

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, and assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended, with respect to the Tax-Exempt Bonds and the Multi-Modal Bonds, as described herein, interest on the Tax-Exempt Bonds will not be includable in the gross income of the owners thereof for federal income tax purposes. See "SECTION IX: OTHER INFORMATION—Tax Exemption" herein for further information. Interest on the Taxable Bonds will be includable in gross income for federal income tax purposes.

\$445,000,000

The City of New York
General Obligation Bonds, Fiscal 2006 Series I
\$375,000,000 Tax-Exempt Bonds, Subseries I-1
\$70,000,000 Taxable Bonds, Subseries I-2

Dated: Date of Delivery

Due: April 1 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 Tax-Exempt Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriters. The Taxable Bonds are being sold by public letting on the basis of electronic, competitive bids in accordance with the Notice of Sale dated March 30, 2006. The issuance of the Bonds is subject to the approval of the legality of the Bonds by Sidley Austin LLP, New York, New York, Bond Counsel to the City, and to certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the City by Fulbright & Jaworski L.L.P., 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 April 11, 2006.

M.R. Beal & Company
Morgan Stanley

Bear, Stearns & Co. Inc.

Citigroup
UBS Investment Bank

First Albany Capital Inc.
JPMorgan
Ramirez & Co., Inc.

Lehman Brothers

Goldman, Sachs & Co.
Merrill Lynch & Co.
Roosevelt & Cross Incorporated

Apex Pryor Securities
RBC Capital Markets
Janney Montgomery Scott LLC
Popular Securities
Raymond James & Associates, Inc.

Banc of America Securities LLC
A.G. Edwards

Commerce Capital Markets, Inc.
Jackson Securities
Loop Capital Markets LLC
Prager, Sealy & Co., LLC
Wachovia Bank, National Association

April 6, 2006

\$870,000,000⁽¹⁾ General Obligation Bonds, Fiscal 2006 Series I

\$445,000,000 General Obligation Bonds, Fiscal 2006 Subseries I-1 and I-2

<u>April 1</u>	Subseries I-1 \$375,000,000 Tax-Exempt Bonds			Subseries I-2 \$70,000,000 Taxable Bonds		
	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2008	\$13,155,000	3.55%	3.56%	\$ —	—%	—%
2009	13,625,000	3.65	3.68	—	—	—
2010	4,075,000	5	3.77	—	—	—
2010	10,045,000	3¾	3.77	—	—	—
2011	1,630,000	5	3.82	—	—	—
2011	15,380,000	3.80	3.82	—	—	—
2012	2,330,000	5	3.91	—	—	—
2012	15,340,000	3.90	3.91	—	—	—
2013	—	—	—	18,390,000	5.40	100
2014	—	—	—	19,380,000	5.40	5.42
2015	—	—	—	20,430,000	5.40	5.44
2016	9,730,000	5	4.27	11,800,000	5.45	5.455
2017(2)(3)	12,160,000	5	4.18			
2017(3)	10,500,000	5	4.35			
2018(3)	13,795,000	5	4.38			
2018	10,000,000	4	4.38			
2019(2)(3)	4,305,000	5	4.25			
2019(3)	20,575,000	5	4.43			
2020	7,160,000	4.40	4.48			
2020(3)	18,970,000	5	4.48			
2021	1,690,000	4.40	4.49			
2021(3)	25,700,000	5	4.49			
2022	1,540,000	4.45	4.52			
2022(2)(3)	27,210,000	5	4.40			
2023(3)	30,180,000	5	4.55			
2024(3)	31,690,000	5	4.56			
2025(3)	33,270,000	5	4.57			
2026	2,115,000	4.45	4.58			
2026(3)	32,825,000	5	4.58			
2027	2,625,000	4½	4.59			
2027(3)	3,380,000	5	4.59			

(1) Includes \$425,000,000 Multi-Modal Bonds not offered hereby.

(2) Insured by Financial Security Assurance Inc.

(3) Priced to first par call on April 1, 2016.

Interest on the Subseries I-1 and I-2 Bonds is payable on each April 1 and October 1 commencing October 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 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 \$445,000,000 aggregate principal amount of the City’s General Obligation Bonds, Fiscal 2006 Series I, Subseries I-1 and I-2 (the “Bonds”). The Bonds consist of \$375,000,000 tax-exempt bonds, Subseries I-1, (the “Tax-Exempt Bonds”) and \$70,000,000 taxable bonds, Subseries I-2 (the “Taxable Bonds”). The Taxable Bonds are to be issued to the original purchaser thereof in accordance with the City’s Notice of Sale, dated March 30, 2006. Reference is made to the Notice of Sale for the terms and conditions of sale and delivery of the Taxable Bonds to be issued to the original purchaser thereof. Concurrently with the delivery of the Bonds, the City will deliver \$425,000,000 tax-exempt multi-modal bonds of Fiscal 2006 Series I (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 2005 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—2001-2005 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 2006 and 2007 fiscal years and budget gaps for each of the 2008 through 2010 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 2006 through 2009 fiscal years submitted to the Control Board on July 6, 2005 (the "July Financial Plan") and Modification No. 06-2 to the July Financial Plan submitted to the Control Board on February 1 and February 13, 2006, which, among other things, contains the Mayor's preliminary budget for the 2007 fiscal year and extends the financial plan to include the 2010 fiscal year (as so modified, the "2006-2010 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 although it currently does not expect to issue such notes in fiscal year 2006. 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

2006-2010 Financial Plan

For the 2005 fiscal year, the City's General Fund had an operating surplus of \$3.534 billion, before discretionary transfers, and achieved balanced operating results in accordance with GAAP, after discretionary and other transfers. The 2005 fiscal year is the twenty-fifth 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 2006 fiscal year were adopted on June 30, 2005. The July Financial Plan, which was consistent with the City's expense and capital budgets as adopted for the 2006 fiscal year, projected revenues and expenditures for the 2006 fiscal year balanced in accordance with GAAP, and projected gaps of \$4.5 billion, \$4.5 billion and \$3.9 billion for fiscal years 2007 through 2009, respectively.

On January 31, 2006, the Mayor released his preliminary budget for the 2007 fiscal year. On February 1 and February 13, 2006, the City submitted to the Control Board the Financial Plan for the 2006 through

2010 fiscal years which relates to the City and certain entities that receive funds from the City and which was consistent with the Mayor's preliminary budget. The Financial Plan is a modification to the July Financial Plan, as subsequently modified by the financial plan submitted to the Control Board on November 22, 2005 (the "November Financial Plan"). The Financial Plan projects revenues and expenses for the 2006 and 2007 fiscal years balanced in accordance with GAAP, and projects gaps of \$3.4 billion, \$3.5 billion and \$2.7 billion in fiscal years 2008 through 2010, respectively, after implementation of a gap-closing program described below.

The Financial Plan reflects increases in projected net revenues since the July Financial Plan totaling \$2.8 billion, \$1.8 billion, \$1.9 billion and \$1.6 billion in fiscal years 2006 through 2009, respectively, resulting primarily from increases in projected real estate transaction, personal income and business tax revenues offset by decreases in real estate tax revenues. These amounts include decreases in miscellaneous revenues of \$232 million and \$121 million in fiscal years 2006 and 2007, respectively, as a result of the delay to fiscal year 2008 of the release by TSASC, Inc. ("TSASC") of previously trapped tobacco settlement receivables ("TSRs") and TSRs not used for debt service and other expenses, and increases in miscellaneous revenues of \$454 million and \$22 million in fiscal years 2008 and 2009, respectively, as a result of the delayed release and the receipt of additional TSRs. For information on the release of TSRs and the recent restructuring of outstanding TSASC debt, see "SECTION VII: FINANCIAL PLAN—Assumptions—Revenue Assumptions—4. Miscellaneous Revenues."

The Financial Plan also reflects, since the July Financial Plan, a decrease in projected net expenditures of \$268 million in fiscal year 2006, excluding the prepayment of \$3.3 billion of expenditures otherwise due in fiscal year 2007, and increases in projected net expenditures totaling approximately \$1.2 billion, \$1 billion and \$1.4 billion in fiscal years 2007 through 2009, respectively. Increases in projected expenditures since the July Financial Plan include: (i) increased labor costs as a result of settlements of labor negotiations and provision for similar increases for collective bargaining units not yet settled of \$661 million, \$1.1 billion, \$1.2 billion and \$1.2 billion in fiscal years 2006 through 2009, respectively; (ii) increased energy costs of \$101 million, \$102 million, \$88 million and \$83 million in fiscal years 2006 through 2009, respectively; (iii) increased agency spending of \$102 million, \$216 million, \$216 million and \$223 million in fiscal years 2006 through 2009, respectively; and (iv) the contribution of \$1 billion in each of fiscal years 2006 and 2007 to a trust to be established to advance-fund a portion of the future cost of health benefits for retirees. Decreases in projected City-funded expenditures since the July Financial Plan result from (i) increases in State education aid of \$35 million, \$300 million, \$337 million and \$337 million in fiscal years 2006 through 2009, respectively; (ii) a one-time decrease in Medicaid expenses of \$450 million due to a change in accrual methods for Medicaid payments beginning in fiscal year 2006; (iii) decreases in debt service costs of \$41 million, \$117 million, \$33 million and \$9 million in fiscal years 2006 through 2009, respectively; and (iv) a reduction in prior year payables of \$400 million and a reduction in the general reserve of \$200 million in fiscal year 2006. In addition, the Financial Plan reflects decreased pension contributions of \$925 million and \$571 million in fiscal years 2006 and 2007, respectively, and increased pension contributions of \$161 million and \$452 million in fiscal years 2008 and 2009, respectively, as a result of changes in actuarial assumptions and funding methodologies, which have been approved by the boards of trustees of the five major actuarial pension systems and which are expected to be approved by the State legislature. The Financial Plan includes the proposed prepayment in fiscal year 2006 of \$3.3 billion in debt service and other payments otherwise due in fiscal year 2007.

In addition, the Financial Plan sets forth gap-closing actions to eliminate the previously projected gap for the 2007 fiscal year and to reduce previously projected gaps for fiscal years 2008 and 2009. The gap-closing actions include: (i) reduced agency expenditures or increased revenues totaling \$228 million, \$262 million, \$211 million and \$211 million in fiscal years 2006 through 2009, respectively; and (ii) additional State actions of \$250 million annually in fiscal years 2007 through 2009 and federal actions of \$100 million in fiscal year 2007, which require the approval of the State and federal governments, respectively. Additional State actions could include increased reimbursement rates for State inmate incarceration and probation aid, increased resources to achieve mandated public assistance participation rates, tort reform, City participation in State revenue sharing, pension reform or other State assistance. Additional federal actions could include increased funding for required educational services, increased funding for the costs of incarcerating criminal illegal aliens, increased child care funding, the provision of

homeland security funding on a threat-based allocation or other federal assistance. The gap-closing actions set forth in the Financial Plan are partially offset by \$256 million annually through the proposed extension of the property tax rebate for homeowners in fiscal years 2008 and 2009.

The Financial Plan includes funding for all recent labor contract settlements covering the vast majority of City employees and makes provision for wage increases for all employees in collective bargaining units without contract settlements consistent with the patterns established in the settlements. The Financial Plan makes provision for a fourth contract year under the current round of collective bargaining with a 3.15% wage increase in that year and makes provision for 1.25% wage increases annually thereafter for all City employees. For additional information, see “SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs.”

The Financial Plan does not reflect the expected expenditure by the City in fiscal year 2006 of approximately \$575 million for Medicaid costs resulting from additional Medicaid payments expected to be made to the New York City Health and Hospitals Corporation (“HHC”) totaling approximately \$1.15 billion. The amount of the City’s payment reflects the State and local share of these eligible Medicaid costs, which the City is required by law to pay.

On March 28, 2006 the State Legislature reached agreement on a \$112.4 billion budget plan for the State fiscal year commencing April 1, 2006. The Legislature completed passing its budget bills by March 31, 2006, and the Governor will have until April 12, 2006 to veto changes the Legislature made to the Governor’s Executive Budget. Depending on the amount of State aid provided to localities in the State’s adopted budget, the City might be required to make changes in its Financial Plan. The Financial Plan includes anticipated State actions of \$250 million for fiscal year 2007. The Financial Plan also includes an increase in unrestricted State education aid in fiscal year 2007 of \$291 million. The Legislative budget agreement increases unrestricted education aid to the City by an estimated \$427 million and includes other actions benefiting the City totaling \$17 million. The City anticipates reflecting the impact of an adopted State budget in its next update to the financial plan.

The budget bills passed by the State Legislature include bills to provide funding for the City’s five-year educational facilities capital plan in the aggregate amount of \$11.2 billion. The bills provide for \$1.8 billion to be provided in the form of grants from the State for projects included in the five-year educational facilities capital plan and increase the New York City Transitional Finance Authority’s (“TFA”) statutory bonding cap by \$9.4 billion to provide the remainder of the funding. The additional TFA bonds would be secured by and payable from certain State aid to education, which the Mayor will be authorized to assign to the TFA.

