JFK and LaGuardia Airports	197
Higher than anticipated overtime costs	345
Higher than anticipated Medicaid costs	536
Increased contractual services costs	1,147
Prepayment of certain debt service costs and subsidies due in fiscal year 2005	1,920
Lower than expected collection of water and sewer charges	27
Increased health insurance costs	15
Disallowance reserve	12
Social Services, excluding public assistance and Medicaid	4
Lower than expected interest income	6
Equity contribution in conjunction with bond refundings	3
All other net overspending and revenues below budget	14
Total	5,434
Reported Surplus	$ 5

Fiscal Year 2003

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

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

Capital Assets

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

	Governmental Activities		
		June 30,	
	2004	2003	2002
		(in millions)	
Land	$ 761	$ 739	$ 737
Buildings	17,652	16,395	11,253
Equipment	2,289	2,546	1,522
Infrastructure	6,569	6,242	5,950
Construction work-in-progress	2,688	2,973	7,197
Total	$29,959	$28,895	$26,659

The net increase in the City's capital assets during fiscal year 2004 was $1.064 billion, a 3.7% increase. Capital assets additions in fiscal year 2004 were $5.058 billion, a decrease of $4.715 billion from fiscal year 2003. Capital assets additions in the Education program totaling $1.562 billion and total new construction work-in-progress (the majority of which are in the Education program) totaling $1.872 billion accounted for 68.0% of the capital assets additions in fiscal year 2004.

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

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

Debt Administration

The Comptroller's Office of Public Finance, in conjunction with the Mayor's Office of Management and Budget, is charged with issuing debt to finance the implementation of the City's capital program. The following table summarizes the debt outstanding for New York City and City-related issuing entities at the end of fiscal years 2004, 2003 and 2002.

	New York City and City-Related Debt		
	2004	2003	2002
		(in millions)	
General Obligation Bonds[(a)]	$31,378	$29,679	$28,465
1991 General Resolution Bonds (MAC)	1,758	2,151	2,880
Future Tax Secured Bonds (TFA)	11,337	9,997	8,289
TSASC, Inc.	1,256	1,258	740
Japanese Yen bonds	—	—	40
IDA Bonds	108	—	—
Revenue Bonds	107	117	125
Bond Anticipation Notes (TFA)	—	1,110	1,200
Recovery Notes (TFA)	—	—	1,000
Recovery Bonds (TFA)	2,027	2,027	—
Total bonds and notes payable	47,971	46,339	42,739
Less treasury obligations	(51)	(64)	(116)
Net outstanding debt	$47,920	$46,275	$42,623

(a) Does not include capital contract liabilities.

General Obligation

On June 30, 2004, New York City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled $33.8 billion (compared with $31.0 and $29.2 billion as of June 30, 2003 and 2002, respectively). The State Constitution provides that, with certain exceptions, the City may not contract indebtedness in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years. As of June 30, 2004, the City's net GO debt limit was $43.12 billion (compared with $40 and $36 billion as of June 30, 2003 and 2002, respectively). The remaining GO debt incurring power as of June 30, 2004, after providing for capital contract liabilities, totaled $9.28 billion.

As of June 30, 2004, the City's outstanding GO variable and fixed rate debt totaled $5.57 billion and $25.81 billion, respectively. Of the $6.46 billion in GO bonds issued by the City in fiscal year 2004, four transactions totaling $3.42 billion were issued to refund certain outstanding bonds and five transactions totaling $3.04 billion were issued for new money capital purposes. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produce debt service savings of $32.4 million, $96.5 million and $109.8 million in fiscal years 2004, 2005 and 2006, respectively. The refundings will generate approximately $198.5 million in net present value savings throughout the lives of the bonds.

Federal legislation enacted in 2002 allowed the City to implement additional advance refundings under certain circumstances in an amount not to exceed $4.5 billion in bonds. As of June 30, 2004 a total of $3.1 billion of bonds had been designated as advanced refunding bonds under the additional advance refunding legislation, of which approximately $1.17 billion was used in the refundings completed during fiscal year 2004.

A total of $423.52 million of the $6.46 billion issued during fiscal year 2004 was issued as taxable debt. The taxable issuance was comprised of $363.83 million, that was issued competitively and $59.7 million of Qualified Zone Academy Bonds (QZABs), which were issued on a negotiated basis. These QZABs will provide, among other things, for internet connectivity to public schools in designated zones.

During fiscal year 2004, the City executed four escrow restructurings in connection with the 2003CDE, 2003FGH, 2004AB, 2004G and 2004I refundings which achieved $68.9 million in savings. Based on movements in the Treasury market, the City liquidated a portion of the securities in certain escrows and replaced them with other State and Local Government Series (SLGS) securities, which provided sufficient cashflows to satisfy the escrow requirements.

In fiscal year 2004, Moody's Investors Service, (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch) maintained their ratings of the City's GO debt at A2, A and A+, respectively. On January 28, 2004, Moody's revised its outlook on New York City General Obligation Bonds from negative to stable. Standard & Poor's maintained its stable rating outlook. On December 8, 2003, Fitch revised its outlook from negative to stable.

Short-term Financing

The City satisfied all of its seasonal needs in the public credit market with a competitive sale on October 16, 2003 of $1.25 billion of short-term Revenue Anticipation Notes (RANs) that were secured by State aid and $250 million of short-term Tax Anticipation Notes (TANs) that were secured by real estate taxes. The RANs and TANs matured on April 15, 2004 and carried the highest ratings from Moody's (MIG-1), Fitch (F1+), and S&P (SP-1+). These ratings together with favorable market conditions enabled the City to achieve a true interest cost of borrowing of .94% on the RANs and .93% on the TANs.

TFA

TFA is a legal entity, created by the New York State Legislature in 1997 in order to ease the constraints imposed by the City's debt limit. The TFA was originally authorized to issue up to $7.5 billion of debt. In fiscal year 2000, this authorization was increased by $4 billion, allowing the TFA a total debt incurring capacity of $11.5 billion. The TFA bond proceeds enable the City to continue its planned capital program. As of June 30, 2004, the TFA had reached its debt limit and did not have the authority to issue new money bonds. The TFA issued $1.94 billion of bonds during fiscal year 2004.

Of the $1.94 billion in bonds issued by the TFA in fiscal year 2004, $1.11 billion redeemed previously issued Bond Anticipation Notes (BANs), $709 million refinanced outstanding bonds, and $145 million were issued for capital purposes. The refinancing TFA completed in fiscal year 2004 will produce debt service savings of $5.7 million, $7 million and $21.1 million in fiscal years 2004, 2005 and 2006, respectively. This refinancing will also generate approximately $23.7 million in net present value savings throughout the life of the bonds.

In September 2001, the New York State Legislature approved a special TFA authorization of $2.5 billion to fund capital and operating costs related to or arising from the events of September 11, 2001. The Legislature also authorized the TFA to issue debt, without limit as to principal amount, that is payable solely from State or Federal aid received, on account of the disaster. To date, $2 billion of TFA Recovery Bonds have been issued. No recovery bonds were issued during fiscal year 2004.

In fiscal year 2004, Moody's, S&P and Fitch maintained their ratings for TFA's senior bonds at Aa2, AA+ and AA+, respectively. The bond anticipation notes and recovery notes were rated at MIG-1, SP-1+ and F1+ by Moody's, S&P and Fitch. TFA's Recovery Bonds and Recovery Notes, though secured by a lien junior to that of the TFA's senior bonds, maintained ratings identical to those of senior lien bonds and notes. TFA debt is not subject to the City's constitutional debt limit.

TSASC

TSASC is a special purpose, bankruptcy-remote local development corporation created pursuant to the Not-for-Profit Corporation Law of the State of New York. TSASC is authorized to issue bonds to purchase from the City its future right, title and interest under a Master Settlement Agreement (the MSA) between participating cigarette manufacturers and 46 states, including the State of New York. As of June 30, 2004, TSASC had approximately $1.26 billion of bonds outstanding.

In June 2003, Moody's downgraded R.J. Reynolds Tobacco Holdings to Ba1, which resulted in a Downgrade Trapping Event in connection with TSASC's outstanding bonds. The trapping event requires that a portion of excess tobacco settlement revenues (TSRs), not used for debt service and that would otherwise flow to the City must be deposited in a trapping account until an amount equal to 25% of the outstanding amount of TSASC's bonds has been accumulated in that account. As of June 30, 2004, $60.3 million had been trapped towards a requirement totaling $314 million.

In March 2004, Moody's downgraded its rating on most TSASC bonds following a decision by the U.S. Court of Appeals — Second Circuit. The decision reversed a lower court's dismissal of a challenge to the New York Contraband Statutes and left issuers in states belonging to the Second Circuit, particularly vulnerable to a reduction in MSA payments if the model statute is found invalid. The majority of TSASC's bonds are now rated BBB by S&P and Baa2 by Moody's. All of TSASC's bonds are now rated BBB by Fitch.

TSASC does not intend to issue any additional bonds under its indenture and is reviewing restructuring alternatives for its outstanding bonds and trapping requirements. TSASC debt is not subject to the City's constitutional debt limit.

Additional information on the City's long-term debt can be found in Note D.5. of the Basic Financial Statements.

Water Authority

The New York City Municipal Water Finance Authority (Water Authority), a separate legal entity established in fiscal year 1986, has the power to issue bonds to finance the renovation and improvement of the City's water and sewer facilities. As of June 30, 2004, long-term outstanding Water Authority debt, including special resolution bonds, was $12.5 billion. In fiscal year 2004, Moody's, S&P and Fitch maintained their ratings for the Water Authority's first resolution bonds at Aa2, AA and AA, respectively.

Of the $1.7 billion in revenue bonds issued by the Water Authority during fiscal year 2004, $649 million were issued to refund certain outstanding bonds and $1.1 billion were issued for capital purposes. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings, structured to generate debt service savings that are nearly level throughout the life of the bonds, will provide approximately $60 million in net present value savings.

As of June 30, 2004, outstanding Water Authority variable rate debt, not including commercial paper was $1.5 billion. During fiscal year 2004, the Water Authority's tax-exempt dailies and tax-exempt weeklies traded at an average rate of .92% and .95%, respectively. The Water Authority also maintained its tax-exempt commercial paper program, enabling it to access the short-term market at more aggressive rates. The Water Authority's commercial paper authorization is $925 million. At the end of fiscal year 2004, $800 million of commercial paper was outstanding.

Interest Rate Exchange Agreements

In an effort to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has entered into interest rate exchange agreements (swaps) and sold options related to these swaps. The City received specific authorization to enter into these agreements, or swaps, under Section 54.90 of the New York State Local Finance Law. In fiscal year 2004, the City entered into one synthetic fixed rate swap with a total notional amount of $350 million, one total return swap with a notional amount of $500 million, and two swaption agreements with a total notional amount of $350 million. Additionally, during fiscal year 2004, the Water Authority entered into an interest rate exchange agreement with BNP Paribas with a notional amount of $200 million.

Sales Tax Asset Receivable Corporation

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

The New York State Local Government Assistance Corporation and the Division of the Budget of the State of New York filed court papers challenging the constitutionality of the statutory amendments that had authorized the transaction.

The State Supreme Court (on September 17, 2003), the State Appellate Division (on March 4, 2004) and the State Court of Appeals (on May 13, 2004) all upheld the constitutionality of the statutory amendments that had authorized the transaction. In August 2004, the $170 million was appropriated by the State and in September 2004 the amount was released to the City.

Subsequent Events

Subsequent to June 30, 2004, the City completed the following financings:

On July 29, 2004, the City sold $586.8 million of bonds for refunding purposes.

On August 18, 2004, the City sold $730 million of bonds for capital purposes.

Commitments

At June 30, 2004, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $9.3 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates New York City Capital Projects Fund expenditures of $43.5 billion over the remaining fiscal years 2005 through 2013. To help meet its capital spending program, the City, TFA, and TSASC borrowed $4.3 billion in the public credit market in fiscal year 2004.

Economic Factors and the World Trade Center Attack

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center, and damage to other buildings in the vicinity. Trading on the major New York stock exchanges was suspended until September 17, 2001, and business in the financial district was interrupted. Continuing 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 TFA to have outstanding $2.5 billion of bonds (Recovery Bonds) and notes (Recovery Notes) to pay costs (Recovery Costs) related to or arising from the September 11 attack, of which TFA currently has outstanding approximately $2.0 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.

Request for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The City of New York, Office of the Comptroller, Bureau of Accountancy, 1 Centre Street, Room 808, New York, New York 10007-2341.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2004
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
Assets:		
Cash and cash equivalents	$ 2,133,928	$ 1,385,316
Investments, including accrued interest	5,709,589	698,203
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $346,481)	553,546	—
Federal, State and other aid	4,794,292	—
Taxes other than real estate	2,596,367	—
Other	774,068	1,340,334
Mortgage loans and interest receivable, net	636	3,529,919
Inventories	229,454	42,474
Due from Primary Government	—	3,323
Due from Component Units	865,615	—
Restricted cash and investments	1,086,712	3,430,119
Deferred Charges—Issuance Costs	858,000	—
Capital assets:		
Land and construction work-in-progress	3,448,338	4,585,022
Other Capital assets (net of depreciation):		
Property, plant and equipment	19,941,358	18,047,123
Infrastructure	6,568,860	—
Other	89,702	271,937
Total assets	49,650,465	33,333,770
Liabilities:		
Accounts payable and accrued liabilities	10,139,088	1,838,891
Accrued interest payable	604,334	69,056
Deferred revenues:		
Prepaid real estate taxes	2,381,536	—
Other	1,176,791	184,492
Due to Primary Government	—	865,615
Due to Component Units	3,323	—
Estimated disallowance of Federal, State and other aid	276,660	—
Payable for investment securities purchased	257,000	—
Other	44,360	53,187
Noncurrent Liabilities:		
Due within one year	4,031,648	1,388,398
Due in more than one year	57,257,139	17,871,719
Total liabilities	76,171,879	22,271,358
Net Assets:		
Invested in capital assets, net of related debt	(6,157,298)	9,055,631
Restricted for:		
Capital projects	234,826	147,484
Debt service	2,004,706	745,917
Loans/Security Deposits	—	71,623
Donor/Statutory restrictions	—	37,939
Operations	—	135,691
Unrestricted (deficit)	(22,603,648)	868,127
Total net assets (deficit)	$(26,521,414)	$11,062,412

See accompanying notes to financial statements

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2003
(in thousands)

	Primary Government	
	Governmental Activities	Component Units
ASSETS:		
Cash and cash equivalents	$ 4,317,621	$ 1,273,878
Investments, including accrued interest	719,369	593,608
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of $371,484)	534,497	—
Federal, State and other aid	6,447,866	—
Taxes other than real estate	2,380,014	—
Other	610,739	1,545,391
Mortgage loans and interest receivable, net	1,307	3,183,236
Inventories	213,957	47,410
Due from Primary Government	—	13,213
Due from Component Units	603,988	—
Restricted cash and investments	1,119,324	3,790,822
Deferred Charges—Issuance Costs	589,152	—
Capital assets:		
Land and construction work-in-progress	3,711,398	3,561,632
Other Capital assets (net of depreciation):		
Property, plant and equipment	18,940,986	17,563,670
Infrastructure	6,242,482	—
Other	97,562	308,722
Total assets	46,530,262	31,881,582
LIABILITIES:		
Accounts payable and accrued liabilities	9,118,121	1,810,530
Accrued interest payable	637,960	74,184
Deferred revenues:		
Prepaid real estate taxes	2,051,819	—
Other	1,244,516	168,070
Due to Primary Government	—	603,988
Due to Component Units	13,213	—
Estimated disallowance of Federal, State and other aid	249,660	—
Payable for investment securities purchased	257,000	—
Other	107,195	56,304
Noncurrent Liabilities:		
Due within one year	4,247,112	1,198,979
Due in more than one year	55,208,186	16,940,939
Total liabilities	73,134,782	20,852,994
NET ASSETS:		
Invested in capital assets, net of related debt	(4,770,629)	8,580,870
Restricted for:		
Capital projects	675,338	241,303
Debt service	976,257	707,694
Loans/Security Deposits	—	88,920
Donor restrictions	—	13,352
Operations	—	132,107
Unrestricted (deficit)	(23,485,486)	1,264,342
Total net assets (deficit)	$(26,604,520)	$11,028,588

See accompanying notes to financial statements

THE CITY OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004
(in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
					Primary Government	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Units
Primary government:						
General government	$ 2,602,630	$ 552,720	$ 557,415	$ 8,762	$ (1,483,733)	$ —
Public safety and judicial	9,566,889	413,094	515,304	—	(8,638,491)	—
Education	14,539,644	48,173	7,695,181	69,862	(6,726,428)	—
City University	668,841	186,610	141,174	—	(341,057)	—
Social services	10,283,512	46,285	4,310,766	11,165	(5,915,296)	—
Environmental protection	2,453,205	988,107	12,818	79,238	(1,373,042)	—
Transportation services	1,702,394	766,752	153,686	153,894	(628,062)	—
Parks, recreation and cultural activities	560,670	62,616	10,022	1,698	(486,334)	—
Housing	745,544	166,050	220,397	103,475	(255,622)	—
Health (including payments to HHC)	2,853,898	56,000	891,217	49,186	(1,857,495)	—
Libraries	263,976	—	—	—	(263,976)	—
Debt service interest	2,093,597	—	—	—	(2,093,597)	—
Total primary government	$48,334,800	$ 3,286,407	$14,507,980	$ 477,280	(30,063,133)	—
Component Units	$10,289,405	$ 6,858,692	$ 1,836,666	$ 1,036,173	—	(557,874)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					11,608,054	—
Sales and use taxes					5,103,655	—
Personal income tax					6,067,771	—
Income taxes, other					3,934,138	—
Other taxes					1,779,928	—
Investment income					49,677	131,416
Other Federal and State aid					1,254,101	1,677
Other					348,915	458,605
Total General revenues					30,146,239	591,698
Change in net assets					83,106	33,824
Net assets (deficit) — beginning					(26,604,520)	11,028,588
Net assets (deficit) — ending					$(26,521,414)	$11,062,412