The City Comptroller and others have issued reports reviewing and commenting on the Financial Plan and 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 State Legislature completed action on the budget for the 2005-2006 fiscal year on April 12, 2005 (the “2005-2006 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 2005-2006 Budget was 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 since released August 1, 2005, October 30, 2005 and January 17, 2006 updates to its 2005-2006 financial plan and August 8, 2005, November 2, 2005 and January 26, 2006 Annual Information Statement Updates (collectively, the “State Updates”). The State Updates contain information regarding the financial condition of the State, including revisions to its 2005-2006 financial plan projections, part-year operating results for the 2005-2006 fiscal year, GAAP-basis projections for the 2005-2006 fiscal year, a summary on debt and capital management, State retirement system information and the status of certain litigation with the potential to adversely affect the State’s finances.

The State Update released on January 26, 2006 (the “January Update”) reflects the Governor’s Executive Budget for the 2006-2007 fiscal year and other changes to the financial plan projections. The State financial plan, as updated in the January Update, projects balance on a cash basis for the 2005-2006 fiscal year, with a closing balance in the General Fund of \$3.2 billion, and, assuming implementation of the 2006-2007 Executive Budget recommendations, for the 2006-2007 fiscal year, with a closing balance in the General Fund of \$3.8 billion. The State financial plan also contains projections of a potential imbalance in the 2007-2008 fiscal year of \$1.9 billion and in the 2008-2009 fiscal year of \$3.8 billion, assuming implementation of the 2006-2007 Executive Budget recommendations (including the use in equal installments of a \$2.0 billion spending stabilization reserve, funded with the expected 2005-2006 net surplus, to lower the projected budget gaps in 2007-2008 and 2008-2009 to the indicated projected levels).

The Annual Information Statement and the State Updates identify a number of risks inherent in the implementation of the 2005-2006 Budget. Such risks include required court actions or legislative approval affecting receipts and disbursements included in the 2005-2006 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.

The Governor’s Executive Budget contains a number of proposals, including Medicaid and health care cost containment, the State takeover of certain Medicaid long-term care costs, and increased school aid funding in response to recent court orders, which could, if adopted by the State Legislature, decrease City expenditures or increase City revenues. As noted above, the State Legislature reached agreement on a \$112.4 billion budget plan which differs in some respects from the Governor’s Executive Budget. The State Legislature completed passing its budget bills by March 31, 2006.

The State will issue its Annual Information Statement for the 2006-07 fiscal year when final action is completed on the State Budget.

SECTION II: THE BONDS

General

The Bonds will be general obligations of the City issued pursuant to the Constitution and laws of the State, including the Local Finance Law (the “LFL”), 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 and will contain a pledge of the City’s faith and credit for the payment of the principal of, redemption premium, if any, and interest on the Bonds. All real property subject to taxation by the City will be subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, to pay the principal of, redemption premium, if any, and interest on the Bonds. 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).

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”). If the statutory formula does not result in retention of sufficient real estate taxes to comply with the City Covenants, the City will comply with the City Covenants either by providing for early retention of real estate taxes or by making cash payments into the Fund. The principal of and interest on the Bonds will be paid from the Fund until the Act expires not earlier than

July 1, 2008, and thereafter from a separate fund maintained in accordance with the City Covenants. Since its inception in 1978, the Fund has been fully funded at the beginning of each payment period.

If the Control Board determines that retentions in the Fund are likely to be insufficient to provide for the debt service payable therefrom, it must require that additional real estate tax revenues be retained or other cash resources of the City be paid into the Fund. In addition, the Control Board is required to take such action as it determines to be necessary so that the money in the Fund is adequate to meet debt service requirements.

Enforceability of City Obligations

As required by the State Constitution and applicable law, the City pledges its faith and credit for the payment of the principal of and interest on all City indebtedness. Holders of City debt obligations have a contractual right to full payment of principal and interest at maturity. If the City fails to pay principal or interest, the holder has the right to sue and is entitled to the full amount due, including interest to maturity at the stated rate and at the rate authorized by law thereafter until payment. Under the New York 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 New York General Municipal Law is within the discretion of a court. Other judicial decisions also indicate that a money judgment against a municipality may not be enforceable against municipal property devoted to public use.

The rights of the owners of Bonds to receive interest, principal and redemption premium, if any, from the City could be adversely affected by a restructuring of the City's debt under Chapter 9 of the Federal Bankruptcy Code. No assurance can be given that any priority of holders of City securities (including the Bonds) to payment from money retained in the Fund or from other sources would be recognized if a petition were filed by or on behalf of the City under the Federal Bankruptcy Code or pursuant to other subsequently enacted laws relating to creditors' rights; such money might then be available for the payment of all City creditors generally. Judicial enforcement of the City's obligation to make payments into the Fund, of the obligation to retain money in the Fund, of the rights of holders of bonds and notes of the City to money in the Fund, of the obligations of the City under the City Covenants and of the State under the State 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" included herein by specific reference.

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") to the extent summarized in "SECTION IX: OTHER INFORMATION—Continuing Disclosure Undertaking." In the opinion of Bond Counsel, the enforceability of the City

Covenants, the Undertaking and the State Pledge and Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of the State's police powers and of judicial discretion in appropriate cases. The City Covenants, the Undertaking and the State Pledge and Agreement shall be of no force and effect with respect to any Bond if there is a deposit in trust with a bank or trust company of sufficient cash or cash equivalents to pay when due all principal of, applicable redemption premium, if any, and interest on such Bond.

Use of Proceeds

The proceeds of the Bonds will be used for capital purposes and other discrete capital purposes, including expenses of the City in connection with the issuance and sale of the Bonds.

Optional Redemption

The Bonds maturing after April 1, 2016 will be subject to redemption at the option of the City, on or after April 1, 2016, 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.

Bond Insurance

The principal of and interest on the Bonds maturing in 2017 (5% coupon, 4.18% yield), 2019 (5% coupon, 4.25% yield) and 2022 (5% coupon) (the "Insured Bonds") are expected to be insured by Financial Security Assurance Inc. ("FSA"). Information about FSA is set forth in Appendix C. A specimen FSA insurance 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) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, 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 and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. 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, Fixed Income 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 both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial

relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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. or such other name as may be requested by an authorized representative of DTC. 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. (nor such other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. 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, the 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 the Fiscal Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The services of DTC as securities depository with respect to the Bonds may be discontinued at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates 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 and was elected to a second term which commenced on January 1, 2006. 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 and was elected to a second term which commenced on January 1, 2006. 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 \$96 billion as of February 28, 2006, 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 and was elected to a second term which commenced on January 1, 2006. 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 (as defined below) 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 defined below) are also required to maintain budgets that are balanced when reported in accordance with GAAP. From time to time certain Covered Organizations have had budgets providing for operations on a cash basis but not balanced under GAAP.

To assist in achieving the goals of the financial plan and budget, the City reviews its financial plan periodically and, if necessary, prepares modifications to incorporate actual results and revisions to projections and assumptions to reflect current information. The City's revenue projections are continually reviewed and periodically updated with the benefit of discussions with a panel of private economists analyzing the effects of changes in economic indicators on City revenues and information from various economic forecasting services.

Office of the Comptroller

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

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

The Comprehensive Annual Financial Report of the Comptroller (the "CAFR") 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-fifth consecutive year the CAFR has won such award. The CAFR for the 2005 fiscal year was released on October 31, 2005.

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-five 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 in fiscal years 2003, 2004 and 2005, respectively, with declines in net assets in each of the fiscal years 2003 and 2005 and an increase in net assets in fiscal year 2004.

In June 2004, GASB issued Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” (“GASB 45”). GASB 45 establishes standards for the measurement, recognition, and display of other post-employment benefits (“OPEB”) expense and related liabilities. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits such as life insurance, when provided separately from a pension plan. The approach followed in GASB 45 generally is consistent with the approach adopted with regard to accounting for pension expense and liabilities, with modifications to reflect differences between pension benefits and OPEB. The City is required to implement GASB 45 in fiscal year 2008. The component units currently included in the City’s financial reporting entity will be required to implement GASB 45 at the same time. The City Actuary and consultants have begun working on the analysis necessary to determine the actuarial valuation of the City’s liability. The City anticipates that its implementation will result in significant additional expenses and liabilities being recorded in the government-wide financial statements. However, there is no requirement to fund the future OPEB obligation and the City anticipates that the implementation of GASB 45 will not have an adverse impact on the budgets and financial plans of the City. For information on the proposed establishment of a trust to fund a portion of the future OPEB liability, see “SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs.”

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 February 28, 2006 aggregate pension assets were allocated approximately as follows: 48% U.S. equities; 28% U.S. fixed income; 19% international equities; 4% private equity and real estate; and 1% cash.

Financial Emergency Act and City Charter

The Financial Emergency Act requires that the City submit to the Control Board, at least 50 days prior to the beginning of each fiscal year (or on such other date as the Control Board may approve), a financial plan for the City and certain State governmental agencies, public authorities or public benefit corporations ("PBCs") which receive or may receive monies from the City directly, indirectly or contingently (the "Covered Organizations") covering the four-year period beginning with such fiscal year. The New York City Transit Authority and the Manhattan and Bronx Surface Transit Operating Authority (collectively, "New York City Transit" or "NYCT" or "Transit Authority"), HHC and the New York City Housing Authority (the "Housing Authority" or "HA") are examples of Covered Organizations. The Act requires that the City's four-year financial plans conform to a number of standards. Subject to certain conditions, the Financial Emergency Act and the City Charter require the City to 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. Pursuant to the Act and the City Charter, the City is 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 substantial powers of the Control Board 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). 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).

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 section of the Act that 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.

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.

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 2005, while federal aid has been sharply reduced. The City projects that local revenues will provide approximately 70.9% of total revenues in the 2006 fiscal year while federal aid, including categorical grants, will provide 10.4%, and State aid, including unrestricted aid and categorical grants, will provide 18.7%. 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 37.4% of its total tax revenues and 23.1% 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—2001-2005 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	11,666.2	99.7	2.49	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⁾

<u>Fiscal Year</u>	<u>Billable Assessed Valuation of Taxable Real Estate(2)</u>	÷	<u>Special Equalization Ratio</u>	=	<u>Full Valuation(2)</u>
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 \$73.0 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, 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 State 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 amended and restated on November 16, 2005 to reflect a 2% limitation on the market value adjustment for 2006 while the average tax rate was held at \$12.283 per \$100 of assessed value, though individual class tax rates changed from the prior levels set on June 30, 2005.

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 12%.

For fiscal year 2001, billable assessed valuation rose by \$3.2 billion to \$83.3 billion. The billable assessed valuation as determined by the City Department of Finance and as reported in the CAFR 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 3.4% in fiscal year 2007 and 4.9%, 4.7% and 4.7% in fiscal years 2008, 2009 and 2010, 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 \$37.7 million, respectively. The Financial Plan reflects receipt of \$100.3 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	12,720.0	11,521.7	90.6	136.2	(231.4)	(889.4)	(300.3)	2.36	37.7
2006(6) . . .	13,668.1	12,425.2	90.9	136.0	(227.0)	(891.5)	(320.0)	2.34	100.3

- (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 \$2.9 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 62.6% 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 4⅞% 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 in fiscal year 2005, 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 TFA if personal income tax revenues do not satisfy specified debt service ratios.

Revenues from taxes other than the real estate tax in the 2005 fiscal year increased by \$2.667 billion, an increase of approximately 16.1% from the 2004 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real estate tax, for each of the City's 2001 through 2005 fiscal years.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)				
Personal Income(1)	\$ 5,746	\$ 4,538	\$ 4,460	\$ 5,984	\$ 6,638
General Corporation	1,735	1,330	1,237	1,540	1,994
Banking Corporation	424	320	213	415	601
Unincorporated Business Income	820	791	832	908	1,117
Sales	3,662	3,360	3,535	4,018	4,355
Commercial Rent	377	380	397	426	445
Real Property Transfer	473	425	513	766	1,055
Mortgage Recording	407	477	526	817	1,250
Utility	300	258	295	291	340
Cigarette	28	27	159	138	125
Hotel	241	184	192	217	257
All Other(2)	351	381	367	487	475
Audits	401	485	571	576	600
Total	<u>\$14,965</u>	<u>\$12,957</u>	<u>\$13,297</u>	<u>\$16,583</u>	<u>\$19,250</u>

Note: Totals may not add due to rounding.

- (1) Personal Income excludes \$407 million, \$451 million, \$537 million, \$109 million and \$497 million retained by the TFA in fiscal years 2001, 2002, 2003, 2004 and 2005, respectively. In fiscal years 2001, 2002, 2003, 2004 and 2005, Personal Income includes \$415 million, \$520 million, \$540 million, \$540 million and \$632 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 grants to the TFA of \$624 million and \$400 million in fiscal years 2003 and 2004, respectively, which were used by the TFA to pay debt service in each subsequent fiscal year, thereby increasing tax revenue by \$624 million in fiscal year 2004 and by \$400 million in fiscal year 2005.
- (2) All Other includes, among others, surtax revenues from the New York City Off-Track Betting Corporation ("OTB"), beer and liquor taxes, and the automobile use tax, but excludes the State's STAR Program aid of \$504 million, \$632 million, \$660 million, \$677 million and \$784 million in fiscal years 2001, 2002, 2003, 2004 and 2005, respectively, and for fiscal year 2001 only excludes prior year real property penalty and interest of \$37 million which is included in Interest Income under "Miscellaneous Revenues" below.

Miscellaneous Revenues

Miscellaneous revenues include revenue sources such as charges collected by the City for the issuance of licenses, permits and franchises, interest earned by the City on the investment of City cash balances, tuition and fees at the Community Colleges, reimbursement to the City from the proceeds of water and sewer rates charged by the New York City Water Board (the "Water Board") for costs of delivery of water and sewer services and paid to the City by the Water Board for its lease interest in the water and sewer system, rents collected from tenants in City-owned property and from The Port Authority of New York and New Jersey (the "Port Authority") with respect to airports, and the collection of fines. The following table sets forth amounts of miscellaneous revenues for each of the City's 2001 through 2005 fiscal years.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)				
Licenses, Permits and Franchises	\$ 338	\$ 356	\$ 357	\$ 374	\$ 395
Interest Income	245	81	43	30	149
Charges for Services	439	461	501	592	614
Water and Sewer Payments	843	858	846	885	899
Rental Income	154	115	109	108	944
Fines and Forfeitures	495	485	548	697	745
Other	<u>1,109</u>	<u>1,383</u>	<u>2,244</u>	<u>684</u>	<u>1,327</u>
Total	<u>\$3,623</u>	<u>\$3,739</u>	<u>\$4,648</u>	<u>\$3,370</u>	<u>\$5,073</u>

Note: Totals may not add due to rounding.

Rental income in fiscal year 2005 includes approximately \$781.9 million in Port Authority payments for back rent and renegotiated lease payments for the City's airports.

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 years 2001, 2002, 2003, 2004 and 2005 include \$154 million, \$211 million, \$150 million, \$67 million and \$68 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, 2004 and 2005 do not include TSRs retained by TSASC for debt service, trapping requirements and operating expenses, totaling \$50 million, \$45 million, \$103 million, \$147 million and \$149 million, respectively. For further information see “SECTION VII: FINANCIAL PLAN—Assumptions—Revenue Assumptions—4. Miscellaneous Revenues” and “SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities.” Other miscellaneous revenues for fiscal year 2001 include the receipt of \$340 million from the sale of the New York 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. For information on TFA borrowing for Recovery Costs, see “SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities.” 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 (“IDA”) which reimbursed the City for costs incurred in connection with the New York Stock Exchange project. Other miscellaneous revenues for fiscal year 2005 include \$631 million from the refinancing of MAC debt by STAR Corp. which reimbursed the City for revenues retained by MAC in fiscal years 2004 and 2005, \$97.9 million from the sale of 273 taxi medallions, \$44.5 million from the sale of the former headquarters of the BOE (as defined below) and \$39.6 million from the refund of prior year expenditures.

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 2001 through 2005 fiscal years.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)				
State Per Capita Aid.....	\$327	\$328	\$ 400	\$327	\$327
Other(1)	<u>307</u>	<u>338</u>	<u>1,043</u>	<u>636</u>	<u>277</u>
Total.....	<u>\$634</u>	<u>\$666</u>	<u>\$1,443</u>	<u>\$963</u>	<u>\$604</u>

(1) Included in the 2001, 2002, 2003, 2004 and 2005 fiscal years are \$158 million, \$201 million, \$180 million, \$250 million and \$264 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. Certain claims submitted to the State Medicaid program by the City are the subject of investigation by the Office of the Inspector General of the United States Department of Health and Human Services (“OIG”). For a discussion of claims for which a final audit report has been issued by OIG, see “SECTION IX: OTHER INFORMATION—Litigation—*Miscellaneous*.” 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 2001 through 2005 fiscal years.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(In Millions)				
Federal					
Community Development(1).....	\$ 250	\$ 281	\$ 226	\$ 240	\$ 268
Welfare(2).....	2,339	2,541	2,550	2,448	2,405
Education(2).....	1,227	1,364	1,595	1,770	1,909
Other(2)(3).....	734	1,911	1,247	957	2,072
Total.....	<u>\$4,550</u>	<u>\$6,097</u>	<u>\$5,618</u>	<u>\$5,415</u>	<u>\$6,654</u>
State					
Welfare.....	\$1,581	\$1,585	\$1,576	\$1,724	\$1,741
Education.....	5,388	5,592	5,834	5,873	6,177
Higher Education.....	129	129	133	139	140
Health and Mental Health.....	349	434	416	377	393
Other.....	321	290	358	342	372
Total.....	<u>\$7,768</u>	<u>\$8,030</u>	<u>\$8,317</u>	<u>\$8,455</u>	<u>\$8,823</u>

- (1) Amounts represent actual funds received and may be lower or higher than the appropriation of funds actually provided by the federal government for the particular fiscal year due either to underspending or the spending of funds carried forward from prior fiscal years.
- (2) A total of approximately \$1.1 billion in non-recurring reimbursement from FEMA for costs relating to the September 11 attack is included in Welfare, Education and Other in fiscal year 2002.
- (3) A total of approximately \$1 billion reimbursement from FEMA for insurance covering claims relating to work at the World Trade Center site following the September 11 attack is included in Other in fiscal year 2005.

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—2001-2005 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 federal block grant has been extended through September 30, 2010. 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. 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 2010 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 39.4% 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. Prior to recent State legislation capping City Medicaid payments, the State had 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. As a result of the recent State legislation, the State percentage of the non-federal share may vary. 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, 2005, 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 2001 through 2005 fiscal years.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Education.....	139,873	138,411	135,282	134,325	135,771
Police	52,474	51,924	50,787	50,544	50,141
Social Services, Homeless and Children's Services	23,427	24,376	22,361	23,340	23,060
City University Community Colleges and Hunter Campus Schools	6,293	5,756	6,039	6,450	6,582
Environmental Protection and Sanitation	16,022	15,985	14,933	15,473	15,570
Fire	15,728	15,854	15,180	15,522	15,902
All Other	<u>51,188</u>	<u>54,062</u>	<u>49,982</u>	<u>50,903</u>	<u>52,645</u>
Total	<u>305,005</u>	<u>306,368</u>	<u>294,564</u>	<u>296,557</u>	<u>299,671</u>

The following table presents the number of full-time employees of certain Covered Organizations, as reported by such Organizations, at the end of each of the City's 2001 through 2005 fiscal years.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Transit Authority	47,689	47,954	47,694	47,400	46,706
Housing Authority	14,704	14,694	14,673	13,841	13,128
HHC	<u>34,968</u>	<u>35,377</u>	<u>35,956</u>	<u>35,833</u>	<u>36,227</u>
Total(1).....	<u>97,361</u>	<u>98,025</u>	<u>98,323</u>	<u>97,074</u>	<u>96,061</u>

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

The foregoing tables include persons whose salaries or wages are paid by certain public employment programs, including programs funded under the Workforce Investment Act, which support employees in non-profit and State agencies as well as in the mayoral agencies and the Covered Organizations.

Labor Relations

Substantially all of the City's full-time employees are members of labor unions. 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 New York 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 \$29.8 billion during the 2001 through 2005 fiscal years. City-funded expenditures, which totaled \$25.6 billion during the 2001 through 2005 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 2001 through 2005 fiscal years.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
	(In Millions)					
Education	\$1,708	\$1,765	\$1,315	\$1,192	\$ 975	\$ 6,955
Environmental Protection	830	1,037	1,301	1,631	1,679	6,478
Transportation	577	724	739	763	786	3,589
Transit Authority(1)	279	191	446	199	160	1,275
Housing	414	380	301	360	343	1,798
Hospitals	34	62	67	35	346	544
Sanitation	178	185	114	173	159	809
All Other(2)	<u>1,290</u>	<u>1,976</u>	<u>1,451</u>	<u>1,402</u>	<u>2,207</u>	<u>8,326</u>
Total Expenditures(3)	<u>\$5,310</u>	<u>\$6,320</u>	<u>\$5,734</u>	<u>\$5,755</u>	<u>\$6,655</u>	<u>\$29,774</u>
City-funded Expenditures(4)	<u>\$4,389</u>	<u>\$5,436</u>	<u>\$5,376</u>	<u>\$5,133</u>	<u>\$5,274</u>	<u>\$25,608</u>

- (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 2001 through 2005 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures for the 2001 through 2005 fiscal years are derived from the CAFR.
- (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 independent auditors' opinion thereon are presented in "APPENDIX B—FINANCIAL STATEMENTS." Further details are set forth in the CAFR for the fiscal year ended June 30, 2005, 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 "2001-2005 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.

2001-2005 Summary of Operations

The following table sets forth the City's results of operations for its 2001 through 2005 fiscal years in accordance with GAAP.

The information regarding the 2001 through 2005 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 2004 and 2005 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 2001 through 2003 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				
	2001	2002	2003	2004	2005
	(In Millions)				
Revenues and Transfers					
Real Estate Tax(2)	\$ 8,246	\$ 8,761	\$10,063	\$11,582	\$11,616
Other Taxes(3)(4)	14,965	12,957	13,297	16,583	19,250
Miscellaneous Revenues(3)	3,623	3,799	4,648	3,370	5,073
Other Categorical Grants	492	615	1,006	956	862
Unrestricted Federal and State Aid(3)	634	666	1,443	963	604
Federal Categorical Grants	4,550	6,097	5,618	5,415	6,654
State Categorical Grants	7,768	8,030	8,317	8,455	8,823
Less: Disallowances Against Categorical Grants	(46)	0	(47)	(27)	(87)
Total Revenues and Transfers(5)	<u>\$40,232</u>	<u>\$40,865</u>	<u>\$44,345</u>	<u>\$47,297</u>	<u>\$52,795</u>
Expenditures and Transfers					
Social Services	\$ 8,717	\$ 9,098	\$ 9,321	\$ 9,650	\$10,329
Board of Education	11,545	11,718	12,673	13,061	13,776
City University	393	418	444	493	567
Public Safety and Judicial	5,875	6,462	6,204	6,125	6,507
Health Services	1,959	2,132	2,241	2,418	2,424
Pensions(6)	1,127	1,392	1,631	2,308	3,234
Debt Service(3)(7)	2,522	1,371	2,309	3,472	4,023
MAC Debt Service and Administrative Expenses(3)(7) ...	458	5	225	502	111
All Other(7)	7,631	8,264	9,292	9,263	11,819
Total Expenditures and Transfers(5)	<u>\$40,227</u>	<u>\$40,860</u>	<u>\$44,340</u>	<u>\$47,292</u>	<u>\$52,790</u>
Surplus(7)	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>

(1) The City's results of operations refer to the City's General Fund revenues and transfers reduced by expenditures and transfers. The revenues and assets of PBCs included in the City's audited financial statements do not constitute revenues and assets of the City's General Fund, and, accordingly, the revenues of such PBCs are not included in the City's results of operations. Expenditures required to be made and revenues earned 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 2001, 2002, 2003, 2004 and 2005, Real Estate Tax includes \$89.4 million, \$112.4 million, \$119.6 million, \$137.3 million and \$151.7 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 and Administrative Expenses 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 and Administrative Expenses is reduced by payments by the City of debt service on City obligations held by MAC. Personal income taxes exclude \$407 million, \$451 million, \$537 million, \$109 million and \$497 million in fiscal years 2001, 2002, 2003, 2004 and 2005, 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 Surplus is the surplus after discretionary and other transfers and expenditures. The City had general fund operating revenues exceeding expenditures of \$3.534 billion, \$1.928 billion, \$1.422 billion, \$686 million and \$2.949 billion before discretionary and other transfers and expenditures for the 2005, 2004, 2003, 2002 and 2001 fiscal years, respectively. Discretionary and other transfers are included in Debt Service, MAC Debt Service and Administrative Expenses and for transit and other subsidies in All Other. All Other includes grants to the TFA of \$624 million, \$400 million and \$947 million in fiscal years 2003, 2004 and 2005, respectively, which were used by the TFA to pay TFA debt service in each subsequent fiscal year and thereby increased tax revenue by \$624 million, \$400 million and \$947 million in fiscal years 2004, 2005 and 2006, respectively.

Forecast of 2006 Results

The following table compares the forecast for the 2006 fiscal year contained in the Financial Plan submitted to the Control Board on July 6, 2005 (the “July 2005 Forecast”) with the forecast contained in the Financial Plan submitted to the Control Board on February 1 and February 13, 2006 (the “February 2006 Forecast”). Each forecast was prepared on a basis consistent with GAAP. For information regarding recent developments, see “SECTION I: RECENT FINANCIAL DEVELOPMENTS.”