See accompanying notes to financial statements

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Component Units
Primary government:						
General government	$ 1,928,755	$ 539,379	$ 355,117	$ 79,163	$ (955,096)	$ —
Public safety and judicial	8,762,321	248,212	690,489	30,316	(7,793,304)	—
Education	14,499,037	44,203	7,476,132	8,546	(6,970,156)	—
City University	558,417	152,782	136,413	—	(269,222)	—
Social services	9,785,682	70,924	4,373,853	23,207	(5,317,698)	—
Environmental protection	2,055,835	827,446	40,269	36,724	(1,151,396)	—
Transportation services	2,083,259	609,148	160,777	178,166	(1,135,168)	—
Parks, recreation and cultural activities	607,787	58,351	10,328	86	(539,022)	—
Housing	787,584	194,226	186,006	75,384	(331,968)	—
Health (including payments to HHC)	2,709,563	45,938	1,086,020	23,928	(1,553,677)	—
Libraries	377,647	—	—	—	(377,647)	—
Debt service interest	2,306,469	—	—	—	(2,306,469)	—
Total primary government	$46,462,356	$ 2,790,609	$14,515,404	$ 455,520	(28,700,823)	—
Component Units	$ 9,949,843	$ 6,479,248	$ 1,895,582	$ 1,028,283	—	(546,730)
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					9,919,734	—
Sales and use taxes					4,326,464	—
Personal income tax					4,996,749	—
Income taxes, other					2,840,916	—
Other taxes					1,328,985	—
Investment income					102,433	169,354
Other Federal and State aid					1,743,466	2,139
Other					377,613	322,505
Total General revenues					25,636,360	493,998
Change in net assets					(3,064,463)	(52,732)
Net Assets (deficit) — Beginning					(23,540,057)	11,081,320
Net Assets (deficit) — Ending					$(26,604,520)	$11,028,588

See accompanying notes to financial statements

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2004
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$1,530,468	$ 44,515	$ 130,157	$ 428,788	$ —	$2,133,928
Investments, including accrued interest	4,326,259	—	1,071,964	369,008	(57,642)	5,709,589
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $346,481)	553,546	—	—	—	—	553,546
Federal, State and other aid	4,395,567	398,725	—	—	—	4,794,292
Taxes other than real estate	2,510,367	—	—	251,229	(165,229)	2,596,367
Other	774,068	—	—	—	—	774,068
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $695,515)	—	—	—	636	—	636
Due from other funds	2,820,581	1,268,368	—	182,049	(182,049)	4,088,949
Due from Component Units	414,453	451,162	—	—	—	865,615
Restricted cash and investments	—	327,201	—	759,511	—	1,086,712
Other	—	41,363	—	33,267	—	74,630
Total assets	$17,325,309	$ 2,531,334	$ 1,202,121	$ 2,024,488	$ (404,920)	$22,678,332
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$ 8,884,317	$ 1,072,671	$ 664	$ 240,470	$ (59,034)	$10,139,088
Accrued tax refunds:						
Real estate taxes	33,470	—	—	—	—	33,470
Personal income taxes	37,514	—	—	52,933	—	90,447
Other	29,202	—	—	—	—	29,202
Accrued judgments and claims	343,218	103,156	—	—	—	446,374
Deferred revenues:						
Prepaid real estate taxes	2,381,536	—	—	—	—	2,381,536
Uncollected real estate taxes	474,240	—	—	—	—	474,240
Taxes other than real estate	1,891,964	—	—	112,296	(112,296)	1,891,964
Other	1,288,761	13,093	—	86,000	—	1,387,854
Due to other funds	1,268,368	2,995,222	7,408	—	(182,049)	4,088,949
Due to Component Units	3,323	—	—	—	—	3,323
Estimated disallowance of Federal, State and other aid	276,660	—	—	—	—	276,660
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	16,912,573	4,184,142	8,072	748,699	(353,379)	21,500,107
Fund balances:						
Reserved for:						
Capital projects	—	225,851	—	8,975	—	234,826
Debt service	—	—	1,194,049	861,562	(51,541)	2,004,070
Noncurrent mortgage loans	—	—	—	636	—	636
Unreserved (deficit), reported in:						
General Fund	412,736	—	—	—	—	412,736
New York City Capital Projects Fund	—	(1,878,659)	—	—	—	(1,878,659)
Nonmajor Governmental Funds	—	—	—	404,616	—	404,616
Total fund balances (deficit)	412,736	(1,652,808)	1,194,049	1,275,789	(51,541)	1,178,225
Total liabilities and fund balances	$17,325,309	$ 2,531,334	$ 1,202,121	$ 2,024,488	$ (404,920)	$22,678,332

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

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2003
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	$ 3,595,882	$ 33,093	$ 56,039	$ 632,607	$ —	$ 4,317,621
Investments, including accrued interest	82,723	—	306,922	395,717	(65,993)	719,369
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of $371,484)	534,497	—	—	—	—	534,497
Federal, State and other aid	6,088,533	359,333	—	—	—	6,447,866
Taxes other than real estate	2,276,165	—	—	103,849	—	2,380,014
Other	601,339	—	—	—	—	601,339
Mortgage loans and interest receivable (less allowance for uncollectible amounts of $753,475)	—	—	—	1,307	—	1,307
Due from other funds	2,820,581	1,574,822	148,355	225,694	(228,588)	4,540,864
Due from Component Units	372,597	231,391	—	—	—	603,988
Restricted cash and investments	—	629,819	—	489,505	—	1,119,324
Other	—	40,618	—	41,872	—	82,490
Total assets	$16,372,317	$ 2,869,076	$ 511,316	$ 1,890,551	$ (294,581)	$21,348,679
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	$ 7,818,703	$ 1,069,698	$ 4,479	$ 293,882	$ (68,641)	$ 9,118,121
Bond anticipation notes payable	—	—	—	1,110,000	—	1,110,000
Accrued tax refunds:						
Real estate taxes	40,754	—	—	—	—	40,754
Personal income taxes	46,971	—	—	15,949	—	62,920
Other	46,684	—	—	—	—	46,684
Accrued judgments and claims	312,795	113,705	—	—	—	426,500
Deferred revenues:						
Prepaid real estate taxes	2,051,819	—	—	—	—	2,051,819
Uncollected real estate taxes	503,413	—	—	—	—	503,413
Taxes other than real estate	1,881,776	—	—	—	—	1,881,776
Other	1,316,523	13,093	—	87,900	—	1,417,516
Due to other funds	1,681,928	3,077,223	7,408	2,893	(228,588)	4,540,864
Due to Component Units	13,213	—	—	—	—	13,213
Estimated disallowance of Federal, State and other aid	249,660	—	—	—	—	249,660
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	15,964,239	4,273,719	11,887	1,767,624	(297,229)	21,720,240
Fund balances:						
Reserved for:						
Capital projects	—	539,334	—	136,004	—	675,338
Debt service	—	—	499,429	472,872	2,648	974,949
Noncurrent mortgage loans	—	—	—	1,308	—	1,308
Unreserved (deficit), reported in:						
General Fund	408,078	—	—	—	—	408,078
New York City Capital Projects Fund	—	(1,943,977)	—	—	—	(1,943,977)
Nonmajor Governmental Funds	—	—	—	(487,257)	—	(487,257)
Total fund balances (deficit)	408,078	(1,404,643)	499,429	122,927	2,648	(371,561)
Total liabilities and fund balances	$16,372,317	$ 2,869,076	$ 511,316	$ 1,890,551	$ (294,581)	$21,348,679

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

THE CITY OF NEW YORK

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

JUNE 30, 2004
(in thousands)

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

Total fund balances—governmental funds	$ 1,178,225
Inventories recorded in the Statement of Net assets are recorded as expenditures in the governmental funds	229,454
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	29,958,556
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	3,450,339
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds notes payable	(48,095,621)
Accrued interest payable	(604,334)
Other Long-term liabilities	(12,638,033)
Net assets (deficit) of governmental activities	$(26,521,414)

See accompanying notes to financial statements

THE CITY OF NEW YORK

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

JUNE 30, 2003
(in thousands)

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

Total fund balances—governmental funds	$ (371,561)
Inventories recorded in the Statement of Net assets are recorded as expenditures in the governmental funds	213,957
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	28,894,866
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	3,171,813
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds and notes payable	(45,035,810)
Accrued interest payable	(637,960)
Other Long-term liabilities	(12,839,825)
Net assets (deficit) of governmental activities	$(26,604,520)

See accompanying notes to financial statements.

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2004

(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$11,582,328	$ —	$ —	$ —	$ —	$11,582,328
Sales and use taxes	5,081,287	—	—	—	—	5,081,287
Personal income tax	6,012,580	—	—	108,828	(52,933)	6,068,475
Income taxes, other	3,690,835	—	—	—	—	3,690,835
Other taxes	1,776,925	—	—	—	—	1,776,925
Federal, State and other categorical aid	14,798,636	429,126	—	—	—	15,227,762
Unrestricted Federal and State aid	963,445	—	—	—	—	963,445
Charges for services	1,602,899	—	—	—	—	1,602,899
Tobacco settlement	66,934	—	—	146,792	—	213,726
Investment income	30,068	—	3,282	23,448	(10,255)	46,543
Interest on mortgages, net	—	—	—	5,474	—	5,474
Unrestricted grant from New York City	—	—	—	400,000	—	400,000
Unrealized loss on investment	—	—	—	(9,044)	—	(9,044)
Other revenues	1,669,729	1,507,840	73,226	1,011,506	(996,765)	3,265,536
Total revenues	47,275,666	1,936,966	76,508	1,687,004	(1,059,953)	49,916,191
EXPENDITURES:						
Current Operations:						
General government	1,347,292	607,245	—	19,817	—	1,974,354
Public safety and judicial	6,125,145	241,549	—	—	—	6,366,694
Education	13,061,366	1,192,048	—	991,830	(996,765)	14,248,479
City University	492,889	15,998	—	—	—	508,887
Social services	9,650,124	112,001	—	—	—	9,762,125
Environmental protection	1,638,733	1,803,700	—	—	—	3,442,433
Transportation services	839,726	962,003	—	—	—	1,801,729
Parks, recreation and cultural activities	316,756	328,344	—	—	—	645,100
Housing	448,656	359,612	—	—	—	808,268
Health (including payments to HHC)	2,418,122	88,480	—	—	—	2,506,602
Libraries	241,790	43,527	—	—	—	285,317
Pensions	2,308,370	—	—	—	—	2,308,370
Judgments and claims	591,001	—	—	—	—	591,001
Fringe benefits and other benefit payments	2,755,010	—	—	—	—	2,755,010
Administrative and other	884,288	—	15,405	14,314	—	914,007
Debt Service:						
Interest	7,370	—	1,389,364	708,733	3,481	2,108,948
Redemptions	—	—	1,428,982	631,070	(12,480)	2,047,572
Lease payments	126,139	—	—	—	—	126,139
Refunding escrow	—	—	3,050	—	—	3,050
Total expenditures	43,252,777	5,754,507	2,836,801	2,365,764	(1,005,764)	53,204,085
Excess (deficiency) of revenues over expenditures	4,022,889	(3,817,541)	(2,760,293)	(678,760)	(54,189)	(3,287,894)
OTHER FINANCING SOURCES (USES):						
Transfers from General Fund	—	—	3,526,689	504,472	—	4,031,161
Transfers from (to) Nonmajor Capital Projects Funds	—	315,027	—	(5,059)	(315,027)	(5,059)
Transfers from (to) Component Units, net	12,930	—	—	—	—	12,930
Principal amount of bonds issued	—	3,044,690	—	1,270,617	—	4,315,307
Bond premium	—	5,007	—	44,895	—	49,902
Capitalized leases	—	204,652	—	—	—	204,652
Refunding bond proceeds	—	—	3,563,846	784,328	—	4,348,174
Transfer to New York City Capital Projects Fund	—	—	—	(315,027)	315,027	—
Transfers from (to) General Debt Service Fund	(3,526,689)	—	—	2,830	—	(3,523,859)
Transfer from (to) Nonmajor Debt Service Funds, net	(504,472)	—	(2,830)	5,059	—	(502,243)
Payments to refunded bond escrow holder	—	—	(3,632,792)	(460,493)	—	(4,093,285)
Total other financing sources (uses)	(4,018,231)	3,569,376	3,454,913	1,831,622	—	4,837,680
Net change in fund balances	4,658	(248,165)	694,620	1,152,862	(54,189)	1,549,786
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	408,078	(1,404,643)	499,429	122,927	2,648	(371,561)
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 412,736	$(1,652,808)	$1,194,049	$ 1,275,789	$ (51,541)	$ 1,178,225

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

THE CITY OF NEW YORK

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2003

(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	$10,062,930	$ —	$ —	$ —	$ —	$10,062,930
Sales and use taxes	4,321,464	—	—	—	—	4,321,464
Personal income tax	4,492,947	—	—	536,802	—	5,029,749
Income taxes, other	3,137,916	—	—	—	—	3,137,916
Other taxes	1,325,222	—	—	—	—	1,325,222
Federal, State and other categorical aid	14,816,057	387,675	—	—	—	15,203,732
Unrestricted Federal and State aid	1,442,813	—	—	—	—	1,442,813
Charges for services	1,481,382	—	—	—	—	1,481,382
Tobacco settlement	149,948	—	—	102,895	—	252,843
Investment income	43,256	—	3,660	42,164	—	89,080
Interest on mortgages, net	—	—	—	3,981	—	3,981
Unrestricted grant from New York City	—	—	—	624,000	—	624,000
Other revenues	1,367,265	1,251,419	71,921	1,370,860	(1,339,793)	2,721,672
Total revenues	42,641,200	1,639,094	75,581	2,680,702	(1,339,793)	45,696,784
EXPENDITURES:						
General government	1,238,442	608,431	—	34,375	—	1,881,248
Public safety and judicial	6,203,911	290,007	—	—	—	6,493,918
Education	12,672,864	1,315,422	—	1,376,211	(1,339,793)	14,024,704
City University	443,654	12,763	—	—	—	456,417
Social services	9,321,286	80,609	—	—	—	9,401,895
Environmental protection	1,638,442	1,415,282	—	—	—	3,053,724
Transportation services	1,016,155	1,185,237	—	—	—	2,201,392
Parks, recreation and cultural activities	293,182	360,808	—	—	—	653,990
Housing	437,382	300,984	—	—	—	738,366
Health (including payments to HHC)	2,241,495	115,049	—	—	—	2,356,544
Libraries	337,639	49,217	—	—	—	386,856
Pensions	1,630,581	—	—	—	—	1,630,581
Judgments and claims	626,916	—	—	—	—	626,916
Fringe benefits and other benefit payments	2,606,860	—	—	—	—	2,606,860
Administrative and other	1,096,970	—	11,131	32,926	—	1,141,027
Debt Service:						
Interest	10,602	—	1,320,039	673,926	(54)	2,004,513
Redemptions	—	—	1,055,010	899,190	(52,275)	1,901,925
Lease payments	175,662	—	—	—	—	175,662
Refunding escrow	—	—	4,449	—	—	4,449
Total expenditures	41,992,043	5,733,809	2,390,629	3,016,628	(1,392,122)	51,740,987
Excess (deficiency) of revenues over expenditures	649,157	(4,094,715)	(2,315,048)	(335,926)	52,329	(6,044,203)
OTHER FINANCING SOURCES (USES):						
Transfers from (to) General Fund	—	—	2,109,622	(1,450,691)	(8,120)	650,811
Transfers from Nonmajor Capital Projects Funds	1,670,837	1,926,954	—	107,961	(1,926,954)	1,778,798
Transfers from (to) Component Units, net	6,592	—	—	—	—	6,592
Principal amount of bonds issued	—	2,149,998	—	4,299,609	—	6,449,607
Bond premium	—	37,433	—	61,734	—	99,167
Capitalized leases	—	41,918	—	—	—	41,918
Refunding bond proceeds	—	—	2,790,193	2,142,187	—	4,932,380
Transfer to New York City Capital Projects Fund	—	—	—	(1,926,954)	1,926,954	—
Transfers to General Debt Service Fund	(2,109,622)	—	—	(7,436)	—	(2,117,058)
Transfer from (to) Nonmajor Debt Service Funds, net	(212,026)	—	7,436	(107,961)	—	(312,551)
Payments to refunded bond escrow holder	—	—	(2,790,193)	(2,128,791)	—	(4,918,984)
Total other financing sources (uses)	(644,219)	4,156,303	2,117,058	989,658	(8,120)	6,610,680
Net change in fund balances	4,938	61,588	(197,990)	653,732	44,209	566,477
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	403,140	(1,466,231)	697,419	(530,805)	(41,561)	(938.038)
FUND BALANCES (DEFICIT) AT END OF YEAR	$ 408,078	$(1,404,643)	$ 499,429	$ 122,927	$ 2,648	$ (371,561)

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

FOR THE YEAR ENDED JUNE 30, 2004
(in thousands)

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

Net change in fund balances—governmental funds		$ 1,549,786
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of capital assets	$ 2,901,369	
Depreciation expense	(1,800,106)	1,101,263
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.* sales, trade-ins, and donations) is to decrease net assets		(156,906)
The issuance of long-term debt (*e.g.,* bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(8,663,481)	
Principal payments of bonds	6,090,955	
Other	(119,636)	(2,692,162)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds		(48,294)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		329,419
Change in net assets—governmental activities		$ 83,106

See accompanying notes to financial statements.