	<u>July 2005 Forecast</u>	<u>February 2006 Forecast</u>	<u>Increase/(Decrease) from July 2005 Forecast</u>
	(In Millions)		
REVENUES			
Taxes			
General Property Tax	\$12,432	\$12,434	\$ 2
Other Taxes.....	16,443	19,347	2,904 (1)
Tax Audit Revenue	512	512	—
Miscellaneous Revenues.....	4,826	5,034	208 (2)
Unrestricted Intergovernmental Aid	562	490	(72)
Anticipated Federal Actions	50	—	(50)
FY 2005 Discretionary Transfer	947	947	—
Less: Intra-City Revenues	(1,289)	(1,428)	(139)
Disallowances Against Categorical Grants	(15)	(15)	—
Subtotal – City Funds	<u>\$34,468</u>	<u>\$37,321</u>	<u>\$2,853</u>
Other Categorical Grants	927	947	20
Inter-Fund Revenues.....	364	373	9
Total City Funds & Inter-Fund Revenues.....	<u>\$35,759</u>	<u>\$38,641</u>	<u>\$2,882</u>
Federal Categorical Grants	5,109	5,608	499 (3)
State Categorical Grants.....	9,320	9,559	239 (4)
Total Revenues.....	<u>\$50,188</u>	<u>\$53,808</u>	<u>\$3,620</u>
EXPENDITURES			
Personal Services			
Salaries and Wages	\$18,151	\$18,804	\$ 653 (5)
Pensions.....	4,735	4,017	(718) (6)
Fringe Benefits	5,549	6,655	1,106 (7)
Total – Personal Services	<u>\$28,435</u>	<u>\$29,476</u>	<u>\$1,041</u>
Other Than Personal Services			
Medical Assistance.....	5,024	4,463	(561) (8)
Public Assistance	2,516	2,446	(70)
Pay-As-You-Go Capital/Prepay Outstanding Debt ..	200	200	—
All Other.....	14,246	14,596	350 (9)
Total – Other Than Personal Services	<u>\$21,986</u>	<u>\$21,705</u>	<u>\$ (281)</u>
Debt Service	3,327	3,273	(54)
MAC Administrative Expenses.....	10	10	—
FY 2005 Budget Stabilization & Discretionary			
Transfers	(2,581)	(2,582)	(1)
FY 2006 Budget Stabilization & Discretionary			
Transfers	—	3,254	3,254 (10)
General Reserve.....	300	100	(200)
Total Expenditures.....	<u>\$51,477</u>	<u>\$55,236</u>	<u>\$3,759</u>
Less: Intra-City Expenses	(1,289)	(1,428)	(139)
Net Total Expenditures.....	<u>\$50,188</u>	<u>\$53,808</u>	<u>\$3,620</u>

(1) The increase in Other Taxes is due to increases in personal income taxes of \$992 million, sales and use taxes of \$212 million, banking corporation tax of \$101 million, general corporation tax of \$236 million, unincorporated business tax of \$167 million, mortgage recording tax of \$461 million, real property transfer tax of \$511 million, utility tax of \$81 million, hotel occupancy tax of \$31 million, commercial rent tax of \$17 million, cigarette tax revenue of \$1 million and the State’s STAR Program aid of \$105 million offset by decreases of \$11 million in all other taxes.

- (2) The increase in Miscellaneous Revenues is due to increases of approximately \$141 million in interest income, \$139 million in intra-City revenues, \$37 million from asset sales, \$8 million in water and sewer charges, \$44 million in charges for services, \$17 million in licenses, permits and franchises, \$11 million in fines, \$100 million in miscellaneous revenues, \$6 million in rental income offset by the delay to fiscal year 2008 of the receipt from TSASC of \$233 million of TSRs and the delay of \$63 million in taxi medallion sales.
- (3) The increase in Federal Categorical Grants is due to \$382.7 million in categorical budget modifications processed between July 2005 and January 10, 2006, increases of \$20.9 million in other grants, \$55.4 million in social services funding and \$40.0 million in education funding.
- (4) The increase in State Categorical Grants is due to \$110.7 million in categorical budget modifications processed between July 2005 and January 10, 2006, increases of \$124.7 million in education funding, \$16.4 million in social services funding, approximately \$13 million in other grants offset by the net decrease of \$25.8 million in health and mental hygiene grants.
- (5) The increase in Personal Services—Salaries and Wages is due to increases of \$421 million for recent collective bargaining settlements, \$95 million in net agency needs, and \$137 million in categorical budget modifications processed from July 2005 through January 10, 2006.
- (6) The decrease in Personal Services—Pensions is due to approximately \$924 million in savings primarily as a result of new actuarial assumptions and methods, some of which require State approval, offset by collective bargaining adjustments valued at approximately \$206 million.
- (7) The increase in Personal Services—Fringe Benefits is primarily due to a payment of \$1 billion into a retiree health benefits trust fund. For additional information see “SECTION I: RECENT FINANCIAL DEVELOPMENTS” and “SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs.”
- (8) The decrease in Other Than Personal Services—Medical Assistance is due to lowered expense of \$450 million and \$81 million, respectively, as a result of a change in accrual methods for City Medicaid payments and State funding methods for certain mental health services, respectively, and savings of \$30 million from State reimbursement of prior Medicaid expenses.
- (9) The increase in Other Than Personal Services — All Other is due to \$426 million in categorical budget modifications processed from July 2005 through January 10, 2006, and increases of \$190 million in energy expenditures, \$134 million in net agency spending and a decrease of \$400 million of prior year expenses.
- (10) FY 2006 Budget Stabilization & Discretionary Transfers is the projected discretionary transfers into the General Debt Service Fund in fiscal year 2006 for debt service due in fiscal year 2007.

SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 2006 through 2010 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)				
	2006	2007	2008 (In Millions)	2009	2010
REVENUES					
Taxes					
General Property Tax(3)	\$12,434	\$12,780	\$13,686	\$14,361	\$15,039
Other Taxes(4)(5)	19,347	18,866	18,632	19,663	20,756
Tax Audit Revenue.....	512	509	509	509	510
Tax Reduction Program(6)	—	—	(256)	(256)	(256)
Miscellaneous Revenues(7)	5,034	4,646	5,031	4,621	4,641
Unrestricted Intergovernmental Aid	490	340	340	340	340
Anticipated Federal & State Actions	—	350	250	250	250
FY 2005 Discretionary Transfers(8).....	947	—	—	—	—
Less: Intra-City Revenues	(1,428)	(1,284)	(1,282)	(1,284)	(1,285)
Disallowances Against Categorical Grants ..	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	\$37,321	\$36,192	\$36,895	\$38,189	\$39,980
Other Categorical Grants.....	947	915	926	941	945
Inter-Fund Revenues(9)	373	365	346	346	346
Total City Funds and Inter-Fund Revenues .	\$38,641	\$37,472	\$38,167	\$39,476	\$41,271
Federal Categorical Grants	5,608	4,911	4,900	4,899	4,902
State Categorical Grants	9,559	9,822	9,937	9,965	10,001
Total Revenues	\$53,808	\$52,205	\$53,004	\$54,340	\$56,174
EXPENDITURES					
Personal Services					
Salaries and Wages	\$18,804	\$18,955	\$19,166	\$19,308	\$19,522
Pension	4,017	4,886	5,610	5,846	5,712
Fringe Benefits	6,655	6,928	6,270	6,592	6,854
Subtotal-Personal Services.....	\$29,476	\$30,769	\$31,046	\$31,746	\$32,088
Other Than Personal Services					
Medical Assistance	4,463	4,950	5,097	5,236	5,413
Public Assistance	2,446	2,441	2,445	2,445	2,445
Pay-As-You-Go Capital/Prepay Outstanding Debt	200	200	200	200	200
All Other(10)	14,596	14,076	14,182	14,357	14,543
Subtotal-Other Than Personal Services	\$21,705	\$21,667	\$21,924	\$22,238	\$22,601
Debt Service(11)	3,273	3,997	4,453	4,840	5,181
MAC Administrative Expenses.....	10	10	10	—	—
FY 2005 Budget Stabilization & Discretionary Transfers(12).....	(2,582)	—	—	—	—
FY 2006 Budget Stabilization & Discretionary Transfers(13).....	3,254	(3,254)	—	—	—
General Reserve	100	300	300	300	300
	\$55,236	\$53,489	\$57,733	\$59,124	\$60,170
Less: Intra-City Expenses.....	(1,428)	(1,284)	(1,282)	(1,284)	(1,285)
Total Expenditures	\$53,808	\$52,205	\$56,451	\$57,840	\$58,885
GAP TO BE CLOSED	\$ —	\$ —	\$ (3,447)	\$ (3,500)	\$ (2,711)

(1) The four year financial plan for the 2006 through 2009 fiscal years, as submitted to the Control Board on July 6, 2005, contained the following projections for the 2006-2009 fiscal years: (i) for 2006, total revenues of \$50.188 billion and total expenditures of \$50.188 billion; (ii) for 2007, total revenues of \$49.433 billion and total expenditures of \$53.940 billion, with a gap to be closed of \$4.507 billion; (iii) for 2008, total revenues of \$50.518 billion and total expenditures of \$54.988 billion, with a gap to be closed of \$4.470 billion; and (iv) for 2009, total revenues of \$52.142 billion and total expenditures of \$56.067 billion, with a gap to be closed of \$3.925 billion.

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.

- (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 real estate 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 OTB surtax 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) Tax Reduction Program reflects the proposed extension through fiscal year 2010 of the real estate tax rebate to owner-occupants of houses, co-ops and condominiums which has an estimated value of \$256 million annually. For information on the rebate in fiscal years 2006 and 2007, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—2. Real Estate Tax."
- (7) Miscellaneous Revenues reflects the receipt by the City of TSRs not used by TSASC for debt service and other expenses. For information on TSASC, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Revenue Assumptions*—4. Miscellaneous Revenues."
- (8) FY 2005 Discretionary Transfers reflects grants to the TFA of \$947 million in fiscal year 2005 which increased personal income tax revenue by that amount in fiscal year 2006.
- (9) 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.
- (10) Personal Services—Fringe Benefits includes contributions of \$1 billion in each of fiscal years 2006 and 2007 to a trust fund for the future cost of health benefits for retirees; see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs."
- (11) For a discussion of the categories of expenditures in Other Than Personal Services—All Other, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. Other Than Personal Services Costs."
- (12) Debt Service & MAC Administrative Expenses includes 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."
- (13) FY 2005 Budget Stabilization & Discretionary Transfers reflects discretionary transfers of \$1.936 billion for the early payment in fiscal year 2005 of debt service otherwise expected to be paid in fiscal year 2006 and the early payment in fiscal year 2005 of \$645 million in other subsidies otherwise expected to be paid in fiscal year 2006. Budget stabilization and discretionary transfers totaled \$3.529 billion in fiscal year 2005, including a \$947 million grant to the TFA in fiscal year 2005 which increased personal income tax revenue by that amount in fiscal year 2006.
- (14) FY 2006 Budget Stabilization & Discretionary Transfers reflects projected discretionary transfers into the General Debt Service Fund in fiscal year 2006 for debt service due in fiscal year 2007.

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-five fiscal years and is projected to achieve balanced operating results for the 2006 and 2007 fiscal years, there can be no assurance that the Financial Plan or future actions to close projected outyear gaps 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 extent, if any, to which wage increases for City employees exceed the annual wage costs assumed for the 2006 through 2010 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 recognizes that after three consecutive years of contraction, the City’s economy experienced a broad based recovery in calendar years 2004 and 2005. The economic projections contained therein assume that moderate growth will continue through calendar year 2006 with improvements in the labor market.

The following table presents a forecast of the key economic indicators for the calendar years 2005 through 2010. This forecast is based upon information available in January 2006.

FORECAST OF KEY ECONOMIC INDICATORS

U.S. ECONOMY	Calendar Years					
	2005	2006	2007	2008	2009	2010
<i>Economic Activity and Income</i>						
Real GDP (billions of 2000 dollars)	11,131	11,511	11,833	12,223	12,627	13,006
Percent Change	3.5	3.4	2.8	3.3	3.3	3.0
Pre-tax Corporate Profits (\$ billions)	1,446	1,544	1,514	1,550	1,578	1,581
Percent Change	36.5	6.8	(2.0)	2.4	1.8	0.2
Personal Income (\$ billions)	10,240	10,870	11,510	12,179	12,905	13,627
Percent Change	5.4	6.2	5.9	5.8	6.0	5.6
Non-Agricultural Employment (millions) . .	133.6	135.6	137.7	139.7	141.4	142.5
Change From Prior Year	2.2	2.0	2.0	2.0	1.7	1.1
Unemployment Rate	5.1	4.8	4.9	4.8	4.6	4.7
CPI-All Urban (1982-84=100)	195.2	200.6	205.1	209.8	214.8	220.0
Percent Change	3.4	2.8	2.2	2.3	2.4	2.4
Wage Rate (\$ per year)	42,747	44,369	46,185	48,120	50,174	52,254
Percent Change	4.3	3.8	4.1	4.2	4.3	4.1
10-Year Treasury Bond Rate	4.3	5.3	5.5	5.6	5.9	5.9
Federal Funds Rate	3.2	4.7	4.8	4.8	5.0	5.2
<u>NEW YORK CITY ECONOMY</u>						
Personal Income (\$ billions)	345	366	381	398	421	445
Percent Change	5.6	6.0	4.0	4.5	5.8	5.5
Non-Agricultural Employment (thousands)	3,578	3,613	3,639	3,672	3,712	3,745
Change From Prior Year	36.1	35.2	26.0	33.5	39.7	32.4
Real Gross City Product (billions of 2000 dollars)	453	464	460	475	492	509.0
Percent Change	3.2	2.4	(0.9)	3.2	3.6	3.6
Wage Rate (\$ per year)	67,839	71,057	72,760	74,946	78,686	82,531
Percent Change	4.6	4.7	2.4	3.0	5.0	4.9
CPI-All Urban NY-NJ Area (1982-84=100)	212.7	218.9	224.4	229.7	235.3	240.9
Percent Change	3.9	2.9	2.5	2.4	2.4	2.4
<u>NEW YORK CITY REAL ESTATE MARKET</u>						
<i>Manhattan Primary Office Market</i>						
Asking Rental Rate (\$ per square foot) . .	48.15	49.17	51.07	52.67	54.48	54.91
Percent Change	2.3	2.1	3.9	3.1	3.4	0.8
Vacancy Rate – Percent	9.7	9.3	9.3	9.3	8.8	8.7

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 2010.

Projections of real estate tax revenues include \$100.3 million, \$47.3 million, \$46.3 million, \$45.3 million and \$45.3 million net revenue from the sale of real property tax liens in fiscal years 2006 through 2010, 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 \$165.4 million in fiscal year 2006, and \$168 million in each of fiscal years 2007 through 2010. 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 \$286 million, \$291 million, \$306 million, \$320 million and \$335 million in fiscal years 2006 through 2010, respectively, and the cost of extending tax abatements through the Lower Manhattan Commercial Revitalization Program of \$7 million in fiscal year 2006 and \$6 million in each of fiscal years 2007 through 2010, 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 2006 and 2007. The Tax Reduction Program proposes the extension of this rebate through fiscal year 2010.

The delinquency rate was 2.4% for fiscal years 2004 and 2005. The Financial Plan projects delinquency rates of 2.3% in the 2006 fiscal year and 2.6% in each of the 2007 through 2010 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.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)				
Personal Income(1)(2)	\$ 6,036	\$ 6,188	\$ 5,982	\$ 6,477	\$ 6,886
General Corporation	2,143	2,264	2,273	2,393	2,575
Banking Corporation	598	525	508	537	566
Unincorporated Business Income	1,244	1,299	1,266	1,349	1,441
Sales(2)	4,357	4,476	4,560	4,823	5,106
Commercial Rent	473	497	515	531	548
Real Property Transfer	1,227	823	770	760	781
Mortgage Recording	1,197	775	727	720	740
Utility	387	348	343	342	331
Cigarette	121	118	115	112	110
Hotel	298	309	317	330	342
All Other(3)	1,266	1,245	1,256	1,289	1,330
Total	<u>\$19,347</u>	<u>\$18,866</u>	<u>\$18,632</u>	<u>\$19,663</u>	<u>\$20,756</u>

Note: Totals may not add due to rounding.

- (1) Personal Income does not include \$704 million, \$981 million, \$986 million and \$984 million of personal income tax revenues projected to be paid to the TFA for debt service and other expenses in the 2007, 2008, 2009 and 2010 fiscal years, respectively. Personal Income does not include the grant to the TFA of \$947 million in fiscal year 2005 which increases personal income tax revenues by \$947 million in fiscal year 2006. Personal income includes \$213 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 \$692 million, \$668 million, \$688 million, \$712 million and \$739 million in the 2006 through 2010 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, \$62 million, \$67 million, \$72 million and \$77 million in fiscal years 2006 through 2010, 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 \$395 million in fiscal year 2006 and \$9 million in fiscal year 2007. Sales includes 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 surtax revenues, beer and liquor taxes, and the automobile use tax. All Other also includes \$857 million, \$836 million, \$856 million, \$880 million and \$907 million in fiscal years 2006 through 2010, 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 revenues from Other Taxes: (i) with respect to personal income tax revenues, strong growth in fiscal year 2006 resulting from moderate growth in wage earnings coupled with robust growth in capital gains in calendar year 2005, a decline in growth in fiscal year 2007 reflecting the expiration of the temporary tax increase for calendar year 2006, coupled with a forecast decline in capital gains in calendar year 2006, continuing decline in growth in fiscal year 2008 reflecting declining capital gains and Wall Street bonuses in calendar year 2007 and modest growth in fiscal years 2009 and 2010 reflecting moderate growth in both wage earnings and capital gains in calendar years 2008 and 2009; (ii) with respect to general corporation tax revenues, strong growth in fiscal year 2006, reflecting strong New York Stock Exchange ("NYSE") member firm profits in calendar year 2005 and robust corporate profits reflecting a rebounding local economy, with modest growth in fiscal years 2007 through 2010 reflecting forecast growth in NYSE member firm profits; (iii) with respect to banking corporation tax revenues, no growth in fiscal year 2006 and a decline in fiscal years 2007 and 2008 reflecting higher interest expenses, and collections continuing at historically high levels for fiscal years 2009 and 2010 paralleling growth in the national and local economies; (iv) with respect to unincorporated business tax revenues, strong growth in fiscal year 2006 reflecting continued strength in securities industry earnings and growth in service sector employment, moderate growth in fiscal year 2007, a decline in growth in fiscal year 2008 reflecting securities industry earnings, and moderate growth in fiscal years 2009 and 2010 paralleling growth in the national and local economies; (v) with respect to sales tax revenues, no growth in fiscal year 2006 reflecting the expiration of the 0.125 percent temporary rate increase as well as the reinstatement of the exemption for clothing and footwear under \$110 and a return to moderate growth beginning in fiscal year 2007 and continuing through fiscal year 2009, paralleling growth in wage earnings; (vi) with respect to real property transfer tax revenues, strong growth in fiscal year 2006 supported by growth in employment, record low mortgage interest rates and continued strength in the commercial market, declines in collections in fiscal year 2007 through 2009 and returning growth in fiscal year 2010 as the national and local recoveries continue; (vii) with respect to mortgage recording tax revenues, a decline in fiscal year 2006 reflecting a slowdown in refinancing, and as interest rates continue to increase, declining collections from fiscal year 2007 through 2009 before growth returns in fiscal year 2010; and (viii) with respect to the commercial rent tax revenues, strong growth in fiscal years 2006 and 2007 reflecting lower vacancy rates and increases in asking rents paralleling growth in the local economy, slowing in fiscal years 2008 through 2010 as slowdowns occur in vacancy rate declines and asking rent increases.

4. MISCELLANEOUS REVENUES

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)				
Licenses, Permits and Franchises	\$ 396	\$ 395	\$ 387	\$ 385	\$ 379
Interest Income	300	245	133	140	146
Charges for Services	574	539	528	528	528
Water and Sewer Payments(1)	1,007	996	1,009	1,031	1,048
Rental Income	183	181	180	172	171
Fines and Forfeitures	703	715	716	716	716
Other	443	291	796	365	368
Intra-City Revenues	<u>1,428</u>	<u>1,284</u>	<u>1,282</u>	<u>1,284</u>	<u>1,285</u>
Total	<u>\$5,034</u>	<u>\$4,646</u>	<u>\$5,031</u>	<u>\$4,621</u>	<u>\$4,641</u>

(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 approximately \$93.5 million in fiscal years 2006, 2007, 2008, 2009 and 2010, respectively, for lease payments for the City's airports.

Miscellaneous Revenues—Other reflects \$5 million in fiscal year 2006 and \$574 million, \$144 million and \$145 million of projected resources in fiscal years 2008 through 2010, respectively, from the receipt by

the City of TSRs. The downgrade of major tobacco companies below investment grade resulted in a trapping event for TSASC under its indenture pursuant to which it was required to retain a portion of the TSRs it received in a reserve account for the benefit of its bondholders. In February 2006, TSASC restructured all of its outstanding debt through the issuance of refunding bonds under an amended indenture. Pursuant to the TSASC debt restructuring, less than 40% of the TSRs are pledged to the TSASC bondholders and the remainder will flow to the City. The pledged TSRs will fund regularly scheduled TSASC debt service and operating expenses. Any pledged TSRs received in excess of those requirements will be used to pay the newly issued TSASC bonds. No TSRs are required to be retained or trapped for the benefit of bondholders beyond the pledged TSRs. Therefore, funds in the trapping account will be released to the City. The Financial Plan reflects that the funds in the trapping account and the unpledged TSRs received in fiscal years 2006 and 2007 will be released to the City in fiscal year 2008. 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 and adjustments provided for under the settlement agreement, may significantly affect the receipt of TSRs by TSASC and the City.

5. UNRESTRICTED INTERGOVERNMENTAL AID

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)				
State Revenue Sharing.....	\$327	\$327	\$327	\$327	\$327
Other Aid.....	163	13	13	13	13
Total	<u>\$490</u>	<u>\$340</u>	<u>\$340</u>	<u>\$340</u>	<u>\$340</u>

The Other Aid category primarily consists of approximately \$142 million in fiscal year 2006 from aid associated with the State takeover of long-term care Medicaid costs and \$20 million in prior year claims settlements in fiscal year 2006 and \$13 million annually in fiscal years 2007 through 2010.

The receipt of State Revenue Sharing funds could be affected by potential prior claims asserted by the State. For information concerning projected State budget gaps and the possible impact on State aid to the City, see “SECTION I: RECENT FINANCIAL DEVELOPMENTS—The State.”

6. FEDERAL AND STATE CATEGORICAL GRANTS

The following table sets forth amounts of federal and State categorical grants projected to be received by the City in the Financial Plan.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)				
Federal					
Community Development.....	\$ 281	\$ 245	\$ 245	\$ 245	\$ 245
Welfare.....	2,244	2,110	2,109	2,110	2,110
Education	1,848	1,753	1,753	1,753	1,753
Other	1,235	803	793	791	794
Total	<u>\$5,608</u>	<u>\$4,911</u>	<u>\$4,900</u>	<u>\$4,899</u>	<u>\$ 4,902</u>
State					
Welfare.....	\$1,858	\$1,931	\$1,933	\$1,923	\$ 1,923
Education	6,641	6,942	7,068	7,104	7,144
Higher Education.....	188	188	188	188	188
Health and Mental Hygiene.....	445	415	415	414	409
Other	427	346	333	336	337
Total	<u>\$9,559</u>	<u>\$9,822</u>	<u>\$9,937</u>	<u>\$9,965</u>	<u>\$10,001</u>

The Financial Plan assumes that all existing federal and State categorical grant programs will continue, unless specific legislation provides for their termination or adjustment, and assumes increases in aid where increased costs are projected for existing grant programs. For information concerning projected State budget gaps and the possible impact on State aid to the City, see “INTRODUCTORY STATEMENT” and “SECTION I: RECENT FINANCIAL DEVELOPMENTS—The State.” As of December 31, 2005, approximately 15.2% 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 \$87 million in the 2005 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, 2005, the City had an accumulated reserve of \$363 million for all disallowances of categorical aid.

Expenditure Assumptions

1. PERSONAL SERVICES COSTS

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)				
Wages and Salaries	\$18,470	\$18,359	\$18,313	\$18,274	\$18,244
Pensions	4,017	4,886	5,610	5,846	5,712
Other Fringe Benefits	6,655	6,928	6,270	6,592	6,854
Reserve for Collective Bargaining					
Department of Education	24	24	24	24	24
Other	<u>310</u>	<u>572</u>	<u>829</u>	<u>1,010</u>	<u>1,254</u>
Reserve Subtotal	<u>334</u>	<u>596</u>	<u>853</u>	<u>1,034</u>	<u>1,278</u>
Total	<u>\$29,476</u>	<u>\$30,769</u>	<u>\$31,046</u>	<u>\$31,746</u>	<u>\$32,088</u>

The Financial Plan projects that the authorized number of City-funded full-time and full-time equivalent employees whose salaries are paid directly from City funds, as opposed to federal or State funds or water and sewer funds, will increase from an estimated level of 256,405 on June 30, 2006 to an estimated level of 257,185 by June 30, 2010.

The Financial Plan reflects the costs of all labor contract settlements in the 2002-2005 round of bargaining which cover the vast majority of City employees.

Other Fringe Benefits includes \$1.2 billion, \$1.4 billion, \$1.5 billion, \$1.7 billion and \$1.8 billion in fiscal years 2006 through 2010, respectively, for OPEB expenditures for current retirees, which costs are currently paid by the City on a pay-as-you-go basis. Beginning in fiscal year 2008, the City will be required to report the full amount of OPEB liability in its financial statements. The City Actuary and consultants have begun working on the analysis necessary to determine the actuarial valuation of the City's liability. Though there is no requirement to fund such liability, Other Fringe Benefits includes \$1 billion in each of fiscal years 2006 and 2007 to be deposited in a trust to fund a portion of the future cost of OPEB for current and future retirees. For information on the OPEB reporting requirement, see "SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—Financial Reporting and Control Systems."

The Reserve for Collective Bargaining contains funds for the cost of collective bargaining increases for the 2002-2005 round of bargaining for collective bargaining units not yet settled, consistent with the settled contract patterns. In addition, the Reserve for Collective Bargaining contains funds for providing all employees who do not have a four-year settlement in place, a 3.15% wage increase in a fourth contract year under the 2002-2005 round of collective bargaining and a 1.25% wage increase in each year thereafter.

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

2. OTHER THAN PERSONAL SERVICES COSTS

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)				
Administrative OTPS.....	\$11,931	\$11,662	\$11,706	\$11,809	\$11,924
Public Assistance	2,446	2,441	2,445	2,445	2,445
Medical Assistance	4,463	4,950	5,097	5,236	5,413
HHC Support	306	259	244	238	214
Pay-As-You-Go Capital/Prepay Outstanding					
Debt	200	200	200	200	200
Other.....	<u>2,359</u>	<u>2,155</u>	<u>2,232</u>	<u>2,310</u>	<u>2,405</u>
Total	<u>\$21,705</u>	<u>\$21,667</u>	<u>\$21,924</u>	<u>\$22,238</u>	<u>\$22,601</u>

Administrative OTPS and Energy

The Financial Plan contains estimates of the City's administrative OTPS expenditures for general supplies and materials, equipment and selected contractual services and estimates of energy costs in the 2006 fiscal year. Thereafter, to account for inflation, OTPS expenditures are projected to rise by approximately 2.5% in fiscal years 2007 through 2010, respectively. Energy costs for each of the 2006 through 2010 fiscal years are assumed to vary annually, with total energy expenditures projected at \$840 million in fiscal year 2006 and decreasing to \$815 million by fiscal year 2010.