THE CITY OF NEW YORK

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

FOR THE YEAR ENDED JUNE 30, 2003
(in thousands)

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

Net change in fund balances—governmental funds		$ 566,477
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Purchases of capital assets	$ 3,567,561	
Depreciation expense	(2,090,831)	1,476,730
The net effect of various miscellaneous transactions involving capital assets and other (*i.e.,* sales, trade-ins, and donations) is to decrease net assets		849,930
The issuance of long-term debt (*e.g.*, bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Proceeds from sales of bonds	(6,548,774)	
Principal payments of bonds	1,985,445	
Other	(169,589)	(4,732,918)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds		(741,711)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		(482,971)
Change in net assets—governmental activities		$ (3,064,463)

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004
(in thousands)

	Budget			Better (Worse) Than Modified Budget
	Adopted	Modified	Actual	
REVENUES:				
Real estate taxes	$11,447,000	$11,534,093	$11,582,328	$ 48,235
Sales and use taxes	4,469,450	5,018,450	5,081,287	62,837
Personal income tax	5,505,372	5,934,112	6,012,580	78,468
Income taxes, other	2,648,100	3,125,100	3,690,835	565,735
Other taxes	1,876,535	2,288,387	1,776,925	(511,462)
Federal, State and other categorical aid	13,621,988	15,141,742	14,798,636	(343,106)
Unrestricted Federal and State aid	555,419	991,348	963,445	(27,903)
Charges for services	1,666,814	1,563,184	1,602,899	39,715
Tobacco settlement	115,349	64,505	66,934	2,429
Investment income	35,930	28,105	30,068	1,963
Other revenues	1,374,650	1,978,275	1,669,729	(308,546)
Total revenues	43,316,607	47,667,301	47,275,666	(391,635)
EXPENDITURES:				
General government	1,359,513	1,416,131	1,347,292	68,839
Public safety and judicial	5,851,109	6,220,756	6,125,145	95,611
Education	12,472,297	12,905,414	13,061,366	(155,952)
City University	466,837	524,726	492,889	31,837
Social services	8,677,932	9,781,630	9,650,124	131,506
Environmental protection	1,654,181	1,662,384	1,638,733	23,651
Transportation services	511,501	883,595	839,726	43,869
Parks, recreation and cultural activities	288,716	322,506	316,756	5,750
Housing	433,990	492,458	448,656	43,802
Health (including payments to HHC)	2,153,367	2,506,498	2,418,122	88,376
Libraries	122,712	241,903	241,790	113
Pensions	2,494,509	2,318,370	2,308,370	10,000
Judgments and claims	642,706	591,624	591,001	623
Fringe benefits and other benefit payments	2,736,463	2,753,307	2,755,010	(1,703)
Interest on short—term borrowings	42,109	7,384	7,370	14
Lease payments for debt service	93,481	129,347	126,139	3,208
Other	675,429	827,818	884,288	(56,470)
Total expenditures	40,676,852	43,585,851	43,252,777	333,074
Excess of revenues over expenditures	2,639,755	4,081,450	4,022,889	(58,561)
OTHER FINANCING SOURCES (USES):				
Transfers from Component Units	20,400	20,000	21,388	1,388
Transfers to Component Units	(16,313)	(13,769)	(8,458)	5,311
Transfer to Nonmajor Debt Service Fund	(3,163)	(504,498)	(504,472)	26
Transfers and other payments for debt service	(2,640,679)	(3,583,183)	(3,526,689)	56,494
Total other financing sources (uses)	(2,639,755)	(4,081,450)	(4,018,231)	63,219
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	$ —	$ —	4,658	$ 4,658
FUND BALANCES AT BEGINNING OF YEAR			408,078	
FUND BALANCES AT END OF YEAR			$ 412,736	

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

(in thousands)

	Budget			Better (Worse) Than Modified
	Adopted	Modified	Actual	Budget
REVENUES:				
Real estate taxes	$ 9,108,826	$10,061,490	$10,062,930	$ 1,440
Sales and use taxes	4,208,700	4,297,900	4,321,464	23,564
Personal income tax	4,898,135	4,475,887	4,492,947	17,060
Income taxes, other	3,073,300	2,631,300	3,137,916	506,616
Other taxes	1,594,535	1,870,635	1,325,222	(545,413)
Federal, State and other categorical aid	13,322,982	15,149,663	14,816,057	(333,606)
Unrestricted Federal and State aid	790,231	1,674,839	1,442,813	(232,026)
Charges for services	1,588,649	1,435,894	1,481,382	45,488
Tobacco settlement	154,353	149,948	149,948	—
Investment income	67,480	36,010	43,256	7,246
Other revenues	1,553,342	1,562,547	1,367,265	(195,282)
Total revenues	40,360,533	43,346,113	42,641,200	(704,913)
EXPENDITURES:				
General government	1,171,887	1,286,622	1,238,442	48,180
Public safety and judicial	5,898,209	6,298,096	6,203,911	94,185
Education	12,354,215	12,756,723	12,672,864	83,859
City University	464,834	478,273	443,654	34,619
Social services	9,053,594	9,498,673	9,321,286	177,387
Environmental protection	1,658,204	1,687,326	1,638,442	48,884
Transportation services	762,691	1,039,505	1,016,155	23,350
Parks, recreation and cultural activities	298,303	297,264	293,182	4,082
Housing	420,275	456,079	437,382	18,697
Health (including payments to HHC)	2,186,804	2,308,587	2,241,495	67,092
Libraries	251,457	337,977	337,639	338
Pensions	1,700,524	1,629,756	1,630,581	(825)
Judgments and claims	418,868	612,706	626,916	(14,210)
Fringe benefits and other benefit payments	2,217,148	2,604,167	2,606,860	(2,693)
Interest on short—term borrowings	65,000	11,534	10,602	932
Lease payments for debt service	154,382	175,661	175,662	(1)
Other	822,273	1,150,905	1,096,970	53,935
Total expenditures	39,898,668	42,629,854	41,992,043	637,811
Excess of revenues over expenditures	461,865	716,259	649,157	(67,102)
OTHER FINANCING SOURCES (USES):				
Transfers from Component Units	30,900	22,200	19,920	(2,280)
Transfers to Component Units	(19,609)	(13,367)	(13,328)	39
Transfers from Nonmajor Debt Service Funds	—	12,700	13,210	510
Transfers to Nonmajor Debt Service Funds	(255,300)	(225,236)	(225,236)	—
Transfers from Nonmajor Capital Projects Funds	1,625,000	1,599,000	1,670,837	71,837
Transfers and other payments for debt service	(1,842,856)	(2,111,556)	(2,109,622)	1,934
Total other financing sources (uses)	(461,865)	(716,259)	(644,219)	72,040
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	$ —	$ —	4,938	$ 4,938
FUND BALANCES AT BEGINNING OF YEAR			403,140	
FUND BALANCES AT END OF YEAR			$ 408,078	

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004
(in thousands)

	Pension and Other Employee Benefit Trust Funds	Agency Fund
ASSETS:		
Cash and cash equivalents	$ 39,285	$ 650,974
Receivables:		
Member loans	1,679,238	—
Investment securities sold	1,822,379	—
Accrued interest and dividends	420,775	—
Investments:		
Other short—term investments	2,843,331	—
Debt securities	23,003,355	1,053,540
Equity securities	51,101,686	—
Mortgages	31	—
Guaranteed investment contracts	1,934,795	—
Management investment contracts	138,054	—
Mutual funds	18,117,456	—
Collateral from securities lending transactions	17,681,528	—
Due from other funds	1,911	—
Other	65,704	10
Total assets	118,849,528	1,704,524
LIABILITIES:		
Accounts payable and accrued liabilities	476,504	461,898
Payable for investment securities purchased	5,400,317	—
Accrued benefits payable	332,412	—
Due to other funds	1,911	—
Securities lending transactions	17,755,704	—
Other	29,475	1,242,626
Total liabilities	23,996,323	1,704,524
NET ASSETS:		
Held in Trust for Benefit Payments	$ 94,853,205	$ —

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2003
(in thousands)

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2004

(in thousands)

	Pension and Other Employee Benefit Trust Funds
ADDITIONS:	
Contributions:	
Member contributions	$ 1,146,864
Employer contributions	2,519,578
Other employer contributions	20,324
Total contributions	3,686,766
Investment income:	
Interest income	1,535,674
Dividend income	934,154
Net appreciation in fair value of investments	11,889,189
Less investment expenses	139,804
Investment income, net	14,219,213
Securities lending transactions:	
Securities lending income	124,689
Securities lending fees	(94,120)
Net securities lending income	30,569
Payments from other funds	3,013
Other	54,769
Total additions	17,994,330
DEDUCTIONS:	
Benefit payments and withdrawals	8,060,744
Payments to other funds	3,013
Other	20,795
Administrative expenses	90,508
Total deductions	8,175,060
Increase in plan net assets	9,819,270
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	85,033,935
End of Year	$ 94,853,205

See accompanying notes to financial statements.

THE CITY OF NEW YORK

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2003

(in thousands)

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2004
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2003	Housing Authority December 31, 2003	Economic Development Corporation	Water and Sewer System	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	$ 285,920	$ 17,231	$ 262,728	$ 719,562	$ 34,932	$ 10,929	$ 54,014	$ 1,385,316
Investments, including accrued interest	77,381	—	293,513	315,693	236	96	11,284	698,203
Other receivables	668,852	700	9,381	104,660	108,297	444,106	4,338	1,340,334
Mortgage loans and interest receivable, net	—	—	3,499,161	840	29,918	—	—	3,529,919
Inventories	25,816	—	—	16,658	—	—	—	42,474
Due from Primary Government	—	—	—	—	—	3,323	—	3,323
Restricted cash and investments	244,867	4,704	904,272	9,139	145,151	1,964,855	157,131	3,430,119
Capital assets:								
Construction work-in-progress	480,936	—	—	—	—	3,564,455	539,631	4,585,022
Property, plant and equipment	4,161,736	62,227	6,711	9,653,963	6,931	17,358,070	124,891	31,374,529
Accumulated depreciation	(2,718,335)	(47,354)	(2,447)	(4,776,187)	(3,522)	(5,748,397)	(31,164)	(13,327,406)
Other	27,456	—	63,926	40,480	20,366	112,540	7,169	271,937
Total assets	3,254,629	37,508	5,037,245	6,084,808	342,309	17,709,977	867,294	33,333,770
LIABILITIES:								
Accounts payable and accrued liabilities	865,399	17,246	194,328	622,234	95,560	31,550	12,574	1,838,891
Accrued interest payable	12,413	—	30,931	1,381	—	24,331	—	69,056
Deferred revenues	—	—	63,104	13,068	850	78,231	29,239	184,492
Due to Primary Government	—	270	414,183	—	—	451,162	—	865,615
Other	—	5,819	—	39,083	6,568	—	1,717	53,187
Noncurrent Liabilities:								
Due within one year	29,369	1,892	306,982	44,255	—	1,004,640	1,260	1,388,398
Due in more than one year	1,020,432	7,148	3,250,165	235,405	101,167	12,565,882	691,520	17,871,719
Total liabilities	1,927,613	32,375	4,259,693	955,426	204,145	14,155,796	736,310	22,271,358
NET ASSETS:								
Invested in capital assets, net of related debt	874,536	14,254	—	4,763,939	3,172	3,368,355	31,375	9,055,631
Restricted for:								
Capital projects	92,138	4,704	—	—	50,642	—	—	147,484
Debt service	114,790	—	390,761	—	—	179,106	61,260	745,917
Loans/Security Deposits	—	—	—	—	69,084	—	2,539	71,623
Statutory Reserve	25,129	—	—	—	—	—	—	25,129
Donor restrictions	12,810	—	—	—	—	—	—	12,810
Operations	—	—	—	—	—	135,691	—	135,691
Unrestricted (deficit)	207,613	(13,825)	386,791	365,443	15,266	(128,971)	35,810	868,127
Total net assets	$ 1,327,016	$ 5,133	$ 777,552	$ 5,129,382	$ 138,164	$ 3,554,181	$ 130,984	$ 11,062,412

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2003
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2002	Housing Authority December 31, 2002	Economic Development Corporation	Water and Sewer System	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	$ 279,776	$ 21,621	$ 1,674	$ 861,910	$ 37,993	$ 8,568	$ 62,336	$ 1,273,878
Investments, including accrued interest	76,816	—	233,676	279,742	235	—	3,139	593,608
Other receivables	610,320	2,873	214,085	155,180	80,979	474,443	7,511	1,545,391
Mortgage loans and interest receivable, net	—	—	3,139,460	1,061	42,715	—	—	3,183,236
Inventories	28,713	—	—	18,697	—	—	—	47,410
Due from Primary Government	—	—	—	—	—	13,213	—	13,213
Restricted cash and investments	361,791	3,586	875,552	8,961	123,386	2,272,548	144,998	3,790,822
Capital assets:								
Construction work-in-progress	276,474	—	—	—	—	2,892,180	392,978	3,561,632
Property, plant and equipment	4,409,297	54,495	6,860	9,173,800	6,637	16,633,758	108,839	30,393,686
Accumulated depreciation	(2,947,981)	(38,379)	(1,859)	(4,451,524)	(2,525)	(5,362,108)	(25,640)	(12,830,016)
Other	30,778	—	65,602	58,917	24,033	122,168	7,224	308,722
Total assets	3,125,984	44,196	4,535,050	6,106,744	313,453	17,054,770	701,385	31,881,582
LIABILITIES:								
Accounts payable and accrued liabilities	856,776	13,980	191,567	641,912	63,826	22,560	19,909	1,810,530
Accrued interest payable	13,580	—	34,142	1,547	—	24,915	—	74,184
Deferred revenues	—	—	50,145	13,119	1,159	69,155	34,492	168,070
Due to Primary Government	—	304	372,293	—	—	231,391	—	603,988
Other	—	4,982	—	28,373	21,503	—	1,446	56,304
Noncurrent Liabilities:								
Due within one year	32,885	1,730	64,562	42,477	—	1,057,318	7	1,198,979
Due in more than one year	1,048,453	7,379	3,109,319	246,335	107,461	11,894,966	527,026	16,940,939
Total liabilities	1,951,694	28,375	3,822,028	973,763	193,949	13,300,305	582,880	20,852,994
NET ASSETS:								
Invested in capital assets, net of related debt	656,452	15,886		4,596,198	3,875	3,271,440	37,019	8,580,870
Restricted for:								
Capital projects	190,856	3,586	—	—	46,861	—	—	241,303
Debt service	127,512	—	331,340	—	—	203,695	45,147	707,694
Loans/Security Deposits	20,070	—	—	—	66,017	—	2,833	88,920
Donor restrictions	13,352	—	—	—	—	—	—	13,352
Operations	—	—	—	—	—	132,107	—	132,107
Unrestricted (deficit)	166,048	(3,651)	381,682	536,783	2,751	147,223	33,506	1,264,342
Total net assets	$ 1,174,290	$ 15,821	$ 713,022	$ 5,132,981	$ 119,504	$ 3,754,465	$ 118,505	$ 11,028,588

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2003	Housing Authority December 31, 2003	Economic Development Corporation	Water and Sewer System	Nonmajor Component Units	Total
Expenses	$4,557,643	$263,678	$131,957	$2,624,914	$518,998	$2,158,551	$ 33,664	$10,289,405
Program Revenues:								
Charges for Services	3,819,018	250,185	175,613	645,200	165,746	1,773,133	29,797	6,858,692
Operating Grants and Contributions	305,587	—	—	1,473,752	57,327	—	—	1,836,666
Capital Grants, Contributions and other	216,193	—	—	471,322	303,408	29,875	15,375	1,036,173
Total program revenues	4,340,798	250,185	175,613	2,590,274	526,481	1,803,008	45,172	9,731,531
Net (expenses) program revenues	(216,845)	(13,493)	43,656	(34,640)	7,483	(355,543)	11,508	(557,874)
General Revenues:								
Investment income	4,256	222	20,874	16,836	1,680	86,948	600	131,416
Unrestricted Federal and State aid	—	—	—	—	1,677	—	—	1,677
Other	365,315	2,583	—	14,205	7,820	68,311	371	458,605
General revenues, net	369,571	2,805	20,874	31,041	11,177	155,259	971	591,698
Change in net assets	152,726	(10,688)	64,530	(3,599)	18,660	(200,284)	12,479	33,824
Net assets—beginning	1,174,290	15,821	713,022	5,132,981	119,504	3,754,465	118,505	11,028,588
Net assets—ending	$1,327,016	$ 5,133	$777,552	$5,129,382	$138,164	$3,554,181	$130,984	$11,062,412

See accompanying notes to financial statements.