Public Assistance

The average number of persons receiving income benefits under public assistance programs 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 2010.

Medical Assistance

Medical assistance payments projected in the Financial Plan consist of payments to voluntary hospitals, skilled nursing facilities, intermediate care facilities, home care and physicians and other medical practitioners. The City-funded portion of medical assistance payments is estimated at \$3.599

billion for the 2006 fiscal year and is expected to increase to \$4.443 billion in fiscal year 2010. 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 the non-federal share of long-term care costs which have been assumed by the State. The Financial Plan projects lowered expense of \$450 million in fiscal year 2006 due to a change in accrual methods for City Medicaid payments.

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 approximately \$1 billion annually for the 2006 through 2010 fiscal years. In the 2006 fiscal year, in addition to the City subsidy, City-funded expenditures include \$52.6 million for the care of prisoners and uniformed personnel, \$106 million for HHC debt service and \$704 million for the City's share of HHC Medicaid payments. These amounts do not include the expected expenditure by the City in the 2006 fiscal year of approximately \$575 million for the State and local share of additional Medicaid payments expected to be received by HHC. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

HHC is projected to achieve balanced budgets in fiscal years 2006 through 2010 on an accrual basis. Total receipts before implementation of the HHC gap-closing program are projected to be \$4.6 billion in fiscal year 2006 increasing to \$4.9 billion in fiscal year 2010. Total disbursements before implementation of the HHC gap-closing program are projected to be \$5.1 billion, in fiscal year 2006 increasing to \$5.7 billion in fiscal year 2010. These projections assume: (i) increases in other than personal services costs and fringe benefits in fiscal years 2006 through 2010 and (ii) growth in Medicaid revenue between fiscal years 2006 and 2010. 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. These projections do not include the expected receipt by HHC of approximately \$1.15 billion additional Medicaid payments for eligible Medicaid costs. See "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

Other

The projections set forth in the Financial Plan for OTPS-Other include the City's contributions to NYCT, the Housing Authority, CUNY and subsidies to libraries and various cultural institutions. They also include projections for the cost of future judgments and claims which are discussed below under "Judgments and Claims." In the past, the City has provided additional assistance to certain Covered Organizations which had exhausted their financial resources prior to the end of the fiscal year. No assurance can be given that similar additional assistance will not be required in the future.

New York City Transit

In January 2006, the City prepared a financial plan for NYCT covering its 2006 through 2009 fiscal years. NYCT's fiscal year coincides with the calendar year. For 2006, the NYCT financial plan projects \$6 billion in revenues and \$7.4 billion in expenses, leaving a budget gap of \$1.5 billion. This gap will be offset by a \$1.1 billion depreciation adjustment, approximately \$101.7 million in anticipated cash flow adjustments including reserve funds and additional receipts, \$18.3 million in an MTA gap-closing program, and funds made available from a \$759 million cash basis surplus in 2005 leaving a net surplus of \$506.1 million in 2006. NYCT's cash basis budget will be balanced for 2006. City assistance in 2006 to NYCT's operating budget is \$257.1 million, in addition to \$327.5 million in real estate tax revenue dedicated for NYCT's use.

The NYCT financial plan forecasts operating budget gaps of \$16.4 million, \$746.9 million, and \$1.9 billion in 2007 through 2009, 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 2007 through 2009 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 \$497 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 the Hudson Yards Infrastructure Corporation (“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. A new Amended 2005-2009 Capital Program was approved by the MTA Board on January 25, 2006. This new Amended 2005-2009 Capital Program reflects minor program changes and no change in funding levels. It was approved by the CPRB on March 14, 2006.

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, in the Campaign for Fiscal Equity (“CFE”) litigation, 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 the State, by July 30, 2004, to determine the actual cost of providing a sound basic education in the City and enact appropriate reforms. The State did not implement a compliance plan by the deadline. The State Supreme Court appointed a three member panel to report on the measures taken by the State to bring the State’s funding mechanism into Constitutional compliance. The panel’s report recommended 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. On February 14, 2005, the State Supreme Court confirmed the panel’s report. On March 23, 2006, the First Department, Appellate Division, while vacating confirmation of the panel’s report, ordered the State to increase annual operating funding for the City’s schools by between \$4.7 billion and \$5.63 billion, phased in over four years. Additionally, the court ordered the State to implement a capital improvement plan that expends \$9.179 billion over the next five years or otherwise satisfies the City schools’ capital needs. The court left unanswered the question of how the remedy would be funded and whether the City would be required to contribute any additional funds. The City maintains that the State is responsible for providing all required incremental education funding but the Governor has proposed that the City cover a substantial portion of such funding. The ultimate cost to the City is uncertain.

For information on the five-year educational facilities capital plan funding proposals by the State Legislature, see “SECTION I: RECENT FINANCIAL DEVELOPMENTS.”

Judgments and Claims

In the fiscal year ended on June 30, 2005, the City expended \$590.3 million for judgments and claims, \$147.2 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of \$600.7 million, \$646.5 million, \$689.8 million, \$742.7 million and \$793.2 million for the 2006 through 2010 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 \$189.9 million for each of fiscal years 2006 through 2010. 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, 2005 amounted to approximately \$4.8 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, 2005 include an estimate that the City’s liability in the *certiorari* proceedings, as of June 30, 2005, could amount to approximately \$622 million. Provision has been made in the Financial Plan for estimated refunds of \$227 million, \$215 million, \$210 million, \$205 million and \$210 million for the 2006 through 2010 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 2006 through 2010 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 but do not reflect receipts pursuant to such 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 March 6, 2006, the City Comptroller released a report on the Financial Plan. The report notes that the housing market and the overall economy are slowing, that financial markets face uncertainty due to rising interest rates and high debt levels and that additional extraordinary savings of the magnitude of this year’s lower pension costs and the benefits from the State Medicaid cap are unlikely, suggesting that much of the good fortune experienced by the City in recent years is unlikely to continue. The report also states that efforts by the State and Federal governments to contain Medicaid costs are expected to have negative impacts on the already weakening financial condition of HHC, and that the City may find that its subsidy to HHC, which is in the \$150 million range throughout fiscal years 2007 through 2010, will need to increase. The report observes that pension costs appear to be near the end of a cyclical increase and are expected to remain at a level comparable to that reached in the mid-1980s, when considered as a

percentage of general fund revenues, and that health insurance costs, which consumed more than 5 percent of total revenues in fiscal year 2005, are expected to consume more than 7 percent of total revenues in fiscal year 2010.

In his report, the City Comptroller identified net risks and possible resources for fiscal years 2006 through 2010 which, when added to the projected results in the Financial Plan, would result in a surplus of \$60 million in fiscal year 2006 (after providing for the prepayment of \$3.3 billion of fiscal year 2007 expenses with fiscal year 2006 resources), a surplus of \$130 million in fiscal year 2007 and gaps of \$3.1 billion, \$3.4 billion and \$2.6 billion in fiscal years 2008 through 2010, respectively. The risks and possible resources set forth as adjustments to the Financial Plan in the City Comptroller's report include: (i) the possibility that tax revenues could be greater than projected in the Financial Plan by \$70 million, \$275 million, \$410 million, \$135 million and \$195 million in fiscal years 2006 through 2010, respectively, which result from combining higher property tax collections of \$30 million, \$105 million, \$150 million, \$305 million and \$535 million in fiscal years 2006 through 2010, respectively, personal income tax revenue increases of \$110 million in each of fiscal years 2007 and 2008 and decreases of \$200 million in each of fiscal years 2009 and 2010, business tax revenue increases of \$40 million, \$20 million and \$90 million in fiscal years 2006 through 2008, respectively, and decreases of \$50 million and \$130 million in fiscal years 2009 and 2010, respectively, a sales tax revenue decrease of \$75 million in fiscal year 2010 and real-estate-related tax revenue increases of \$40 million, \$60 million, \$80 million and \$65 million in fiscal years 2007 through 2010, respectively; (ii) increased overtime expenditures of \$145 million in fiscal year 2007 and \$75 million in each of fiscal years 2008 through 2010; and (iii) reduced snow removal expenditures of \$10 million in fiscal year 2006.

The report projects that the City's Gross City Product will grow 2.7 percent in calendar year 2006, which is slower than the 3.3 percent pace in 2005 but higher than the OMB calendar year forecast of 2.4 percent. The report forecasts a rebound to 3.1 percent growth in calendar year 2007, while OMB forecasts a 0.9 percent contraction in that period, and forecasts job growth in the City of 28,000 jobs in 2006 and 35,800 in 2007, compared to the 35,200 jobs in 2006 and 26,000 in 2007 forecast by OMB.

On February 23, 2006, the staff of OSDC issued a report on the Financial Plan. The report found that the City has a \$4.5 billion surplus in fiscal year 2006, of which \$1.2 billion would be set aside to pay for future costs. The report also identified additional net benefits of approximately \$486 million, \$251 million, \$210 million, \$110 million and \$110 million for fiscal years 2006 through 2010, respectively, which, when added to the results projected in the Financial Plan, would produce an additional surplus of \$737 million in fiscal year 2007 and, after an assumed transfer to fiscal year 2008 of that additional surplus, result in gaps of \$2.5 billion, \$3.4 billion and \$2.6 billion in fiscal years 2008 through 2010, respectively.

The risks to the Financial Plan identified in the report include: (i) failure to receive \$100 million in each of fiscal years 2007 through 2010 of the additional State education aid assumed to help fund the recent teachers labor agreement; (ii) increased spending for uniformed agency overtime of \$15 million in fiscal year 2006, \$50 million in fiscal year 2007 and \$40 million in each of fiscal years 2008 through 2010; and (iii) failure to receive state and federal aid in the amount of \$250 million in fiscal 2007 and \$150 million in each of fiscal years 2008 through 2010. The report noted that such risks could be offset by possible additional resources, including: (i) increased tax revenues in the amount of \$400 million, \$600 million, \$500 million, \$400 million and \$400 million for fiscal years 2006 through 2010, respectively; (ii) debt service savings of \$51 million in each of fiscal years 2006 and 2007; and (iii) savings from delays in hiring of \$50 million in fiscal year 2006.

In addition to the benefits and risks identified in the report, the report identified other issues which could have a significant impact on the City. With respect to City funding for education, the report noted that if the Court of Appeals upholds the 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 \$560 million in fiscal year 2007, \$1.1 billion in fiscal year 2008, \$1.6 billion in fiscal year 2009 and \$2.2 billion in fiscal year 2010. The report noted that wage increases for the next round of collective bargaining at the projected inflation rate would increase costs by \$100 million, \$350 million, \$650 million and \$950 million in fiscal years 2007 through 2010, respectively. The report noted that certain City-related public authorities face financial

challenges that could draw on City resources. In addition, the report noted that the City's debt service burden is projected to rise to 15.1 percent of City fund revenues in fiscal year 2009, which would be the highest level in the past fifteen years. Finally, the report noted that, while the outlook is generally favorable, a number of factors still pose serious risks to the City's economic forecast. The greatest risk, the report notes, is of a more significant slowdown in consumer spending. In addition, the report highlights such factors as higher interest rates, a softening residential real estate market, increased energy prices, and a negative savings rate.

The report notes that the City has undertaken several actions to provide future benefits, including the deferral of tobacco revenues and the use of "pay-as-you-go" capital financing. In response to new accounting rules, the City and other governmental entities will be required to calculate and report their obligations to current and future retirees for benefits other than pensions. The report states that preliminary estimates put the value of the City's liability in excess of \$50 billion, which could require an annual contribution of about \$4 billion if funded on an actuarial basis. The City currently funds this liability on a "pay-as-you-go" basis, with a cost of \$1 billion in fiscal year 2006. While governments are not required to fund these long-term liabilities, the City intends to create a health insurance trust fund for the benefit of current and future retirees. The report notes that although the details of the trust have yet to be worked out, the City intends to contribute \$1 billion to the trust this year and another \$1 billion next year, and that the City would also transfer to the trust an amount equal to the projected cost on a pay-as-you-go basis. According to the report, City officials believe they could draw on these resources in the future by foregoing the pay-as-you-go contribution to the trust, which will free up resources for other needs, effectively allowing it to act as a rainy-day fund in the event of unforeseen contingencies.

On March 13, 2006, the staff of the Control Board issued a report on the Financial Plan. The report quantified certain risks and possible resources. The report identified possible net resources of \$484 million for fiscal year 2006 and net risks of \$167 million, \$176 million, \$179 million and \$180 million in fiscal years 2007 through 2010, respectively, which, when combined with the results projected in the Financial Plan, result in an estimated surplus of \$484 million in fiscal year 2006 (after providing for the prepayment of \$3.3 billion of fiscal year 2007 expenses with fiscal year 2006 resources), and estimated gaps of \$167 million, \$3.6 billion, \$3.7 billion and \$2.9 billion in fiscal years 2007 through 2010, respectively. The risks identified are: (i) increased uniformed services overtime expenses of \$117 million, \$176 million, \$179 million and \$180 million in fiscal years 2007 through 2010, respectively; (ii) lower revenue from federal actions in fiscal year 2007 of \$100 million; and (iii) lower revenue from State actions of \$250 million in each of fiscal years 2007 through 2010. The possible additional resources identified result from (i) decreased uniformed services overtime of \$34 million in fiscal year 2006; (ii) increased real property revenues of \$100 million in each of fiscal years 2007 through 2010; (iii) increased non-property tax revenues of \$400 million in fiscal year 2006 and \$100 million in fiscal year 2007; and (iv) increased miscellaneous revenues of \$50 million in fiscal year 2006, \$100 million in fiscal year 2007 and \$150 million in each of fiscal years 2008 through 2010. In addition to the risks quantified in the report, the report noted that debt service is projected to grow by 46 percent between fiscal years 2006 and 2010, and states that if the economy were to falter in the outyears of the plan, the debt burden could reach unmanageable levels.