THE CITY OF NEW YORK

COMPONENT UNITS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2003
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2002	Housing Authority December 31, 2002	Economic Development Corporation	Water and Sewer System	Nonmajor Component Units	Total
Expenses	$ 4,519,855	$ 245,282	$ 135,056	$ 2,520,723	$ 541,163	$ 1,954,316	$ 33,448	$ 9,949,843
Program Revenues:								
Charges for Services	3,552,738	241,447	154,721	627,107	163,319	1,711,920	27,996	6,479,248
Operating Grants and Contributions	389,739	—	—	1,488,047	17,796	—	—	1,895,582
Capital Grants, Contributions and other	210,439	—	—	524,274	275,726	7,233	10,611	1,028,283
Total program revenues	4,152,916	241,447	154,721	2,639,428	456,841	1,719,153	38,607	9,403,113
Net (expenses) program revenues	(366,939)	(3,835)	19,665	118,705	(84,322)	(235,163)	5,159	(546,730)
General Revenues:								
Investment income	11,044	315	25,745	33,432	1,937	96,236	645	169,354
Unrestricted Federal and State aid	—	—	—	—	2,139	—	—	2,139
Other	234,682	4,191	—	15,127	2,321	65,816	368	322,505
General revenues, net	245,726	4,506	25,745	48,559	6,397	162,052	1,013	493,998
Change in net assets	(121,213)	671	45,410	167,264	(77,925)	(73,111)	6,172	(52,732)
Net assets—beginning	1,295,503	15,150	667,612	4,965,717	197,429	3,827,576	112,333	11,081,320
Net assets—ending	$ 1,174,290	$ 15,821	$ 713,022	$ 5,132,981	$ 119,504	$ 3,754,465	$ 118,505	$11,028,588

See accompanying notes to financial statements.

A. Summary of Significant Accounting Policies

The accompanying basic financial statements of The City of New York (City or primary government) are presented in conformity with generally accepted accounting principles (GAAP) for governments in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The amounts shown in the "Primary Government" and "Component Units" columns of the accompanying government-wide financial statements are only presented to facilitate financial analysis and are not the equivalent of consolidated financial statements.

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

1. Reporting Entity

The City of New York is a municipal corporation governed by the Mayor and the City Council. The City's operations also include those normally performed at the county level and, accordingly, transactions applicable to the operations of the five counties which comprise the City are included in these financial statements.

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

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

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

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

Blended Component Units

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

Municipal Assistance Corporation for The City Of New York (MAC). MAC is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation. MAC was created in 1975 by the Municipal Assistance Corporation For The City of New York Act (Act) for purposes of providing financing assistance including funding for certain oversight of the City's financial activities. Pursuant to the Act, MAC is empowered to issue and sell bonds and notes for the purpose of paying or loaning the proceeds of such sales to the City and to exchange its obligations for those of the City. MAC is no longer authorized to issue bonds for new funding purposes. MAC continues to be authorized to issue obligations to renew or refund outstanding obligations without limitation as to amount.

In a case filed by the Local Government Assistance Corporation, the New York Court of Appeals recently upheld as constitutional New York State's legislation that allows the City to refinance MAC's debt. There are still outstanding issues to be resolved pending the implementation of any refinancing. The plan of refinancing MAC's debt is designed to assist the City in managing and reducing its debt service obligation to MAC.

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

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

TFA has no taxing power. All outstanding bonds issued by TFA are general obligations of TFA and do not constitute an enforceable obligation or a debt of either the City or the State and neither the City nor the State is liable thereon. Neither the City nor a creditor of the City has any claim to TFA's revenues and assets. Debt service requirements and operating expenses are funded by allocations from the State's collection of personal income taxes (imposed by the City and collected by the State) and, under certain circumstances, sales taxes. Sales taxes are only available to TFA after such amounts required by MAC are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. Net collections of personal income taxes not required by TFA are paid to the City by TFA.

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

SFC issued Yen-denominated bonds to investors on May 27, 1993 and simultaneously bought general obligation bonds from the City. Such bonds require the City to make floating rate interest and principal payments in U.S. dollars to SFC. SFC entered into currency and interest rate exchange agreements to swap the City's payments into fixed rate Yen which are used to pay SFC's bondholders. These agreements limit the City's currency and exchange rate change exposure. The proceeds from the City's bonds sold to SFC were used for housing and economic development projects.

SFC paid its outstanding obligations during fiscal year 2003 and had no remaining assets or liabilities at June 30, 2003. SFC, having no continuing operating activities was dissolved on April 26, 2004 in accordance with the provisions of the New York Not-For-Profit Corporation Law.

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

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

The purchase price of the City's future right, title, and interest in the tobacco settlement revenues has been financed by the proceeds of TSASC's initial bond issuance and the net proceeds from future bond issues. In addition, the City is entitled to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs as set forth in the Indenture. These payments are subordinate to payments on the bonds and payment of certain other costs specified in the Indenture. See Note D.5. for information about an event that occurred in fiscal year 2003 that affects the ability of TSASC to issue debt and make distributions to the City.

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

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

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

As SCA represents a pass-through entity, in existence for the sole purpose of capital projects, all expenditures are capitalized. Upon substantial completion of the capital projects, the assets are transferred to the City.

Discretely Presented Component Units

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

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

New York City Health and Hospitals Corporation (HHC). HHC, a public benefit corporation, assumed responsibility for the operation of the City's municipal hospital system in 1970. HHC's financial statements include the accounts of HHC and its wholly-owned subsidiaries, MetroPlus Health Plan, Inc. and HHC Capital Corporation, and a closely affiliated not-for-profit corporation, The HHC Foundation of New York City, Inc.

HHC mainly provides, on behalf of the City, comprehensive medical and mental health services to City residents regardless of ability to pay. Funds appropriated from the City are payments, either directly or indirectly, for services rendered by HHC. The City pays for patient care rendered to prisoners, uniformed City employees, and various discretely funded facility-specific programs. In addition, the City has paid HHC's costs for settlements of claims for medical malpractice, negligence, other torts, and alleged breach of contracts, as well as other HHC costs including interest on City debt which funded HHC capital acquisitions, interest on New York State Housing Finance Agency debt on HHC assets acquired through lease purchase agreements prior to April 1, 1993, and interest on Dormitory Authority of the State of New York debt on assets acquired through lease purchase agreements. From 1993 through 2001, HHC reimbursed the City for these debt service payments. Since 2002, HHC no longer reimburses the City for debt service but instead, reimburses the City for medical malpractice settlements it pays on behalf of HHC, up to an agreed upon amount to be negotiated each year. HHC records both a revenue and an expense in an amount equal to expenditures made on its behalf by the City.

New York City Off-Track Betting Corporation (OTB). OTB was established in 1970 as a public benefit corporation to operate a system of off-track betting in the City. OTB earns: (i) revenues on its betting operations ranging between 15% and 31% of wagers handled, depending on the type of wager; (ii) a 5% surcharge and surcharge breakage on pari-mutuel winnings; (iii) a 1% capital acquisition surcharge on multiple, exotic, and super exotic wagering pools; (iv) breakage, the revenue resulting from the rounding down of winning payoffs; (v) uncashed pari-mutual tickets which represent winning tickets outstanding; and (vi) 50% of all out-of-state and 45% of all Finger Lakes simulcasting surcharge revenues. Pursuant to State law, OTB: (i) distributes various portions of the surcharge and surcharge breakage to other localities in the State; (ii) allocates various percentages of wagers handled to the racing industry; (iii) allocates various percentages of wagers handled and breakage together with all uncashed parimutuel tickets to the State; (iv) allocates the 1% surcharge on multiple, exotic, and super exotic wagering pools for the financing of capital acquisitions; and (v) pays regulatory fees (.39% of OTB's gross handle) to the Racing and Wagering Board. All remaining net revenue is distributable to the City. In addition, OTB acts as a collection agent for the City with respect to surcharge and surcharge breakage due from other community off-track betting corporations.

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

JSDC has no taxing power. Bonds issued by JSDC do not constitute debt of the State or the City and neither the State nor the City is liable on them. Bond issuances are being used to fund the costs of the design, construction, and furnishing of a courthouse (Courts Facility) in Brooklyn. The City has leased the Courts Facility from JSDC and the rental payments will fund debt service requirements, redemption premiums (if any), financing costs, administrative expenses, and certain additional amounts determined by JSDC as necessary for this project. See Note E.2. for information about an event that occurred subsequent to June 30, 2004, whereby the City exercised its option under the Ground Lease to purchase the Landlord's undivided interest in the land appurtenant to the Court Unit.

New York City Housing Development Corporation (HDC). HDC, a corporate governmental agency constituting a public benefit corporation and instrumentality of the State of New York was established in 1971 to encourage private housing development by providing low interest mortgage loans. The combined financial statements include the accounts of HDC and its discretely presented component units: Housing Assistance Corporation, Housing New York Corporation, and the New York City Residential Mortgage Insurance Corporation. As of November 3, 2003, the Housing New York Corporation has become an inactive subsidiary of HDC. HDC finances multiple dwelling mortgages substantially through issuance of HDC bonds and notes. The bonds and notes of HDC are not debts of either the State or the City. HDC has a fiscal year ending October 31.

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

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

Substantial operating deficits (the difference between operating revenues and expenses) result from the essential services that HA provides, and such operating deficits will continue in the foreseeable future. To meet the funding requirements of these operating deficits, HA receives subsidies from: (a) the Federal government primarily the U.S. Department of Housing and Urban Development in the form of annual grants for operating assistance, debt service payments, contributions for capital and reimbursement of expenditures incurred for certain Federal housing programs; (b) New York State in the form of operating assistance, reimbursement of certain expenses, and debt service payments; and (c) New York City in the form of operating assistance and debt service payments. Subsidies are established through budgetary procedures which establish amounts to be funded by the grantor agencies. Projected operating surplus or deficit amounts are budgeted on an annual basis and approved by the grantor agency. Capital project budgets are submitted at various times during the year. HA has a calendar year-end.

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

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

New York City Marketing Development Corporation (MDC). MDC is a local development corporation organized in 2003 under the not-for-profit corporation law of the State of New York. MDC is the City's central office for sponsorship, licensing, brand management, media management, advertising, and marketing. MDC's goals are to generate revenue for the City without raising taxes; support City agencies and important City initiatives; and promote the City for economic development, business prosperity, and growth in employment and tourism.

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

The funds for RIP are provided by owners/developers of certain residential projects which cause the relocation of commercial and manufacturing businesses previously located at those sites. These funds consist of conversion contributions or escrow payments mandated by the City's Zoning Resolution for this type of development. The ability of BRAC to extract fees for residential conversion ended as of January 1, 1998 per the Zoning Resolution.

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

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

New York City Water Board (Water Board) and New York City Municipal Water Finance Authority (Water Authority). The Water and Sewer System (NYW), consisting of two legally separate and independent entities, the Water Board and the Water Authority, was established in 1985. NYW provides for water supply and distribution, and sewage collection, treatment, and disposal for the City. The Water Authority was established to issue debt to finance the cost of capital improvements to the water distribution and sewage collection system, and to refund any and all outstanding bonds and general obligation bonds of the City issued for water and sewer purposes. The Water Board was established to lease the water distribution and sewage collection system from the City and to establish and collect rates, fees, rents, and other charges for the use of, or for services furnished, rendered, or made available by the water distribution and sewage collection system to produce cash sufficient to pay debt service on the Water Authority's bonds and to place NYW on a self-sustaining basis.

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

2. Basis of Presentation

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

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

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

The City has reevaluated the financial reporting as City guaranteed debt service funds of certain of its financial interactions with: New York State Housing Finance Agency (HFA), New York State Dormitory Authority (DASNY), and New York State Urban Development Corporation and concludes that the preferable accounting treatment is to no longer include these funds in the City's financial reporting entity. In addition, it has been determined that City University Construction Fund (CUCF) is reported as part of the reporting entity of the State of New York and accordingly has been removed from the reporting entity of the City. The FY'03 beginning fund balances were restated to $(530.8) million, an increase to the fund deficit of the nonmajor governmental funds by $236.4 million of fund balances relating to HFA, CUCF, and DASNY, respectively.

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

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

The City reports the following major governmental funds:

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

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

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

Additionally, the City reports the following fund types:

Fiduciary Funds

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

The **Pension and Other Employee Benefit Trust Funds** account for the operations of:

- New York City Employees' Retirement System (NYCERS)
- New York City Teachers' Retirement System—Qualified Pension Plan (TRS)
- New York City Board of Education Retirement System—Qualified Pension Plan (BERS)
- New York City Police Pension Fund (POLICE)
- New York City Fire Pension Fund (FIRE)
- New York Police Department Police Officers' Variable Supplements Fund (POVSF)
- New York Police Department Police Superior Officers' Variable Supplements Fund (PSOVSF)
- New York Fire Department Firefighters' Variable Supplements Fund (FFVSF)
- New York Fire Department Fire Officers' Variable Supplements Fund (FOVSF)
- Transit Police Officers' Variable Supplements Fund (TPOVSF)
- Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)
- Housing Police Officers' Variable Supplements Fund (HPOVSF)
- Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)
- Correction Officers' Variable Supplements Fund (COVSF)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/457 Plan)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP/401(k) Plan)

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

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

The **Agency Funds** account for miscellaneous assets held by the City for other funds, governmental units, and individuals. The Agency Funds are custodial in nature and do not involve measurement of results of operations.

Discretely Presented Component Units

The discretely presented component units consist of **HHC, OTB, HDC, HA, EDC, NYW** and the nonmajor component units. These activities are accounted for in a manner similar to private business enterprises, in which the focus is on the periodic determination of revenues, expenses, and net income.

New Accounting Standards Adopted

In fiscal year 2004, the City adopted two new statements and a Technical Bulletin of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

— Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

— Statement No. 44 *Economic Condition Reporting: The Statistical Section,* an amendment of NCGA Statement 1

— Technical Bulletin No. 2004-1 *Tobacco Settlement Recognition and Financial Reporting Entity Issues*

Statement No. 42 establishes accounting and reporting standards for the impairment of capital assets as its primary objective since current standards do not have a specific requirement to reduce the carrying value of a capital asset other than through the application of depreciation. The Statement improves financial reporting because it requires the City to report the effects of capital asset impairments in its financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. Users of the City's financial statements will better understand when impairments have occurred and what their financial impact is on the City. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. Another objective of Statement No. 42 is to establish and clarify guidance for accounting for insurance recoveries which applies to all such recoveries, not just those associated with impairment of capital assets, for all funds and activities since authoritative guidance for insurance recoveries did not heretofore exist for governmental funds. The Statement also enhances comparability of the City's financial statements with the governmental sector by requiring all the entities to account for insurance recoveries in the same manner.

There was no impact on the City's financial statements as a result of the implementation of Statment No. 42.

Statement No. 44 amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section whose objectives are to provide financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess the City's economic condition. This Statement improves the understandability and usefulness of statistical section information by addressing the comparability problems that have developed in practice and by adding information from the new financial reporting model for state and local governments required by Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* Statistical section information is presented in the following five categories for the most recent ten years as established by Statement No. 44:

- *Financial trends information* is intended to assist users in understanding and assessing how the City's financial position has changed over time.

- *Revenue capacity information* is intended to assist users in understanding and assessing the factors affecting the City's ability to generate its own-source revenues.

- *Debt capacity information* is intended to assist users in understanding and assessing the City's debt burden and its ability to issue additional debt.

- *Demographic and economic information* is intended: (i) to assist users in understanding the socioeconomic environment within which the City operates and (ii) to provide information that facilitates comparisons of financial statement information over time and among governments.

- *Operating information* is intended to provide contextual information about the City's operations and resources to assist readers in using financial statement information to understand and assess the City's economic condition.

Technical Bulletin No. 2004-1 clarifies guidance on whether TSASC that was created to obtain the rights to all of the City's future right, title, and interest in the tobacco settlement revenues under the Master Settlement Agreement (MSA) is a component unit of the City that created it. In addition, the Technical Bulletin clarifies recognition guidance for these transactions and for payments made to the City pursuant to MSA with the major tobacco companies.

There was no change to the reporting entity of the City and there was no impact on the City's financial statements as a result of the implementation of Technical Bulletin No. 2004-1.

3. Basis of Accounting

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

Governmental fund types use the flow of current financial resources measurement focus. This focus is on the determination of, and changes in financial position, and generally only current assets and current liabilities are included on the balance sheet. These funds use the modified accrual basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Revenues from taxes are generally considered available if received within two months after the fiscal year-end. Revenues from categorical and other grants are generally considered available if received within one year after the fiscal year-end. Expenditures are recorded when the related liability is incurred and payment is due, except for principal and interest on long-term debt and certain estimated liabilities which are recorded only when payment is due.

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

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

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

4. Encumbrances

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

5. Cash and Investments

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

Cash and cash equivalents include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during fiscal years 2004 and 2003 were approximately $2.711 billion and $1.485 billion, respectively.

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

Investments in fixed income securities are recorded at fair value. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be resold.

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

A description of the City's securities lending activities for the Pension and Other Employee Benefit Trust Funds in fiscal years 2004 and 2003 is included in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2004 and 2003 (estimated at $229 million and $214 million, respectively, based on average cost) have been reported on the governmental-wide financial statement of net assets. Inventories are recorded as expenditures in governmental funds at the time of purchase and accordingly, have not been reported on the governmental funds balance sheet.

7. Restricted Cash and Investments

Certain proceeds of component unit bonds, as well as certain resources set aside for bond repayment, are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants.

8. Capital Assets

Capital assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection system, and other elements of the City's infrastructure having a minimum useful life of five years, having a cost of more than $35,000, and having been appropriated in the Capital Budget (see Note C.1.). Capital assets which are used for general governmental purposes and are not available for expenditure are accounted for and reported in the government-wide financial statements. These statements also contain the City's infrastructure elements that are now required to be capitalized under GAAP. Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, park land and improvements, and tunnels. The capital assets of the water distribution and sewage collection system are recorded in the Water and Sewer System component unit financial statements under a lease agreement between the City and the Water Board.

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Donated capital assets are stated at their fair market value as of the date of the donation. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease (see Note D.3.).

Accumulated depreciation and amortization are reported as reductions of capital assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 40 to 50 years for buildings; 5 to 35 years for equipment; and 15 to 50 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is less.

9. Allowance for Uncollectible Mortgage Loans

Mortgage loans and interest receivable in the Debt Service Funds are net of an allowance for uncollectible amounts of $695.5 million and $753.5 million for fiscal years 2004 and 2003, respectively. The allowance is composed of the balance of first mortgages one or more years in arrears and the balance of refinanced mortgages where payments to the City are not expected to be completed for approximately 25 to 30 years.

10. Vacation and Sick Leave

Earned vacation and sick leave is recorded as an expenditure in the period when it is payable from current financial resources in the fund financial statements. The estimated value of vacation leave earned by employees which may be used in subsequent years or earned vacation and sick leave paid upon termination or retirement, and therefore payable from future resources, is recorded as a liability in the government-wide financial statements.

11. Treasury Obligations

Bonds payable included in the government-wide financial statements and investments in the Debt Service Funds are reported net of treasury obligations. Treasury obligations represent City bonds held as investments of the Debt Service Funds which are offset and reported as if these bonds had been redeemed.

12. Judgments and Claims

The City is uninsured with respect to risks including, but not limited to, property damage, personal injury, and workers' compensation. In the fund financial statements, expenditures for judgments and claims (other than workers' compensation and condemnation proceedings) are recorded on the basis of settlements reached or judgments entered within the current fiscal year. Expenditures for workers' compensation are recorded when paid. Settlements relating to condemnation proceedings are reported when the liability is estimable. In the government-wide financial statements, the estimated liability for all judgments and claims is recorded as a liability.

13. Long-term Liabilities

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

14. Derivatives

Certain disclosures have been made for the following derivatives contracted during fiscal years 2004 and 2003 which are reported at fair value on the government-wide statement of net assets to include disclosure of the objective for entering into the derivative and the derivative's terms, fair value, and risk exposures.

Swap Transaction Summary

In an effort to lower its borrowing costs over the life of its bonds and to diversify its existing derivatives portfolio, the City has entered into Interest Rate Exchange Agreements (swaps) and sold options related to these swaps. As of June 30, 2004 and 2003, the total notional amount of swaps and swaptions entered into by the City was $2.476 billion and $1.286 billion, respectively. The total marked to market value of the City's swaps and swaptions for fiscal years 2004 and 2003 was approximately $(28.3) million and $(93.5) million, respectively, which were reported on the government-wide statement of net assets. The table includes the significant terms and marked to market values for each of the City's individual swap transactions.

Transaction Number	1	2	3-4	5-8	9	10	11
Corresponding Bond Series	2004 A and B	2004 F	1998F, 1998G, 1998H, 1999A, 1999F, 2001D, 2001G, 2002G, 2003A, 2003C-1, and 2003G-1	2003 C, D, & E	2003 G-4, G-5, G-6, and H-3	2003 G-2, G-3, and H-2	1993 B, 1994 H-7, 1995 B-11 and B-12, 2001 H-M, 2002 A-9, A-10 and A-11, 2003 F
Swap Type	Synthetic Fixed	Total Return	Swaption to Floating	Synthetic Fixed	Synthetic Fixed	Synthetic Fixed	Basis Swap
Notional Amount	$350,000,000	$500,000,000	$350,000,000	$400,000,000	$135,050,000	$80,000,000	$660,795,000
Up-front Cash Payment to the City	$ —	$ —	$ —	$ —	$ —	$ —	$20,000,000
Effective Date	7/14/03	12/18/03	8/1/07	11/13/02	1/22/03	1/22/03	3/14/03
Termination Date	8/1/31	12/15/11	8/1/24	8/1/20	8/1/26	8/1/14	3/15/29
Final Bond Maturity	8/1/31	12/15/33	8/1/24	8/1/20	8/1/26	8/1/14	3/15/29
Provider Cancel Option Date	N/A	N/A	8/1/07	N/A	4/15/07	4/15/07	N/A
Option Premium	$ —	$ —	$10,047,805	$ —	$7,467,000	$2,345,000	$ —
City Pays	2.964%	BMA Index + .0035	BMA	3.269%	3.259%	2.818%	BMA Index x 1.36
Payments Made by the City:							
as of 6/30/04	$(5,676,883)	$(3,354,395)	$ —	$(15,909,133)	$(4,511,311)	$(2,310,760)	$(9,074,178)
as of 6/30/03	$ —	$ —	$ —	$ —	$ —	$ —	$ —
City Receives	61.85% of USD-LIBOR-BBA	Adjusted Fixed Rates as Set forth in the Confirm	4.10%	62.8% of USD-LIBOR-BBA	60.8% of USD-LIBOR-BBA	61.8% of USD-LIBOR-BBA	USD-LIBOR-BBA
Payments Received by the City:							
as of 6/30/04	$2,125,805	$11,769,374	$ —	$4,666,302	$1,324,345	$785,866	$7,695,721
as of 6/30/03	$ —	$ —	$ —	$ —	$ —	$ —	$ —
First Counterparty Payment Date	8/1/03	6/15/04	N/A	12/2/02	2/3/03	2/3/03	various dates, starting with 7/15/03
First City Payment Date	2/4/04	6/15/04	N/A	8/1/03	8/1/03	8/1/03	various dates, starting with 7/15/03
Marked to Market Value:							
as of 6/30/04	$17,868,132	$(2,018,353)	$(11,690,000)	$(2,753,610)	$(8,640,167)	$(2,923,237)	$(18,117,047)
as of 6/30/03	$ —	$ —	$ —	$(32,235,000)	$(16,241,443)	$(6,238,000)	$(38,760,218)

N/A Not applicable.
LIBOR London Interbank Offered Rate
BMA Bond Market Association Municipal Swap Index

Synthetic Fixed Rate Transactions

The City entered into its synthetic fixed rate swaps to take advantage of the low financing costs available through the swap market. To execute these transactions, in fiscal years 2004 and 2003, the City issued variable rate bonds and entered into swaps in which it pays a fixed interest rate and receives approximately 61.85% and 62% of LIBOR, respectively. As demonstrated in the table below, the net interest costs incurred through these swaps was significantly below those of a hypothetical concurrent traditional fixed rate financing. In connection with swaps 9 and 10, the City also sold options to the counterparty for a total of approximately $9.8 million, which gives the counterparty the right to cancel those swaps at par on April 15, 2007.

Net Effective Interest Rates Resulting From Synthetic Fixed Rate Swaps

	2004 AB Variable $350M	**2003 CDE(1) Variable $400M**	**2003 GH Auction $135M**	**2003 GH Variable $80M**
Fixed payment to counterparty	2.964%	3.269%	3.259%	2.818%
Variable payment from counterparty(2)	-0.693	-0.703	-0.681	-0.692
Net swap payments	2.271	2.566	2.578	2.126
Variable rate bond payments	0.963	0.955	0.872	0.943
Net effective total interest costs	3.234%	3.521%	3.450%	3.069%
Concurrent traditional fixed rate(3)	5.050%	5.200%	4.805%	4.805%

(1) Aggregation of four 2003CDE synthetic fixed rate SWAPs with identical terms.

(2) Percentage of LIBOR: 2004AB Variable - 61.85%; 2003CDE Variable - 62.8%; 2003GH Auction - 60.8%; 2003GH Variable - 61.8%.

(3) Hypothetical fixed rate bond issue on the day the swap priced. Calculated using market rates from that day and same amortization schedule as the swap.

Total Return Swap

The City entered into a total return swap in order to take advantage of synthetic variable interest rates that were substantially below those of traditional variable rate products. In this transaction, the City issued adjustable fixed rate bonds and entered into a swap in which it receives a fixed payment equivalent to the coupon on the underlying bonds and pays a variable rate of BMA plus 35 basis points. This synthetic variable rate of BMA plus 35 basis points was comparable to an approximate all-in-cost of BMA plus 66 basis points for variable rate demand bonds at the time the transaction was executed. The Termination Risk paragraph below includes a discussion of the adjustable component of the coupon on the underlying bonds.

Swaption

The City entered into two swaption agreements for a total notional amount of $350.0 million. The City's counterparties paid the City a total of $10.0 million for the right, beginning on August 1, 2007 and for every quarter thereafter until August 1, 2009, to enter the City into a swap in which the City would pay a variable rate equal to the BMA index and receive a fixed rate of 4.10%. The City entered into these transactions because the 10-year historical average of BMA at the time of the transaction was only approximately 3.04%. If the counterparties exercised their option to enter the swap and the level of BMA traded within the range of its historical average, the City would derive a financial accrual equal to the extent BMA averaged less than 4.10%. If the counterparties chose not to enter the swap, the City would benefit from the $10.0 million payment without any additional financial exposure.

Basis Swap

The City entered into a basis swap in order to convert its taxable general obligation variable rate debt, which trades based on LIBOR, into variable rate debt based on the BMA index. This index conversion was achieved through a swap in which the City receives a variable rate based on LIBOR (equal to the interest payment on the underlying taxable bonds) and pays 1.36 times the BMA index. As a result, the underlying taxable debt trades as a function of the same BMA index as the City's approximately $5.0 billion of general obligation tax-exempt variable rate debt. The basis swap also serves as partial protection against the City's increased debt service costs associated with rising interest rates. Because rising interest rates drive down the ratio of BMA to LIBOR, they result in a net increase in the City's basis swap receipts. The City also received a $20 million cash payment from the counterparty as a part of the basis swap.

Risks

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

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

Termination Risk: The risk that a counterparty will terminate a swap at a time when the City owes it a termination payment. The City has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of the following events:

a payment default by the City; other City defaults which remain uncured for 30 days after notice; City bankruptcy; insolvency of the City (or similar events); or a downgrade of the City's credit rating below investment grade (i.e., BBB-/Baa3).

The total return swap has a termination event in addition to those described above: the counterparty may terminate the swap on any business day on which the par value of the bonds exceeds the market value of the bonds by $75 million. The likelihood of such a discrepancy between the par and market values is mitigated by a reset mechanism which adjusts the bond coupon upward or downward by an amount equal to the movement of the AAA Municipal Market Data Index since its previous reset.

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

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

15. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2004 were due July 1, 2003 and January 1, 2004 except that payments by owners of real property assessed at $80,000 or less and cooperatives whose individual units on average are valued at $80,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 2004 taxes was June 24, 2003. The lien date is the date taxes are due.

Real estate tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first two months of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government-wide financial statements recognize real estate tax revenue (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied.

On November 25, 2002, new property tax rates were adopted. These rates included an 18.5% increase for the second half of fiscal year 2003. This was the first increase in the average property tax rate since fiscal year 1992. For fiscal years 2004 and 2003, the increase brought the tax levy to $12.3 billion and $10.8 billion, respectively, which generated $11.6 billion and $10.1 billion in revenue, respectively, with respective increases of $1.5 billion and $1.3 billion in property taxes over fiscal years 2004 and 2003.

The City offered a discount of 2% for the prepayment of real estate taxes for fiscal years 2005 and 2004. Collections of these real estate taxes received on or before June 30, 2004 and 2003 were $2.382 billion and $2.052 billion, respectively. These amounts were recorded as deferred revenue.

The City sold approximately $97.8 million of real property tax liens, fully attributable to fiscal year 2004, at various dates in fiscal year 2004. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that $7.4 million worth of liens sold in fiscal year 2004 will require replacement. The estimated refund accrual amount of $8 million, including the surcharge and interest, results in fiscal year 2004 sale proceeds of $89.8 million.

In fiscal year 2004, $8.6 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2003 sale. This resulted in a decrease to fiscal year 2004 revenue of $5.6 million for the refund amount in excess of the fiscal year 2003 accrual of $3 million and decreased the proceeds of the fiscal year 2003 sale to $17.0 million down from the original fiscal year 2003 proceeds reported last year of $22.6 million.

The City sold approximately $25.6 million of real property tax liens, fully attributable to fiscal year 2003, at various dates in fiscal year 2003. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a 5% surcharge. It has been estimated that $2.9 million worth of liens sold in fiscal year 2003 will require replacement. The estimated refund accrual amount of $3 million, including the surcharge and interest, results in fiscal year 2003 sale proceeds of $22.6 million.

In fiscal year 2003, $20.1 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2002 sale. This resulted in a decrease to fiscal year 2003 revenue of $11.1 million for the refund amount in excess of the fiscal year

2002 accrual of $9 million and decreased the proceeds of the fiscal year 2002 sale to $33.4 million down from the original fiscal year 2002 proceeds reported last year of $44.5 million.

In fiscal years 2004 and 2003, $346 million and $371 million, respectively, were provided as allowances for uncollectible real estate taxes against the balance of the receivable. Delinquent real estate taxes receivable that are estimated to be collectible but which are not collected in the first two months of the next fiscal year are recorded as deferred revenues in the governmental funds balance sheet but included in general revenues on the government-wide statement of activities.

The City is permitted to levy real estate taxes for general operating purposes in an amount up to 2.5% of the average full value of taxable real estate in the City for the last five years and in unlimited amounts for the payment of principal and interest on long-term City debt. Amounts collected for payment of principal and interest on long-term debt in excess of that required for that purpose in the year of the levy must be applied towards future years' debt service. For the fiscal years ended June 30, 2004 and 2003, excess amounts of $307 million and $166 million, respectively, were transferred to the Debt Service Funds.

16. Other Taxes and Other Revenues

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

17. Federal, State, and Other Aid

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

18. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized as expenditures in the period incurred. Bond discounts in the government-wide financial statements units are deferred and amortized over the term of the bonds using a method which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges. Bond issuance costs are amortized in the government-wide financial statements over the term of the bonds using the straight-line method.

19. Intra-entity Activity

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

20. Subsidies

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

21. Pensions

Pension cost is required to be measured and disclosed using the accrual basis of accounting (see Note E.5.), regardless of the amount recognized as pension expense on the modified accrual basis of accounting. Annual pension cost should be equal to the annual required contributions to the pension plan, calculated in accordance with certain parameters.

22. Reclassifications and Adjustments

Reclassifications and adjustments of certain prior year amounts have been made to conform with the current year presentation and separately issued financial statements of reported entities.

The fiscal year 2003 financial statements of the discretely presented component unit Water and Sewer System have been restated from the amounts previously reported to reflect adjustments to property, plant, and equipment, construction work-in-progress and depreciation and operation and maintenance expenses. The effects of these adjustments to the fiscal year 2003 financial statements of the Water and Sewer System which is reported as a major component unit in the basic financial statements are as follows: property, plant, and equipment, net of accumulated depreciation was increased by $638 million while construction work in-progress was decreased by $1.4 billion. Net assets at the beginning of the year were decreased by $785 million and net assets at the end of the year were decreased by $836 million. Expenses were increased by $51 million.

23. Estimates and Assumptions

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

24. Pronouncements Issued But Not Yet Effective

In April, 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* The Statement prescribes uniform financial reporting standards for Other Postemployment Benefits (OPEB) plans of all state and local governments. OPEB refers to postemployment benefits other than pension benefits and includes: (i) postemployment healthcare benefits and (ii) other types of postemployment benefits (e.g., life insurance) if provided separately from a pension plan. ‘Plans’ refer to trust or other funds through which assets are accumulated to finance OPEB, and benefits are paid as they become due. The Statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The requirements of Statement No. 43 apply whether an OPEB plan is reported as a trust or agency fund or a fiduciary component unit of a participating employer or plan sponsor, or the plan is separately reported by a public employee retirement system or other entity that administers the plan. While Statement No. 43 is effective for the City’s fiscal year ending June 30, 2007 and its earlier implementation encouraged, there is presently no impact on the City’s financial statements from the issuance of Statement No. 43 since the City only provides for OPEB on a pay-as-you-go basis and does not sponsor or participate in a formal OPEB plan.

In June, 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (e.g., life insurance) when provided separately from a pension plan. The approach followed in the Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employer; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer’s future cash flows. The City will be required to implement Statement No. 45 in fiscal year ending June 30, 2008. The component units currently included in the City’s financial reporting entity will also be required to implement Statement No. 45 at the same time the City implements the Statement. While earlier application of the Statement is encouraged, the City has not completed the task of estimating the impact of Statement No. 45 on its financial statements. However, the City anticipates that implementation of Statement No. 45 will result in significant additional expenses and liabilities being recorded in the government-wide financial statements.