On March 27, 2006, the IBO released a report reviewing the Financial Plan. In this report, the IBO estimates the City's fiscal year 2006 surplus will be \$3.1 billion, and expects budget gaps of \$445 million, \$2.5 billion, \$2.4 billion and \$1.7 billion in fiscal years 2007 through 2010, respectively. These results would be less favorable than the Financial Plan by \$137 million and \$445 million in fiscal years 2006 and 2007, respectively, and more favorable by \$1.0 billion, \$1.1 billion and \$1.0 billion in fiscal years 2008 through 2010, respectively. The IBO's lower budget gap projections result in part from the IBO's higher forecast of property tax revenues, which exceed the Financial Plan projections by \$313 million, \$693 million, \$923 million and \$1.2 billion in fiscal years 2007 through 2010, respectively.

Long-Term Capital Program

The City makes substantial capital expenditures to reconstruct and rehabilitate the City's infrastructure and physical assets, including City mass transit facilities, water and sewer facilities, streets, bridges and tunnels, and to make capital investments that will improve productivity in City operations.

The City utilizes a three-tiered capital planning process consisting of the Ten-Year Capital Strategy, the Four-Year Capital Plan and the current-year Capital Budget. The Ten-Year Capital Strategy is a long-term planning tool designed to reflect fundamental allocation choices and basic policy objectives. The Four-Year Capital Plan translates mid-range policy goals into specific projects. The Capital Budget defines specific projects and the timing of their initiation, design, construction and completion.

City-funded commitments, which were \$344 million in fiscal year 1979, are projected to reach \$7.1 billion in fiscal year 2006. City-funded expenditures are forecast at \$6.1 billion in fiscal year 2006; total expenditures are forecast at \$6.6 billion in fiscal year 2006. 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 2006 through 2010 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.*"

2006-2010 CAPITAL COMMITMENT PLAN

	2006		2007		2008		2009		2010		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)	\$ 92	\$ 256	\$ 78	\$ 100	\$ 81	\$ 81	\$ 85	\$ 85	\$ 74	\$ 74	\$ 409	\$ 595
Roadway, Bridges.	701	756	1,238	1,535	796	981	713	965	490	595	3,939	4,831
Environmental Protection(2)	2,374	2,588	2,682	2,710	1,649	1,677	931	959	1,565	1,590	9,200	9,523
Education	1,371	1,371	925	3,113	1,010	3,197	1,210	3,397	1,097	1,097	5,613	12,176
Housing	443	615	329	455	361	475	343	444	360	360	1,836	2,349
Sanitation	169	172	603	603	359	359	108	108	290	290	1,527	1,532
City Operations/Facilities	5,234	5,547	3,095	3,251	1,678	1,747	1,213	1,249	565	595	11,785	12,389
Economic and Port Development	538	718	867	867	272	272	91	91	26	26	1,793	1,973
Reserve for Unattained Commitments	<u>(3,823)</u>	<u>(3,823)</u>	<u>(950)</u>	<u>(950)</u>	<u>931</u>	<u>931</u>	<u>855</u>	<u>855</u>	<u>378</u>	<u>378</u>	<u>(2,609)</u>	<u>(2,609)</u>
Total Commitments(3)	<u>\$ 7,101</u>	<u>\$ 8,200</u>	<u>\$ 8,865</u>	<u>\$ 11,683</u>	<u>\$ 7,135</u>	<u>\$ 9,720</u>	<u>\$ 5,548</u>	<u>\$ 8,151</u>	<u>\$ 4,845</u>	<u>\$ 5,004</u>	<u>\$ 33,494</u>	<u>\$ 42,759</u>
Total Expenditures(4)	<u>\$ 6,101</u>	<u>\$ 6,645</u>	<u>\$ 6,641</u>	<u>\$ 7,444</u>	<u>\$ 7,025</u>	<u>\$ 8,441</u>	<u>\$ 6,756</u>	<u>\$ 8,690</u>	<u>\$ 5,991</u>	<u>\$ 7,846</u>	<u>\$ 32,514</u>	<u>\$ 39,066</u>

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 October 2005, 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 \$4.91 billion in capital investment would be needed for fiscal years 2007 through 2010 to bring the assets to a state of good repair. The report also estimated that \$297 million, \$147 million, \$189 million and \$153 million should be spent on maintenance in fiscal years 2007 through 2010, 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 2010 fiscal years to implement the Four-Year Capital Program. See “SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities.”

2006-2010 FINANCING PROGRAM

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
	(In Millions)					
City General Obligation Bonds	\$4,460	\$4,740	\$5,200	\$4,910	\$4,500	\$23,810
Water Authority (1)	<u>1,910</u>	<u>1,742</u>	<u>1,699</u>	<u>1,705</u>	<u>1,532</u>	<u>8,588</u>
Total	<u>\$6,370</u>	<u>\$6,482</u>	<u>\$6,899</u>	<u>\$6,615</u>	<u>\$6,032</u>	<u>\$32,398</u>

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 \$785 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 2006 through 2010 reflects total anticipated City-funded water and sewer commitments of \$9.2 billion which are expected to be financed with the proceeds of Water Authority debt.

The budget bills passed by the State Legislature for the State fiscal year beginning April 1, 2006 include bills to provide funding for the City’s five-year educational facilities capital plan which include a bill to increase the TFA statutory bonding cap by \$9.4 billion for such purpose. The additional TFA bonds would be secured by and payable from certain State aid to education which the Mayor will be authorized to assign to the TFA. For additional information, see “SECTION I: RECENT FINANCIAL DEVELOPMENTS.”

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 major portion of the City's capital plan which is currently eligible for tax-exempt financing. 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, see "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A.14." As of December 31, 2005, the total marked-to-market value of the City's interest rate exchange agreements was (\$68,307,186).

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 December 31, 2005, the marked-to-market value of these agreements was \$3,573,423.

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. Current cash-flow projections do not anticipate the need for the City to issue such obligations in the current fiscal year. The City regularly reviews its cash position and the need for short-term borrowing.

SECTION VIII: INDEBTEDNESS

Indebtedness of the City and Certain Other Entities

Outstanding City and PBC Indebtedness

The following table sets forth outstanding City and PBC indebtedness as of December 31, 2005. “City indebtedness” refers to general obligation debt of the City, excluding City bonds held by MAC, net of reserves. “PBC indebtedness” refers to obligations of the City, net of reserves, to the following public benefit corporations (“PBCs”): the Housing Authority, the New York City Educational Construction Fund (“ECF”), New York State Housing Finance Agency (“HFA”), DASNY, CUCF, and the New York State Urban Development Corporation (“UDC”). PBC indebtedness is not debt of the City. However, the City has entered into agreements to make payments, subject to appropriation, to PBCs to be used for debt service on certain obligations constituting PBC indebtedness. Neither City indebtedness nor PBC indebtedness includes outstanding debt of the TFA, TSASC, Fiscal Year 2005 Securitization Corp., STAR Corp., or MAC, which are not obligations of, and are not paid by, the City.

(In Thousands)		
Gross City Long-Term Indebtedness(1)	\$34,250,427	
Less: Assets Held for Debt Service(2)	<u>(41,554)</u>	
Net City Long-Term Indebtedness		\$34,208,873
PBC Indebtedness		
Bonds Payable	389,765	
Capital Lease Obligations	<u>1,640,978</u>	
Gross PBC Indebtedness	2,030,743	
Less: Assets Held for Debt Service	<u>(232,056)</u>	
Net PBC Indebtedness		<u>1,798,687</u>
Combined Net City and PBC Indebtedness		<u><u>\$36,007,560</u></u>

(1) Reflects capital appreciation bonds at accreted values as of June 30, 2005

(2) Assets Held for Debt Service consists of General Debt Service Fund assets and \$25.884 million principal amount of City bonds held by MAC.

Trend in Outstanding Net City and PBC Indebtedness

The following table shows the trend in the outstanding City and PBC indebtedness as of June 30 of each of the fiscal years 1995 through 2005 and at December 31, 2005.

	<u>City Indebtedness</u>		<u>PBC</u>	<u>Total</u>
	<u>Long-Term</u>	<u>Short-Term</u>	<u>Indebtedness</u>	
	(In Millions)			
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
2005	33,688	—	1,941	35,629
December 31, 2005	34,209	—	1,799	36,008

Rapidity of Principal Retirement

The following table details, as of December 31, 2005, the cumulative percentage of total City indebtedness that is scheduled to be retired in accordance with its terms in each prospective five-year period.

<u>Period</u>	<u>Cumulative Percentage of Debt Scheduled for Retirement</u>
5 years	21.21%
10 years	46.04
15 years	68.31
20 years	86.52
25 years	95.89
30 years	99.85

City and PBC Debt Service Requirements

The following table summarizes future debt service requirements, as of December 31, 2005, on City and PBC indebtedness.

<u>Fiscal Years</u>	<u>City Long-Term Indebtedness</u>		<u>PBC Indebtedness</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
	(In Thousands)			
2006	\$ 15,670	\$ 707,134	\$ 75,415	\$ 798,219
2007	1,631,359	1,450,435	84,664	3,166,458
2008	1,749,785	1,390,423	88,980	3,229,188
2009	1,771,595	1,327,805	59,031	3,158,431
2011 through 2147	29,040,464	11,578,818	1,490,597	42,109,879
Total	<u>\$34,208,873</u>	<u>\$16,454,615</u>	<u>\$1,798,687</u>	<u>\$52,462,175</u>

Certain Debt Ratios

The following table sets forth the approximate ratio of City long-term indebtedness to taxable property value as of June 30 of each of the fiscal years 1996 through 2005.

<u>Fiscal Year</u>	<u>City Long-Term Indebtedness (In Millions)</u>	<u>Percentage of Actual Taxable Value of Property(1)</u>	<u>Per Capita</u>
1996	\$26,627	34.39%	\$3,459
1997	27,549	35.54	3,544
1998	27,310	34.67	3,475
1999	27,834	33.88	3,502
2000	27,245	31.73	3,398
2001	27,147	29.97	3,365
2002	28,465	29.20	3,518
2003	29,679	28.90	3,660
2004	31,378	29.38	3,872
2005	33,903	30.73	4,183

Source: CAFR for the fiscal year ended June 30, 2005.

(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.

Indebtedness of the City and Related Issuers

The following table sets forth obligations of the City and other issuers as of June 30 of each of the fiscal years 1996 through 2005. General obligation bonds are debt of the City. Although IDA Stock Exchange bonds and PBC indebtedness are not debt of the City, the City has entered into agreements to make payments, subject to appropriation, to the respective issuers to be used for debt service on the indebtedness included in the following table. ECF bonds are expected to be paid from revenues of ECF, provided, however, that if such revenues are insufficient, the City has agreed to make payments, subject

to appropriation, to ECF for debt service on its bonds. Indebtedness of the TFA, TSASC, STAR Corp. and MAC does not constitute debt of, and is not paid by, the City.

Fiscal Year	General Obligation Bonds(1)	ECF	MAC	TFA (In Millions)	TSASC	STAR	SFC(2)	PBC Indebtedness and Other(3)	IDA Stock Exchange
1996	\$26,627	\$126	\$4,724	\$ —	\$ —	\$ —	\$200	\$1,068	\$ —
1997	27,549	165	4,424	—	—	—	200	1,099	—
1998	27,310	188	4,066	2,150	—	—	200	1,141	—
1999	27,834	150	3,832	4,150	—	—	160	1,525	—
2000	27,245	142	3,532	5,923	709	—	120	1,803	—
2001	27,147	134	3,217	7,386	704	—	80	1,805	—
2002	28,465	125	2,880	8,289	740	—	40	2,298	—
2003	29,679	117	2,151	12,024	1,258	—	—	2,211	—
2004	31,378	107	1,758	13,364	1,256	—	—	2,346	108
2005	33,903	135	—	12,977	1,283	2,552	—	3,044	106

Source: CAFR for the fiscal year ended June 30, 2005.

- (1) General Obligation Bonds include general obligation bonds held by MAC, the debt service on which was used by MAC to pay debt service on its bonds. Such general obligation “mirror” bonds totaled \$1.122 billion, \$391 million, \$365 million, \$299 million, \$230 million, \$168 million, \$116 million, \$64 million, \$52 million and \$39 million in fiscal years 1996 through 2005, respectively.
- (2) The City issued general obligation bonds to the New York City Samurai Funding Corp. (“SFC”) in order to provide funds to SFC for the payment of its bonds. Such general obligation bonds are reflected under SFC in the table.
- (3) PBC Indebtedness and Other includes PBC indebtedness (excluding ECF) and includes capital leases of the City.