B. Reconciliation of Government-wide and Fund Financial Statements

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

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

C. Stewardship, Compliance, and Accountability

1. Budgets and Financial Plans

Budgets

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

The City is required by State Law to adopt and adhere to a budget, on a basis consistent with GAAP, that would not have General Fund expenditures in excess of revenues.

Expenditures made against the Expense Budget are controlled through the use of quarterly spending allotments and units of appropriation. A unit of appropriation represents a subdivision of an agency's budget and is the level of control at which expenditures may not legally exceed the appropriation. The number of units of appropriation and the span of operating responsibility which each unit represents, differs from agency to agency depending on the size of the agency and the level of control required. Transfers between units of appropriation and supplementary appropriations may be made by the Mayor subject to the approval provisions set forth in the City Charter. Supplementary appropriations increased the Expense Budget by $4.350 billion and $2.964 billion subsequent to its original adoption in fiscal years 2004 and 2003, respectively.

Financial Plans

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

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

2. Deficit Fund Balance

The New York City Capital Projects Fund has cumulative deficits of $1.7 billion and $1.4 billion at June 30, 2004 and 2003, respectively. These deficits represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

D. Detailed Notes on All Funds

1. Deposits and Investments

Deposits

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

The City Charter limits the amount of deposits at any time in any one bank or trust company to a maximum of one-half of the amount of the capital and net surplus of such bank or trust company. The discretely presented component units included in the City's reporting entity maintain their own banking relationships which generally conform with the City's. Bank balances are currently insured up to $100,000 in the aggregate by the Federal Deposit Insurance Corporation (FDIC) for each bank for all funds other than monies of the retirement systems, which are held by well-capitalized banks and are insured by the FDIC up to $100,000 per retirement system member. At June 30, 2004 and 2003, the carrying amount of the City's unrestricted cash and cash equivalents was $2.134 billion and $4.318 billion, respectively, and the bank balances were $1.865 billion and $3.233 billion, respectively. Of the unrestricted bank balances, $.674 billion and $1.153 billion were uninsured and uncollateralized at June 30, 2004 and 2003, respectively. At June 30, 2004 and 2003, the carrying amount of the restricted cash and cash equivalents was $.606 billion and $.959 billion, respectively, and the bank balances were $.9 million and $1.703 million, respectively. Of the bank balances, $.708 million and $1.503 million, respectively, were uninsured and uncollaterized.

The uninsured, collateralized and the uninsured, uncollateralized cash balances carried during the year represent primarily the compensating balances that are required to be maintained at banks in exchange for services provided. It is the policy of the City to invest all funds in excess of compensating balance requirements.

Investments

The City's investment of cash in its governmental fund types is currently limited to U.S. Government guaranteed securities and U.S. Government agency securities purchased directly and through repurchase agreements from primary dealers as well as commercial paper rated A1 and P1 by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively. The repurchase agreements must be collateralized by U.S. Government guaranteed securities, U.S. Government agency securities, or eligible commercial paper in a range of 100% to 102% of the matured value of the repurchase agreements. The following is a summary of the fair value of investments of the City as of June 30, 2004 and 2003 and with the exception of footnote (1), all of which mature in less than one year:

	2004	2003
	(in thousands)	
Governmental activities:		
Investment Type		
Unrestricted		
Commercial paper	$1,260,969	$ 82,723
U.S. Government securities	1,291,836	309,302
Money markets	1,411,286	—
U.S. Discount notes	709,487	—
Repurchase agreements	1,036,011	327,344
Total unrestricted	$5,709,589	$719,369
Restricted		
Commercial paper	$ 161,470	$159,491
U.S. Government securities	5,584	—
U.S. Discount notes	313,400[1]	1,002
Total restricted	$ 480,454	$160,493

(1) $307,295 of restricted U.S. Discount notes for fiscal year 2004 matures in 1 to 5 years.

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

1. Fixed income investments may be made in U.S. Government guaranteed securities or securities of U.S. Government agencies, securities of companies rated BBB or better by both Standard and Poor's Corporation and Moody's Investors Service, Inc., and any bond that meets the qualifications of the New York State Retirement and Social Security Law, the New York State Banking Law, and the New York City Administrative Code.

2. Equity investments may be made only in those stocks that meet the qualifications of the New York State Retirement and Social Security Laws, the New York State Banking Law, and the New York City Administrative Code.

3. Short-term investments may be made in the following:

   a. U.S. Government guaranteed securities or U.S. Government agency securities.

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

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

   d. Investments in bankers' acceptances, certificates of deposit, and time deposits are limited to banks with worldwide assets in excess of $50 billion that are rated within the highest categories of the leading bank rating services and selected regional banks also rated within the highest categories.

4. Investments up to 15% of total pension fund assets in instruments not specifically covered by the New York State Retirement and Social Security Law.

5. No investment in any one corporation can be: (i) more than 2% of the pension plan net assets; or (ii) more than 5% of the total outstanding issues of the corporation.

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

Securities Lending

State statutes and boards of trustees policies permit the Pension and Retirement Systems and certain Variable Supplements Funds (Systems and Funds) to lend their securities (the underlying securities) to brokers-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Systems' and Funds' custodians lend the following types of securities: short-term securities, common stock, long-term corporate bonds, U.S. Government and U.S. Government agencies' bonds, asset-backed securities, and international equities and bonds held in collective investment funds. At year-end, the Systems and Funds had no credit risk exposure to borrowers because the amounts the Systems and Funds owe the borrowers exceed the amounts the borrowers owe the Systems and Funds. The contracts with the Systems' and Funds' custodian requires borrowers to indemnify the Systems and Funds if the borrowers fail to return the securities, if the collateral is inadequate, and if the borrowers fail to pay the Systems and Funds for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand within a period specified in each agreement by either the Systems and Funds or the borrowers. The underlying fixed income securities have an average maturity of 10 years. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. During fiscal year 2003, the value of certain underlying securities became impaired because of the credit failure of the issuer. Accordingly, the carrying amounts of the collateral reported in four of the Systems' statements of fiduciary net assets were reduced by a total of $80 million to reflect this impairment and reflect the net realizable value of the securities purchased with collateral from securities lending transactions. During fiscal year 2004, $5.8 million of this amount was recovered as a distribution of bankruptcy proceeds and subsequent to June 30, 2004, an additional $15 million was received as a partial settlement from litigation.

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

2. Capital Assets

The following is a summary of capital assets activity for the fiscal years ended June 30, 2003 and 2004:

Primary Government	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
				(in thousands)			
Governmental activities:							
Capital assets, not being depreciated:							
Land	$ 736,883	$ 2,028	$ —	$ 738,911	$ 21,694	$ —	$ 760,605
Construction work-in-progress	7,196,759	1,980,856	6,205,128	2,972,487	1,872,094	2,156,848	2,687,733
Total capital assets, not being depreciated	7,933,642	1,982,884	6,205,128	3,711,398	1,893,788	2,156,848	3,448,338
Capital assets, being depreciated:							
Buildings	19,852,161	6,205,128	51,409	26,005,880	2,156,848	49,814	28,112,914
Equipment	5,566,349	773,557	603,361	5,736,545	163,613	202,044	5,698,114
Infrastructure	9,497,295	811,120	281,498	10,026,917	843,968	376,617	10,494,268
Total capital assets, being depreciated	34,915,805	7,789,805	936,268	41,769,342	3,164,429	628,475	44,305,296
Less accumulated depreciation:							
Buildings	8,599,353	1,051,950	40,805	9,610,498	869,455	19,110	10,460,843
Equipment	4,043,914	528,948	1,381,921	3,190,941	413,061	195,175	3,408,827
Infrastructure	3,547,109	509,933	272,607	3,784,435	517,590	376,617	3,925,408
Total accumulated depreciation	16,190,376	2,090,831(1)	1,695,333	16,585,874	1,800,106(1)	590,902	17,795,078
Total capital assets, being depreciated, net	18,725,429	5,698,974	(759,065)	25,183,468	1,364,323	37,573	26,510,218
Governmental activities capital assets, net	$26,659,071	$7,681,858	$5,446,063	$28,894,866	$3,258,111	$2,194,421	$29,958,556

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2004 and 2003 as follows:

	2004	2003
	(in thousands)	
Governmental activities:		
General government	$ 282,043	$ 371,904
Public safety and judicial	158,771	203,205
Education	504,266	615,105
City University	11,054	11,866
Social services	75,066	101,224
Environmental protection	160,663	173,928
Transportation services	393,981	396,201
Parks, recreation and cultural activities	185,576	188,573
Health	17,630	17,726
Libraries	11,056	11,099
Total depreciation expense—governmental activities	$1,800,106	$2,090,831

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2004 and 2003. Sources of funding for capital assets are not available prior to fiscal year 1987.

	2004	2003
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	$ 5,756,420	$ 6,008,003
City bonds	37,925,804	36,204,693
Federal grants	879,841	387,414
State grants	167,799	165,371
Private grants	159,727	55,868
Capitalized leases	2,864,043	2,659,391
Total funding sources	$47,753,634	$45,480,740

At June 30, 2004 and 2003, governmental activities capital assets include approximately $1.2 billion of City-owned assets leased for $1 per year to the New York City Transit Authority which operates and maintains the assets. In addition, assets leased to HHC and to the Water and Sewer System are excluded from the governmental activities capital assets and are recorded in the respective component unit financial statements.

Included in land and buildings at June 30, 2004 and 2003 are leased properties capitalized at $2.864 billion and $2.659 billion, respectively, with related accumulated amortization of $517 million and $448 million, respectively.

Capital Commitments

At June 30, 2004, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately $9.3 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates New York City Capital Projects Fund expenditures of $43.5 billion over the remaining fiscal years 2005 through 2013. To help meet its capital spending program, the City and TFA borrowed $4.3 billion in the public credit market in fiscal year 2004. The City plans to borrow $3.4 billion in the public credit market in fiscal year 2005.

3. Leases

The City leases a significant amount of property and equipment from others. Leased property having elements of ownership is recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property not having elements of ownership are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when payable. Total expenditures on such leases for the fiscal years ended June 30, 2004 and 2003 were approximately $519 million and $498 million, respectively.

As of June 30, 2004, the City (excluding discretely presented component units) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

	Capital Leases	Operating Leases	Total
		(in thousands)	
Governmental activities:			
Fiscal year ending June 30:			
2005	$ 198,014	$ 313,656	$ 511,670
2006	206,326	301,723	508,049
2007	206,401	292,771	499,172
2008	203,530	273,505	477,035
2009	177,752	252,773	430,525
2010-2014	805,946	944,934	1,750,880
2015-2019	689,971	627,026	1,316,997
2020-2024	601,418	199,426	800,844
2025-2029	356,439	14,825	371,264
2030-2034	206,806	360	207,166
2035-2039	95,849	—	95,849
Future minimum payments	3,748,452	$3,220,999	$6,969,451
Less interest	1,402,463		
Present value of future minimum payments	$2,345,989		

The present value of future minimum lease payments includes approximately $1.707 billion for leases with Public Benefit Corporations (PBC) where State law generally provides that in the event the City fails to make any required lease payment, the amount of such payment will be deducted from State aid otherwise payable to the City and paid to PBC.

The City also leases City-owned property to others, primarily for markets, ports, and terminals. Total rental revenue on these capital and operating leases for the fiscal years ended June 30, 2004 and 2003 was approximately $108 million and $109 million, respectively. As of June 30, 2004, the following future minimum rentals are provided for by the leases:

	Capital Leases	Operating Leases	Total
		(in thousands)	
Governmental activities:			
Fiscal year ending June 30:			
2005	$ 7,466	$ 62,119	$ 69,585
2006	7,657	56,962	64,619
2007	7,762	49,694	57,456
2008	7,877	43,376	51,253
2009	7,934	42,108	50,042
2010-2014	33,928	170,807	204,735
2015-2019	30,837	118,347	149,184
2020-2024	30,823	82,624	113,447
2025-2029	27,661	60,993	88,654
2030-2034	10,230	47,846	58,076
2035-2039	8,078	45,786	53,864
2040-2044	5,885	45,532	51,417
2045-2049	5,574	45,662	51,236
2050-2054	5,475	39,420	44,895
2055-2059	5,475	38,917	44,392
2060-2064	5,475	38,917	44,392
2065-2069	5,475	38,917	44,392
2070-2074	5,475	37,004	42,479
2075-2079	5,096	30,807	35,903
2080-2084	320	21,692	22,012
2085-2089	—	10,846	10,846
Future minimum lease rentals	224,503	$1,128,376	$1,352,879
Less interest	92,495		
Present value of future minimum lease rentals	$132,008		

4. Short-Term Liabilities

Changes in Short-term liabilities

In fiscal years 2003 and 2004, the changes in short-term liabilities were as follows:

Primary Government	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
				(in thousands)			
Governmental activities:							
Notes payable:							
Revenue anticipation notes (1)	$ —	$1,500,000	$1,500,000	$ —	$1,250,000	$1,250,000	$ —
Tax anticipation notes (1)	—	—	—	—	250,000	250,000	—
Bond anticipation notes (2)	2,200,000	1,110,000	2,200,000	1,110,000	—	1,110,000	—
Total notes payable	$2,200,000	$2,610,000	$3,700,000	$1,110,000	$1,500,000	$2,610,000	$ —

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

(2) Bond anticipation notes are used by TFA to provide financing for the City's capital expenditures.

5. Long-Term Liabilities

Changes in Long-term liabilities

In fiscal years 2003 and 2004, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2002	Additions	Deletions	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year
				(in thousands)				
Governmental activities:								
Bonds payable:								
General obligation bonds	$28,465,484	$ 4,873,575	$3,660,050	$29,679,009	$6,461,265	$4,761,889	$31,378,385	$1,461,736
1991 general resolution bonds	2,879,640	—	728,320	2,151,320	—	393,305	1,758,015	—
Future tax secured bonds	8,288,665	5,799,825	2,064,230	12,024,260	1,940,860	601,235	13,363,885	389,260
Tobacco flexible amortization bonds	740,108	527,127	8,915	1,258,320	39,709	42,310	1,255,719	20,755
Japanese Yen bonds	40,000	—	40,000	—	—	—	—	—
IDA bonds	—	—	—	—	107,960	—	107,960	1,695
Revenue bonds(1)	125,205	—	8,240	116,965	—	9,775	107,190	10,330
Total before treasury obligations and discounts	40,539,102	11,200,527	6,509,755	45,229,874	8,549,794	5,808,514	47,971,154	1,883,776
Less treasury obligations	116,271	—	52,275	63,996	—	12,480	51,516	12,664
Total before discounts	40,422,831	11,200,527	6,457,480	45,165,878	8,549,794	5,796,034	47,919,638	1,871,112
Less discounts (net)	347,161	12,670	229,763	130,068	35,523	341,574	(175,983)	—
Total bonds payable	40,075,670	11,187,857	6,227,717	45,035,810	8,514,271	5,454,460	48,095,621	1,871,112
Capital lease obligations	2,298,139	41,918	128,898	2,211,159	204,652	69,822	2,345,989	604,399
Real estate tax refunds	579,720	233,466	116,624	696,562	111,380	173,563	634,379	133,185
Other tax refunds	1,367,130	185,604	135,130	1,417,604	119,649	367,386	1,169,867	119,649
Judgments and claims	4,337,020	1,182,606	982,224	4,537,402	1,115,333	1,225,601	4,427,134	1,091,204
Vacation and sick leave	2,215,941	622,174	240,623	2,597,492	118,499	159,326	2,556,665	158,628
Pension liability	327,800	294,700	37,000	585,500	187,600	65,100	708,000	—
Landfill closure and post-closure care costs	1,282,669	33,588	52,488	1,263,769	126,531	39,168	1,351,132	53,471
Total changes in governmental activities long-term liabilities	$52,484,089	$13,781,913	$7,920,704	$58,345,298	$10,497,915	$7,554,426	$61,288,787	$4,031,648

(1) The debt of ECF is reported as bonds outstanding pursuant to its treatment as a component unit (see Note A.1.).

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

The bonds payable, net of treasury obligations, at June 30, 2004 and 2003 summarized by type of issue are as follows:

Primary Government	2004 General Obligations	2004 Revenue	2004 Total	2003 General Obligations	2003 Revenue	2003 Total
	(in thousands)					
Governmental activities:						
Bonds payable:						
General obligation bonds	$31,326,869	$ —	$31,326,869	$29,615,013	$ —	$29,615,013
1991 general resolution bonds	1,758,015	—	1,758,015	2,151,320	—	2,151,320
Future tax secured bonds	13,363,885	—	13,363,885	12,024,260	—	12,024,260
Tobacco flexible amortization bonds	1,255,719	—	1,255,719	1,258,320	—	1,258,320
IDA bonds	107,960	—	107,960	—	—	—
Revenue bonds	—	107,190	107,190	—	116,965	116,965
Total bonds payable	$47,812,448	$107,190	$47,919,638	$45,048,913	$116,965	$45,165,878

The following table summarizes future debt service requirements as of June 30, 2004:

Primary Government	Governmental Activities: General Obligation Bonds Principal	General Obligation Bonds Interest(1)	Revenue Bonds Principal	Revenue Bonds Interest
	(in thousands)			
Fiscal year ending June 30:				
2005	$1,860,782	$1,933,816	$10,330	$ 5,687
2006	2,304,289	1,890,775	10,880	5,148
2007	2,489,667	1,780,727	11,450	4,569
2008	2,519,682	1,662,937	12,070	3,949
2009	2,569,080	1,548,884	9,050	3,282
2010-2014	10,518,406	6,479,442	26,170	11,249
2015-2019	9,985,682	4,273,840	9,280	6,524
2020-2024	8,766,472	2,291,721	12,125	3,676
2025-2029	5,122,254	809,014	5,835	486
2030-2034	1,654,823	111,982	—	—
2035-2039	21,263	2,417	—	—
2040-2044	3	—	—	—
Thereafter until 2147	45	—	—	—
	47,812,448	22,785,555	107,190	44,570
Less interest component	—	22,785,555	—	44,570
Total future debt service requirements	$47,812,448	$ —	$107,190	$ —

(1) Includes interest for general obligation bonds estimated at 4% rate on tax-exempt adjustable rate bonds and at 6% rate on taxable adjustable rate bonds which are the rates at the end of the fiscal year.

The average (weighted) interest rates for outstanding City general obligation bonds as of June 30, 2004 and 2003 were 4.9% and 5.0%, respectively, and both ranged from 0% to 13.5%, and the interest rates on outstanding MAC bonds as of both June 30, 2004 and 2003 ranged from 9% to 13.5%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2004 and 2003, the City issued $3.417 billion and $2.714 billion, respectively, of general obligation bonds to advance refund general obligation bonds of $3.258 billion and $2.599 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of $3.0 million and $4.4 million, respectively, were irrevocably placed in escrow accounts and invested in United States Government securities. As a result of providing for the payment of the principal and interest to maturity, and any redemption premium, the advance refunded bonds are considered to be defeased and, accordingly, the liability is not reported in the government-wide financial statements. In fiscal year 2004, the refunding transactions will decrease the City's aggregate debt service payments by $240.1 million and provide an economic gain of $198.5 million. In fiscal year 2003, the refunding transactions decreased the City's aggregate debt service payments by $127.5 million and provided an economic gain of $142.6 million. At June 30, 2004 and 2003, $8.538 billion and $8.475 billion, respectively, of the City's outstanding general obligation bonds were considered defeased.

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

As of July 1, 2004, the 10% general limitation was approximately $43.115 billion (compared with $39.991 billion as of July 1, 2003). Also, as of July 1, 2004, the combined City and TSASC remaining debt-incurring power totaled $9.275 billion, after providing for capital commitments.

On June 16, 2003, a "Downgrade Trapping Event" occurred as defined in the Indenture, dated as of November 1, 1999, between TSASC and the Bank of New York as Trustee (the Indenture), which requires the funding of an additional reserve for the benefit of TSASC bondholders from amounts that would otherwise be paid to the City. The Indenture requires that tobacco settlement revenues (TSRs) and other revenue received after the occurrence of a Downgrade Trapping Event in an amount equal to the lesser of (a) 25% of the principal amount of outstanding bonds or (b) that portion of the installment equal to the ratio of the principal amount of bonds issued to $2.76 billion be deposited in the trapping account established under the Indenture. Accordingly, at June 30, 2004 and 2003, 47.86% and 46.46%, respectively, of TSRs and other revenues were to be deposited in the trapping account until an amount equal to the trapping requirement is retained. The trapping requirement is 25% of outstanding TSASC bonds, or approximately $313.9 million and $314.6 million as of June 30, 2004 and 2003, respectively. Based on the projection of TSRs made in August, 2002 in connection with the issuance of TSASC's Series 2002-1 bonds, it is anticipated that the trapping requirement will be fulfilled in April, 2008 or earlier, if funded from sources other than TSRs. On September 15, 2003, TSASC announced that it does not intend to issue any additional bonds to the public under the Indenture and that it is reviewing restructuring alternatives for its outstanding bonds. TSASC and the City are considering various alternatives to eliminate or meet the trapping requirement, some of which would not involve a refunding of TSASC's bonds. No decision has been reached as to the method or as to the timing of any restructuring.

Pursuant to State legislation on January 1, 1979, the City established a General Debt Service Fund administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this Fund. In fiscal year 2004, discretionary and other transfers of $972 million were made from the General Fund to the General Debt Service Fund for fiscal year 2005 debt service. In addition, in fiscal year 2004, discretionary transfers of $71 million were made to component units of the Debt Service Funds. In fiscal year 2003, discretionary and other transfers of $407 million were made from the General Fund to the General Debt Service Fund for fiscal year 2004 debt service. In addition, in fiscal year 2003, discretionary transfers of $73 million were made to component units of the Debt Service Funds.

Swap payments and associated debt

The table that follows represents debt service payments on certain general obligation variable-rate bonds, net of swap payments (see Note A.14.) associated with those bonds, as of June 30, 2004. Although interest rates on variable rate debt change over time, the calculations included in the table below are based on the assumption that the variable rate on June 30, 2004 remains constant over the life of the bonds.

	Governmental Activities			
	General Obligation Bonds			
Primary Government	Principal	Interest	Interest Rate Swaps, Net	Total
	(in thousands)			
Fiscal year ending June 30:				
2005	$ 8,175	$ 141	$ 13	$ 8,329
2006	8,370	145	13	8,528
2007	8,660	150	13	8,823
2008	9,005	156	14	9,175
2009	19,845	287	31	20,163
2010-2014	192,415	2,357	2,163	196,935
2015-2019	392,290	4,237	7,218	403,745
2020-2024	551,575	5,690	6,110	563,375
2025-2029	297,370	2,861	6,054	306,285
2030-2034	138,080	1,337	2,803	142,220
Total	$1,625,785	$17,361	$24,432	$1,667,578

Judgments and Claims

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

As of June 30, 2004 and 2003, claims in excess of $534 billion and $542 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be $4.4 billion and $4.5 billion, respectively.

As explained in Note A.12., the estimate of the liability for unsettled claims has been reported in the government-wide statement of net assets under noncurrent liabilities. The liability was estimated by categorizing the various claims and applying a historical average percentage, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and supplemented by information provided by the New York City Law Department with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information and application of the foregoing procedures.

There are currently 95 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 Act), which grants exclusive Federal jurisdiction for all claims related to or resulting from the September 11 attack. These consist mainly of Department of Sanitation employees who worked hauling World Trade Center debris at the Fresh Kills Landfill, but also include several police officers and construction workers injured either at Ground Zero or Fresh Kills. On March 10, 2004, the Southern District of New York 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 of New York ordered that actions alleging injuries resulting from exposure to World Trade Center debris on or before September 29, 2001 would remain in Federal court, while those alleging injuries based on exposure after that date would be remanded to state court. It is unclear what effect the decision will have on cases arising from the September 11 attack and on the application of the Act's limitation on the City's liability for actions arising from the September 11 attack. The City has appealed this decision.

A property damage claim relating to the September 11 attack relating to 7 World Trade Center (7 WTC) alleges significant damages. The claim 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.

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.

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

In addition to the above claims and proceedings, numerous real estate tax certiorari proceedings are presently pending against the City on grounds of alleged overvaluation, inequality, and illegality of assessment. In response to these actions, in December, 1981, State legislation was enacted which, among other things, authorizes the City to assess real property according to four classes and makes certain evidentiary changes in real estate tax certiorari proceedings. Based on historical settlement activity, the City estimates its potential liability for outstanding certiorari proceedings to be $634 million and $697 million at June 30, 2004 and 2003, respectively, as reported in the government-wide financial statements.

Pension Liability

As of June 30, 2004 and 2003, the City's pension liability resulted from State legislation (Chapter 125 of the Laws of 2000) enacted during their Spring 2000 session, which provides automatic cost-of-living adjustments for eligible retirees and eligible beneficiaries beginning September, 2000 and a phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by this law (see Note E.5.).

Landfill Closure and Postclosure Care Costs

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

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

The liability for these activities as of June 30, 2004 which equates to the total estimated current cost is $1.157 billion based on the maximum cumulative landfill capacity used to date. There are no costs remaining to be recognized. During fiscal year 1996, New York State legislation was enacted which states that no waste will be accepted at the Fresh Kills landfill on or after January 1, 2002. Accordingly, the liability for closure and postclosure care costs is based upon an effective cumulative landfill capacity used to date of approximately 100%. Cost estimates are based on current data including contracts awarded by the City, contract bids, and engineering studies. These estimates are subject to adjustment for inflation and to account for any changes in landfill conditions, regulatory requirements, technologies, or cost estimates.

During fiscal year 2004, expenditures for landfill closure and postclosure care costs totaled $45.7 million.

Resource Conservation and Recovery Act Subtitle D Part 258, which became effective April, 1997, requires financial assurance regarding closure and postclosure care. This assurance was most recently provided, on March 30, 2004, by the City's Chief Financial Officer placing in the Fresh Kills landfill operating record representations in satisfaction of the Local Government Financial Test.

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

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

	Amount (in thousands)
Landfill	$1,157,115*
Hazardous waste sites	194,017
Total landfill and hazardous waste sites liability	$1,351,132

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

6. Interfund Receivables and Payables

At June 30, 2004 and 2003, primary government and discretely presented component unit receivable and payable balances were as follows:

Governmental activities:

Due from/to other funds:

Receivable Fund	Payable Fund	2004	2003
		(in thousands)	
General Fund:	NYC Capital Projects Fund	$2,813,173[1]	$2,813,173[1]
	General Debt Service Fund	7,408	7,408
		2,820,581	2,820,581
NYC Capital Projects Fund	General Fund	1,268,368[1]	1,571,928[1]
General Debt Service Fund:	General Fund	—	110,000
	NYC Capital Projects Fund	—	38,355
		—	148,355
Total due from/to other funds		4,088,949	4,540,864

Component units:

Due from/to primary government and component units:

Receivable Entity	Payable Entity	2004	2003
Primary government—General Fund:	Component units: HDC	414,183	372,293
	OTB	270	304
		414,453	372,597
Primary government—NYC Capital Projects Fund	Component unit—Water Authority	451,162	231,391
Total due from component units		865,615	603,988
Component unit—Water Board	Primary government—General Fund	3,323	13,213
Total due to component units		3,323	13,213
Total due from/to primary government and component units		868,938	617,201
Total primary government and component units receivable and payable balances		$4,957,887	$5,158,065

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

Note: During both fiscal years 2004 and 2003, the New York City Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

E. Other Information

1. Audit Responsibility

Except where otherwise noted, in fiscal years 2004 and 2003, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than Deloitte & Touche LLP are the Municipal Assistance Corporation for The City of New York, New York City Transitional Finance Authority, New York City Educational Construction Fund (2003), New York City School Construction Authority, New York City Health and Hospitals Corporation, New York City Off-Track Betting Corporation, Jay Street Development Corporation, New York City Housing Development Corporation, New York City Industrial Development Agency, New York City Economic Development Corporation, Business Relocation Assistance Corporation, Brooklyn Navy Yard Development Corporation, New York City Water Board and New York City Municipal Water Finance Authority, and the Deferred Compensation Plans.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2004 and 2003:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Pension and Other Employee Benefit Trust Funds	
	2004	2003	2004	2003	2004	2003	2004	2003
	(percent)							
Total assets	6	7	82	81	81	83	5	4
Revenues / additions (deductions) and other financing sources	4	6	75	73	95	93	8	1

2. Subsequent Events

Subsequent to June 30, 2004, the City: completed the following long-term financing; entered into certain derivatives; exercised a ground lease purchase option; and added a blended component unit to its financial reporting entity.

Long-term Financing

City Debt: On July 29, 2004, the City sold its Series A and B bonds of $586.8 million for refunding purposes. On August 18, 2004, the City sold its Series C bonds of $730.0 million for the financing of capital expenditures.

Derivatives

Consumer Price Index (CPI) Swap: On July 29, 2004, the City entered into two $25 million CPI index swaps, with terminations in 2013 and 2014, because the resulting synthetic fixed rate was lower than that available with traditional fixed rate bonds. To execute these transactions, the City issued variable rate bonds referenced to a 80 basis points spread to the CPI index. The City also entered into two CPI swaps in which it receives a variable rate equal to that on its underlying bonds and pays fixed rates of 4.01% (2013 termination) and 4.12% (2014 termination), respectively. These synthetic fixed rates were five to ten basis points below traditional fixed rate bonds at the time of the transaction.

Enhanced Basis Swap: On August 1, 2004, the City entered into a $500.0 million basis swap in which it pays a floating rate equivalent to the BMA index and receives a floating rate in which the percentage of LIBOR paid by the counterparty depends on the rate at which LIBOR trades. The different percentages of LIBOR to be received by the City based on the corresponding trading level of LIBOR are detailed in the following table:

Libor on Reset Date	Percentage of Libor
Less than 2.0%	95.1%
Greater than or equal to 2.0%, but less than 3.45%	85.1
Greater than or equal to 3.45%, but less than 4.45%	77.1
Greater than or equal to 4.45%, but less than 5.85%	72.1
Greater than or equal to 5.85%, but less than 6.85%	69.1
Greater than or equal to 6.85%, but less than 8.25%	67.1
Greater than or equal to 8.25%	63.1

The City entered into this transaction, in which the counterparty made an upfront cash payment of $20.6 million, because the basis risk was mitigated by the high percentages of LIBOR that the City would receive. The highest percentage of LIBOR, 95.1%, occurs when LIBOR on Reset Date is below 2.0%. This low rate level typically compresses the relationship between LIBOR and BMA, but 95.1% is a significant premium to current trading levels. Also, LIBOR on Reset Date must rise above 5.84% before the City would receive a lower percentage of LIBOR than its ten-year historical average of 69.2%.

Capital Asset

Land: On July 26, 2004, the City gave notice to 330 Jay Street Associates, LLC (the Landlord) of the City's exercise of the option under the Ground Lease to purchase the Landlord's undivided interest in the land appurtenant to the Court Unit at Jay Street in Brooklyn, New York upon substantial completion of the Courts Facility. The proposed closing date is March 31, 2005. The purchase price is $23.6 million, less the Base Rent paid to the Landlord by the City until the closing date.

Component Unit

Fiscal Year 2005 Securitization Corporation (FYSC): On September 22, 2004, the FYSC was established as a not-for-profit local development corporation according to the not-for-profit corporation law of the State of New York. FYSC was formed to lessen the burdens of City government and to act in the public interest by its empowerment to issue and sell bonds, notes, and other obligations to finance the retirement of certain general obligations of the City, to provide additional funds to the City, to pay financing costs, and to pay operating expenses.

3. Other Employee Benefit Trust Funds

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

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 and 401(k). DCP is available to certain employees of The City of New York and related agencies and instrumentalities. DCP permits employees to defer a portion of their salary until future years. The compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency or hardship (as defined by the Internal Revenue Code).

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

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

4. Other Postemployment Benefits

In accordance with collective bargaining agreements, the City provides Other Postemployment Benefits (OPEB) which include basic medical and hospitalization (health care) benefits to eligible retirees and dependents at no cost to 95.0% of the participants. Basic health care premium costs which are partially paid by the remaining participants vary according to the terms of their elected plans. To qualify, retirees must: (i) have worked for the City with at least five years of credited service as a member of an approved pension system (requirement does not apply if retirement is as a result of accidental disability); (ii) have been employed by the City or a City related agency prior to retirement; (iii) have worked regularly for at least twenty hours a week prior to retirement; and (iv) be receiving a pension check from a retirement system maintained by the City or another system approved by the City. Amounts related to OPEB expenditures are recognized when paid. The City also provides reimbursement to eligible City retirees and their dependents for the Part B Medicare premium. Retirees and their dependents must be enrolled in the Medicare Part B program in order to receive reimbursement. Each eligible retiree and dependent receives a reimbursement of $58.70 per month.

The amounts expended for health care benefits for fiscal years 2004 and 2003 are as follows:

	2004		2003	
	Active	Retired	Active	Retired
Number of employees	335,359	201,475	342,986	194,311
Cost of health care (in thousands)*	$1,988,738	$869,499	$1,858,959	$792,393

* The amounts reflected are based on average headcounts.

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

The amounts expended for supplemental benefits for fiscal years 2004 and 2003 are as follows:

	2004		2003	
	Active	Retired	Active	Retired
Number of claims	23,056	8,814	20,475	7,254
Cost of Superimposed Major Medical (in thousands)*	$ 3,086	$1,387	$ 2,363	$ 964

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

5. Pension and Other Employee Benefit Trust Funds

Pension Systems

Plan Descriptions

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

The majority of City employees are members of one of the following five major actuarially-funded pension systems (Systems) collectively known as the New York City Retirement Systems (NYCRS):

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

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

3. New York City Board of Education Retirement System-Qualified Pension Plan (BERS), a cost-sharing, multiple-employer public employee retirement system, for nonpedagogical employees of the Department of Education and Charter Schools and certain employees of the School Construction Authority.

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

5. New York City Fire Pension Fund (FIRE), a single-employer public employee retirement system, for full-time uniformed employees of the Fire Department. Note: The New York City Fire Department, Subchapter Two Pension Fund is generally being referred to herein as the New York City Fire Pension Fund as set forth in ACNY Section 13-313.1.

The actuarially-funded pension systems provide pension benefits to retired employees based on salary and length of service. In addition, the actuarially-funded pension systems provide automatic Cost-of-Living Adjustments (COLA) and other supplemental pension benefits to certain retirees and beneficiaries. In the event of disability during employment, participants may receive retirement allowances based on satisfaction of certain service requirements and other provisions. The actuarially-funded pension systems also provide death benefits.

Subject to certain conditions, members become fully vested as to benefits upon the completion of 5 years of service. Except for NYCERS, permanent, full-time employees are generally required to become members of the Systems upon employment. Permanent full-time employees who are eligible to participate in NYCERS are required to become members within six months of their permanent employment status but may elect to become members earlier. Other employees who are eligible to participate in NYCERS and BERS may become members at their option. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances.

Plan Membership

At June 30, 2003 and 2002, the membership of NYCRS consisted of:

	2003					
	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
Retirees and beneficiaries receiving benefits	128,025	58,133	10,983	38,260	17,409	252,810
Terminated vested members not yet receiving benefits	4,592	4,307	173	490	16	9,578
Active members	173,434	97,986	21,678	35,841	10,860	339,799
Total plan membership	306,051	160,426	32,834	74,591	28,285	602,187

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

Funding Policy

The City's funding policy is to contribute statutorily-required contributions (statutory contributions). Together with member contributions and investment income these statutory contributions would ultimately be sufficient to pay benefits when due.

Statutory contributions for NYCRS, determined by the Actuary in accordance with State statutes and City laws, are generally funded by the employers within the appropriate fiscal year.

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

During the Spring 2000 session, the New York State Legislature approved and the Governor signed laws which provide a COLA for retirees (Chapter 125 of the Laws of 2000), additional service credits for certain Tier I and Tier II members, reduced member contributions for certain Tier III and Tier IV members (Chapter 126 of the Laws of 2000) and several other changes in benefits for various groups. Except for the statutory limitations for funding COLA benefits, these benefit enhancements are fully reflected in the actuarial valuations as of June 30, 2003, 2002, 2001, and 2000.

Annual Pension Costs

The annual pension costs and the City's statutory contributions for fiscal year 2004 were determined as part of the June 30, 2003 actuarial valuations on the basis of current actuarial assumptions and methods including the Frozen Initial Liability Actuarial Cost Method.

The annual pension costs for the NYCRS, for the fiscal years ended June 30, 2004, 2003, and 2002, were as follows:

	2004	2003	2002
		(in millions)	
NYCERS	$ 542.2	$ 197.8	$ 105.7
TRS	1,015.3	805.8	607.8
BERS	95.0	87.9	66.7
POLICE	902.7	813.1	631.9
FIRE	424.5	387.0	344.5
Total annual pension costs	$2,979.7	$2,291.6	$1,756.6

For fiscal year 2004, the City's statutory contributions for the NYCRS, based on the actuarial valuations performed as of June 30, 2003, plus other pension expenditures, were approximately $2,444.5 million. These statutory contributions were less than the annual pension costs computed in accordance with Governmental Accounting Standards Board Statement No. 27 (GASB27).

The annual pension costs, computed in accordance with GASB27 and consistent with generally accepted actuarial principles, are greater than the statutory contributions primarily because (1) the City is only one of the participating employers in NYCERS, TRS, and BERS and (2) Chapter 125 of the Laws of 2000 (Chapter 125/00), as later modified by Chapter 278 of the Laws of 2002 (Chapter 278/02), provides for a phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00.

Specifically, in accordance with Chapter 125/00, the Actuary for NYCRS, in calculating the statutory contributions for fiscal years 2001 and 2002, included the following percentages of the increase in actuarial liabilities attributable to the Chapter 125/00 COLA benefits:

Phase-In Percent	Fiscal Year
20%	2001
40	2002

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

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

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

For each of the next eight June 30 actuarial valuations (i.e., June 30, 2001 to June 30, 2008), the Actuary is required to recognize progressively increasing percentages (i.e., 20% to 90%) of the additional actuarial liabilities attributable to the benefits funded by Chapter 125/00 for determining employer contributions for fiscal years 2002 to 2009.

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

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

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

The City's statutory contributions for the fiscal years ended June 30, 2004, 2003, and 2002 were as follows:

	2004	2003 (in millions)	2002
NYCERS*	$ 166.0	$ 50.7	$ 50.0
TRS*	908.0	629.6	500.8
BERS*	80.9	67.1	54.5
POLICE	812.0	625.4	534.5
FIRE	392.7	317.0	302.3
OTHER**	84.9	60.8	49.8
Total actual pension contributions	$2,444.5	$1,750.6	$1,491.9

* NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems. The City's statutory contributions as a percentage of the total statutory contributions (calculated on a basis reflecting the phase-in of liabilities required under Chapter 278/02 and Chapter 125/00) for all employers participating in NYCERS, TRS, and BERS for fiscal years ended June 30, 2004, 2003, and 2002 were:

	2004	2003	2002
NYCERS	53.44%	46.95%	47.30%
TRS	98.67	98.44	98.21
BERS	96.28	95.53	96.44

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

** Other pension expenditures represent contributions to other actuarial and pay-as-you-go pension systems for certain employees, retirees, and beneficiaries not covered by any of NYCRS. The City also contributes per diem amounts into certain union-administered annuity funds.

Net Pension Obligations

NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems and the City has no net pension obligations to these systems. Note: The annual pension costs for these systems are the actuarially-required contributions.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for fiscal year 2004 are as follows:

	POLICE	FIRE (in millions)	TOTAL
(1) Annual Required Contribution	$917.7	$427.7	$1,345.4
(2) Interest on Net Pension Obligation	33.3	13.6	46.9
(3) Adjustment to Annual Required Contribution	48.3	16.8	65.1
(4) Annual Pension Cost=(1)+(2)-(3)	902.7	424.5	1,327.2
(5) Statutory Contribution	812.0	392.7	1,204.7
(6) Increase in Net Pension Obligation=(4)-(5)	90.7	31.8	122.5
(7) Net Pension Obligation Beginning of Year	415.7	169.8	585.5
(8) Net Pension Obligation End of Year=(6)+(7)	$506.4	$201.6	$ 708.0

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

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
		(in millions)		
POLICE	6/30/04	$902.7	90%	$506.4
	6/30/03	813.1	77	415.7
	6/30/02	631.9	85	228.0
FIRE	6/30/04	424.5	93	201.6
	6/30/03	387.0	82	169.8
	6/30/02	344.5	88	99.8

Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of employer contributions to the actuarial pension systems for the fiscal years ending June 30, 2004 and 2003 are as follows:

	2004	2003
Valuation Date	*June 30, 2003.*	*June 30, 2002.*
Actuarial Cost Method(1)	*Frozen Initial Liability.*	*Frozen Initial Liability.*
Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)	*Increasing dollar for FIRE. (2) Level dollar for UAAL attributable to NYCERS and TRS 1999 Early Retirement Incentive (ERI) NYCERS 2000 ERI and BERS, NYCERS and TRS 2002 ERI (Part A only). (3) All outstanding components of UAAL are being amortized over closed periods.*	*Increasing dollar for FIRE.(2) Level dollar for UAAL attributable to NYCERS and TRS 1999 Early Retirement Incentive (ERI) and NYCERS 2000 ERI.(3) All outstanding components of UAAL are being amortized over closed periods.*
Remaining Amortization Period	*7 years for FIRE(2) and 2 years for 1999 ERI, 3 years for 2000 ERI and 5 years for 2002 ERI (Part A only).*	*8 years for FIRE(2), 3 years for 1999 ERI and 4 years for 2000 ERI.*
Actuarial Asset Valuation Method	*Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.*	*Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.*
Investment Rate of Return	*8.0% per annum(4) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*	*8.0% per annum(4) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).*
Post-Retirement Mortality	*Tables based on recent experience.*	*Tables based on recent experience.*
Active Service: Withdrawal, Death, Disability, Retirement	*Tables based on recent experience.*	*Tables based on recent experience.*
Salary Increases	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(4)*	*In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(4)*
Cost-of-Living Adjustments	*1.3% per annum.(4)*	*1.3% per annum.(4)*

(1) *Under the Frozen Initial Liability Actuarial Cost Method, the excess of the actuarial present value of projected benefits of the membership as of the valuation date, over the sum of the actuarial value of assets plus the present value of UAAL, if any, and the present value of future employee contributions is allocated on a level basis over the future earnings of members who are on the payroll as of the valuation date. The Initial Liability was reestablished by the Entry Age Actuarial Cost Method as of June 30, 1999 but with the UAAL not less than $0. Actuarial gains and losses are reflected in the employer normal contribution rate.*

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

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

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

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

The most recent study was published by Gabriel, Roeder, Smith & Company (GRS) dated October, 2003 and analyzed experience for fiscal years 1998 through 2001. The Actuary is currently reviewing this study and may recommend changes to the actuarial assumptions and methods to be used to determine employer contributions for fiscal year 2005.

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

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

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

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

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

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

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

Other Employee Benefit Trust Funds

Fund Descriptions

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

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

POLICE administers the Police Officers' Variable Supplements Fund (POVSF) and the Police Superior Officers' Variable Supplements Fund (PSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 2 of ACNY.

1. POVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) as police officers and who retired on or after October 1, 1968.

2. PSOVSF provides supplemental benefits to members who retire from POLICE for service (with 20 or more years) holding the rank of sergeant or higher, or detective and who retired on or after October 1, 1968.

FIRE administers the Firefighters' Variable Supplements Fund (FFVSF) and the Fire Officers' Variable Supplements Fund (FOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 3 of ACNY.

3. FFVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) as firefighters (or wipers) and who retired on or after October 1, 1968.
4. FOVSF provides supplemental benefits to members who retire from FIRE for service (with 20 or more years) holding the rank of lieutenant or higher and all pilots and marine engineers (uniformed) and who retired on or after October 1, 1968.

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

5. TPOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Transit Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of calculations performed by the Actuary during November, 1993. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to TPOVSF whenever the assets of TPOVSF are not sufficient to pay benefits.
6. TPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Transit Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000, became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to TPSOVSF whenever the assets of TPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2004, NYCERS is required to transfer assets so that the fund can meet its benefit obligations when due.
7. HPOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of Chapter 719 of the Laws of 1994. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPOVSF whenever the assets of HPOVSF are not sufficient to pay benefits.
8. HPSOVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or more years) as Housing Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000, became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to HPSOVSF whenever the assets of HPSOVSF are not sufficient to pay benefits. As a result of insufficient fund assets to pay benefits as of June 30, 2001, NYCERS is required to transfer assets so that the fund can meet its benefit obligations when due.
9. COVSF provides supplemental benefits to members who retire from NYCERS for service (with 20 or 25 years of service, depending upon the plan) as members of the Uniformed Correction Force on or after July 1, 1999. However, prior to calendar year 2019, when this plan provides for a guaranteed schedule of defined supplemental benefits, total supplemental benefits paid are limited to the assets of the fund.

Funding Policy and Contributions

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

ACNY provides that NYCERS transfer to COVSF amounts equal to certain excess earnings on equity investments, less any cumulative deficiencies. ACNY also provides, as a consequence of Chapter 255 of the Laws of 2000, that NYCERS make the required transfers to TPOVSF, TPSOVSF, HPOVSF, and HPSOVSF as necessary in the event their assets are depleted, sufficient to meet their annual benefit payments.

For fiscal years 2004 and 2003, no excess earnings on equity investments are estimated to be transferable to VSFs.

For both fiscal years 2004 and 2003, required transfers from NYCERS of approximately $2.2 million were made to the HPSOVSF.

As of June 30, 2004, NYCERS has accrued approximately $1.1 million and $.8 million toward the amounts expected to be transferred to HPSOVSF and TPSOVSF, respectively, to meet the December, 2004 benefit obligations of those funds.

Required Supplementary Information (Unaudited)

The schedule of funding progress presents the following information for each of the past five consecutive fiscal years for each of NYCRS: the actuarial valuation date, the actuarial asset value, the actuarial accrued liability, the unfunded actuarial accrued liability, the actuarial asset value as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll and the ratio of the unfunded actuarial accrued liability to annual covered payroll. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of June 30, 2003, 2002, 2001, 2000, and 1999.

Required Supplementary Information (Unaudited)

	Valuation Date	(1) Actuarial Asset Value (AAV) (a)	(2) Actuarial Accrued Liability (AAL)* (a) & (b)	(3) Unfunded Actuarial Accrued Liability (UAAL)(c) (2) - (1)	(4) Funded Ratio (1) ÷ (2)	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3) ÷ (5)
				(in millions)			
NYCERS	6/30/03	$42,056.0	$42,244.2	$188.2	99.6%	$8,807.6	2.1%
	6/30/02	43,561.1	43,619.9	58.8	99.9	8,901.1	0.7
	6/30/01	43,015.4	43,087.6	72.2	99.8	8,515.3	0.8
	6/30/00	42,393.6	42,418.7	25.1	99.9	7,871.0	0.3
	6/30/99	40,936.0	40,936.0	0.0	100.0	7,593.2	0.0
TRS	6/30/03	33,169.2	33,182.6	13.4	100.0	5,828.8	0.2
	6/30/02	34,177.8	34,181.1	3.3	100.0	5,469.2	0.1
	6/30/01	35,410.2	35,414.5	4.3	100.0	5,015.4	0.1
	6/30/00	36,142.4	36,147.5	5.1	100.0	4,721.5	0.1
	6/30/99	34,626.1	34,626.1	0.0	100.0	4,217.6	0.0
BERS	6/30/03	1,833.8	1,842.0	8.2	99.6	651.0	1.3
	6/30/02	1,835.8	1,835.8	0.0	100.0	736.7	0.0
	6/30/01	1,781.7	1,781.7	0.0	100.0	694.2	0.0
	6/30/00	1,749.4	1,749.4	0.0	100.0	666.0	0.0
	6/30/99	1,705.4	1,705.4	0.0	100.0	592.2	0.0
POLICE	6/30/03	18,781.4	18,781.4	0.0	100.0	2,433.9	0.0
	6/30/02	18,913.6	18,913.6	0.0	100.0	2,496.2	0.0
	6/30/01	18,141.7	18,141.7	0.0	100.0	2,500.1	0.0
	6/30/00	17,601.9	17,601.9	0.0	100.0	2,465.7	0.0
	6/30/99	16,877.8	16,877.8	0.0	100.0	2,332.0	0.0
FIRE	6/30/03	6,441.5	6,558.0	116.5	98.2	748.8	15.6
	6/30/02	6,612.3	6,738.7	126.4	98.1	789.7	16.0
	6/30/01	6,525.7	6,660.7	135.0	98.0	799.2	16.9
	6/30/00	6,388.1	6,530.6	142.5	97.8	741.5	19.2
	6/30/99	6,179.8	6,328.7	148.9	97.6	729.7	20.4

* Frozen Initial Liability

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

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

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

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

6. World Trade Center Attack

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center, and damage to other buildings in the vicinity. Trading on the major New York stock exchanges was suspended until September 17, 2001, and business in the financial district was interrupted. Continuing 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 TFA to have outstanding $2.5 billion of bonds (Recovery Bonds) and notes (Recovery Notes) to pay costs (Recovery Costs) related to or arising from the September 11 attack, of which TFA currently has outstanding approximately $2.0 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.

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APPENDIX C

BOND INSURERS

The following information pertaining to Ambac Assurance Corporation ("Ambac Assurance") and CIFG Assurance 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 D—SPECIMEN INSURANCE POLICIES."

Ambac Assurance

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds maturing in 2015 (4% coupon) (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 $8,585,000,000 (unaudited) and statutory capital of approximately $5,251,000,000 (unaudited) as of March 31, 2005. 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 C.

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. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and filed on March 15, 2005;
2. The Company's Current Report on Form 8-K dated April 5, 2005 and filed on April 11, 2005;
3. The Company's Current Report on Form 8-K dated and filed on April 20, 2005;
4. The Company's Current Report on Form 8-K dated May 3, 2005 and filed on May 5, 2005;
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2005 and filed on May 10, 2005;
6. The Company's Current Report on Form 8-K dated and filed on July 20, 2005;
7. The Company's Current Report on Form 8-K dated July 28, 2005 and filed on August 2, 2005; and
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2005 and filed on August 9, 2005.

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."

CIFG Assurance North America, Inc.

Concurrently with the issuance of the Bonds, CIFGNA will issue its Financial Guaranty Insurance Policy for the Bonds maturing in 2018, 2019 (4% coupon) and 2021 (4⅛% coupon) (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 appendix 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, CIFG 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 March 31, 2005, 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	120,925
Unassigned funds (retained deficit)	(29,160)
Surplus as regards policyholders	$111,465

There has been no material adverse change in the capitalization of CIFGNA from March 31, 2005 to the date of this Official Statement.

Audited financial statements of CIFGNA as of December 31, 2004, 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.

Robert J. Genader

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Anne G. Gill

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.

Noraida Lauro

Authorized Officer of Insurance Trustee

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

CIFG
IXIS FINANCIAL GUARANTY

CIFG Assurance 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: ____

CIFG ASSURANCE 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, CIFG ASSURANCE NORTH AMERICA, INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

CIFG ASSURANCE NORTH AMERICA, INC.

By ______________________________
Authorized Officer

CIFGNA Bonds-1 (8-04)

SIDLEY AUSTIN BROWN & WOOD LLP

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

August 17, 2005

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 2006 Series E (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. 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 the 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,

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