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, accounts have been established by the State Comptroller within the Fund to pay the principal of outstanding City TANs and RANs. For the expiration date of the Financial Emergency Act, see “SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Emergency Act*”.

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 February 28, 2006.

(In Thousands)		
Total City Debt-Incurring Power under General Debt Limit		\$47,050,986
Gross Debt-Funded	\$34,089,474	
Less: Excluded Debt	(438,679)	
	33,650,794	
Less: Appropriations for Payment of Principal	(161,970)	
	33,488,824	
Contracts and Other Liabilities, Net of Prior Financings Thereof.	6,540,315	
Total Indebtedness		40,029,140
City Debt-Incurring Power(1)		\$ 7,021,846

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 February 28, 2006, would have been exceeded by \$5.5 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 pursuant to the Financial Emergency Act, has the legal capacity to file a petition under the Federal Bankruptcy Code. For the expiration date of the Financial Emergency Act, see “SECTION III: GOVERNMENT AND FINANCIAL CONTROLS—City Financial Management, Budgeting and Controls—*Financial Emergency Act*.”

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.

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.

Certain PBCs are further described below.

New York City Educational Construction Fund

As of December 31, 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 December 31, 2005, \$95.7 million principal amount of HFA refunding bonds relating to hospital and family care facilities leased to the City was outstanding. HFA does not receive third party revenues to offset the City’s capital lease obligations with respect to these bonds. Lease payments, which are made by the City seven months in advance of payment dates of the bonds, are intended to cover development and construction costs, including debt service, of each facility plus a share of HFA’s overhead and administrative expenses.

Dormitory Authority of the State of New York

As of December 31, 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 December 31, 2005, approximately \$543.6 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 December 31, 2005, \$39.92 million principal amount of 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, 2005 consisted of approximately 350,000 active 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 275,000 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 2005, 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, 2004, plus the other pension expenditures were approximately \$3.370 billion. Expense projections for fiscal years 2006 through 2010 are estimated at \$4.017 billion, \$4.886 billion, \$5.610 billion, \$5.846 billion and \$5.712 billion, respectively. These projections 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. 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 and 2005. 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 using six-year averaging periods under the proposed funding assumptions.

The Financial Plan reflects some changes in the actuarial assumptions and funding methodologies, which have been approved by the boards of trustees of the five major actuarial pension systems and which are expected to be approved by the State legislature. Such changes are projected to result in reduced employer contributions in fiscal years 2006 and 2007 but increased employer contributions thereafter.

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 2005 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 26% 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 GASB Statement No. 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 \$579.1 million and approximately \$227.2 million, respectively, were recorded as of June 30, 2005.

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, the BOE System for June 30, 1999 to 2002 and the Police Fund for June 30, 1999 to 2005) the amounts shown include zero for these retirement systems.

<u>June 30</u>	Unfunded Pension Liability Amount(1) (In Billions)
1995	\$4.03
1996	4.29
1997	4.28
1998	4.64
199915
200017
200121
200219
200333
200427
200521

(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, 2005 amounted to approximately \$4.8 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 \$622 million at June 30, 2005. 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 United Federation of Teachers, 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. On January 26, 2006, the Supreme Court held that the System and its individual trustees had not breached their fiduciary duty in establishing and operating the Variable B Fund as a stable value fund. If the plaintiff were to appeal and ultimately prevail in this action, it could result in substantial costs to the City.

3. Numerous proceedings alleging respiratory or other injuries from alleged 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 and other entities involved in the post-September 11 rescue and recovery process.. Plaintiffs include Department of Sanitation employees, firefighters, police officers, construction workers and building clean-up workers. Currently, 400 of the proceedings are confirmed actions against the City seeking approximately \$500 million in damages. Several summonses with notice filed on behalf of a total of approximately 5,000 plaintiffs and alleging similar causes of action have also been filed naming the City and dozens of other defendants. The amount of damages has not yet been alleged. However, only approximately 150 of these plaintiffs have served complaints on the City. Complaints so served are included in the 400 actions described above. 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. Oral argument is expected to be held on April 6,

2006 on a motion to confirm jurisdiction in the action brought on behalf of building clean-up workers. 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 of \$214 million, subject to clarification, 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. The City’s motion for summary judgment was granted in January 2006. The action, however, is proceeding against other defendants, and plaintiff intends to appeal the dismissal of its claim against the City when discovery is complete or at the conclusion of the case.

4. One hundred ninety-one notices of claim were filed and of these, 177 actions have been commenced in Federal court 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 for the 1993-2001 period submitted to the New York State Medicaid program by the New York City Department of Education (then known as the Board of Education) (the “Department of Education”) with respect to speech services for students with disabilities. 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 Department of Health has formally submitted a response to the Centers for Medicare and Medicaid Services raising objections, based in law and policy, to the audit findings and requesting that the Centers for Medicare and Medicaid Services take no action to disallow Medicaid funding on the basis of the audit report of the Office of the Inspector General of HHS. In addition, on September 15, 2005, the Office of the Inspector General of HHS issued its audit report on claims submitted to the New York State Medicaid program by the Department of Education with respect to transportation services for students with disabilities for the period 1993 through 2001. The audit states that none of the claims in the statistical sample of 120 claims complied with laws and regulations generally relating to documentation of services; it concludes that approximately \$96 million in claims improperly billed to HHS should be refunded, and that the State should work with the Centers for Medicare and Medicaid Services to resolve approximately \$12 million in additional claims. The State Department of Health and the City have formally submitted responses to the transportation audit to the Centers for Medicare and Medicaid Services; the responses

take the position that the audit was flawed and unlawfully conducted and, as in the case of the speech audit, request that the Centers for Medicare and Medicaid Services take no further action with respect to the audit.

6. In 2002, more than thirteen thousand police officers opted into *Scott v. City of New York*, a collective action brought in the United States District Court for the Southern District of New York, pursuant to the Fair Labor Standards Act (the “FLSA”). The police officers allege that the New York City Police Department has violated the overtime provisions of the FLSA in a number of ways. Under the FLSA, successful plaintiffs would be entitled to double damages for a period going back three years from the filing of the case in 2002, and attorneys’ fees. An adverse determination in this case could result in substantial costs to the City.

Tax Exemption

In the opinion of Sidley Austin LLP, New York, New York, as Bond Counsel, except as provided in the following sentence, interest on the Tax-Exempt Bonds will not be includable in the gross income of the owners of the Tax-Exempt Bonds for purposes of federal income taxation under existing law. Interest on the Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Tax-Exempt Bonds in the event of a failure by the City to comply with applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”) with respect to the Tax-Exempt Bonds or 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 LLP as to the exclusion from gross income of the interest on the Tax-Exempt Bonds for federal income tax purposes on or after the date on which any action is taken under the proceedings with respect to the Bonds or the Multi-Modal Bonds upon the approval of counsel other than such firm.

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

Interest on the Tax-Exempt Bonds will not be a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which Sidley Austin LLP renders no opinion, as a result of ownership of such Tax-Exempt Bonds or the inclusion in certain computations (including, without limitation, those related to the corporate alternative minimum tax) of interest that is excluded from gross income. Interest on the Tax-Exempt Bonds owned by a corporation will be included in the calculation of the corporation’s federal alternative minimum tax liability.

Ownership of tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or railroad retirement benefits, taxpayers eligible for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Tax-Exempt Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

The excess, if any, of the amount payable at maturity of any maturity of the Tax-Exempt Bonds purchased as part of the initial public offering over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Tax-Exempt Bonds with original issue discount (a “Discount Bond”) will be excluded from gross income for federal, State and City income tax purposes to the same extent as interest on the Tax-Exempt Bonds. In general, the issue price of a maturity of the Tax-Exempt Bonds is the first price at which a substantial amount of Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser’s adjusted basis in a Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Discount Bond for federal income tax purposes. A portion of the

original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

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

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

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

Taxable Bonds

Circular 230 Notice

Any discussion of U.S. federal tax issues set forth in this Official Statement relating to the Taxable Bonds was written in connection with the promotion and marketing of the transactions described in this Official Statement. Such discussion is not intended or written to be legal or tax advice with respect to the Taxable Bonds to any person and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any U. S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

In General

Interest on the Taxable Bonds will be includable in the gross income of the owners thereof for purposes of federal income taxation. See, "Certain U.S. Federal Income Tax Considerations," below.

Under existing law, interest on the Taxable Bonds will be exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

Certain U.S. Federal Income Tax Considerations

The following summary of certain United States federal income tax consequences of the purchase, ownership and disposition of the Taxable Bonds is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including changes in effective dates) or possible differing interpretations. It deals only with Taxable Bonds held as capital assets and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, persons holding Taxable Bonds as a hedge against currency risks or as a position in a “straddle” for tax purposes, or persons whose functional currency is not the U.S. dollar. It also does not deal with holders other than investors who purchase Taxable Bonds in the initial offering at the first price at which a substantial amount of such substantially identical Taxable Bonds are sold to the general public (except where otherwise specifically noted). Persons considering the purchase of the Taxable Bonds should consult their own tax advisors concerning the application of U.S. federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Taxable Bonds arising under the laws of any other taxing jurisdiction.

As used herein, the term “U.S. Holder” means a beneficial owner of a Taxable Bond that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation or partnership (including an entity treated as a corporation or partnership for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia (unless, in the case of a partnership, Treasury regulations are adopted that provide otherwise), (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (v) any other person whose income or gain in respect of a Taxable Bond is effectively connected with the conduct of a United States trade or business. Notwithstanding the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States persons under the Code, and applicable Treasury regulations thereunder prior to such date, that elect to continue to be treated as United States persons under the Code or applicable Treasury regulations thereunder also will be U.S. Holders. Moreover, as used herein, the term “U.S. Holder” includes any holder of a Taxable Bond whose income or gain in respect of its investment in a Taxable Bond is effectively connected with the U.S. trade or business.

Payments of Interest

Payments of interest on a Taxable Bond generally will be taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder’s regular method of tax accounting).

Original Issue Discount

The following summary is a general discussion of the U.S. federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of Taxable Bonds issued with original issue discount (“OID Bonds”), if any. The following summary is based upon final Treasury regulations (the “OID Regulations”) released by the Internal Revenue Service (“IRS”) under the original issue discount provisions of the Code.

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a bond over its issue price, if such excess equals or exceeds a *de minimis* amount (generally 1/4 of 1% of the bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a bond providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such bond). The issue price of each maturity of substantially identical Taxable Bonds equals the first price at which a substantial amount of such maturity of Taxable Bonds has

been sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The stated redemption price at maturity of a Taxable Bond is the sum of all payments provided by the Taxable Bond other than “qualified stated interest” payments. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. Payments of qualified stated interest on a Taxable Bond are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder’s regular method of tax accounting). A U.S. Holder of an OID Bond must include original issue discount in income as ordinary income for U.S. federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder’s regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of an OID Bond is the sum of the daily portions of original issue discount with respect to such OID Bond for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such OID Bond. The “daily portion” of original issue discount on any OID Bond is determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that accrual period. An “accrual period” may be of any length and the accrual periods may vary in length over the term of the OID Bond, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the OID Bond’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The “adjusted issue price” of an OID Bond at the beginning of any accrual period is the sum of the issue price of the OID Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the OID Bond that were not qualified stated interest payments. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder who purchases an OID Bond for an amount that is greater than its adjusted issue price as of the purchase date and less than or equal to the sum of all amounts payable on the OID Bond after the purchase date, other than payments of qualified stated interest, will be considered to have purchased the OID Bond at an “acquisition premium.” Under the acquisition premium rules, the amount of original issue discount which such U.S. Holder must include in its gross income with respect to such OID Bond for any taxable year (or portion thereof in which the U.S. Holder holds the OID Bond) will be reduced (but not below zero) by the portion of the acquisition premium properly allocable to the period.

U.S. Holders may generally, upon election, include in income all interest (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount

If a U.S. Holder purchases a Taxable Bond, other than an OID Bond, for an amount that is less than its issue price (or, in the case of a subsequent purchaser, its stated redemption price at maturity) or, in the case of an OID Bond, for an amount that is less than its adjusted issue price as of the purchase date, such U.S. Holder will be treated as having purchased such Taxable Bond at a “market discount,” unless the amount of such market discount is less than a specified *de minimis* amount.

Under the market discount rules, a U.S. Holder will be required to treat any partial principal payment (or, in the case of an OID Bond, any payment that does not constitute qualified stated interest) on, or any gain realized on the sale, exchange, retirement or other disposition of, a Taxable Bond as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain or (ii) the market discount which has not previously been included in gross income and is treated as having accrued on such Taxable Bonds at the time of such payment or disposition. Market discount will be considered to

accrue ratably during the period from the date of acquisition to the maturity date of the Taxable Bonds, unless the U.S. Holder elects to accrue market discount on the basis of semiannual compounding.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Taxable Bond with market discount until the maturity of such Taxable Bond or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or semiannual compounding basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of the Taxable Bond and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary income for U.S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Premium

If a U.S. Holder purchases a Taxable Bond for an amount that is greater than the sum of all amounts payable on the Taxable Bond after the purchase date, other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased the Taxable Bond with “amortizable bond premium” equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of the Taxable Bond and may offset interest otherwise required to be included in respect of the Taxable Bond during any taxable year by the amortized amount of such excess for the taxable year. However, if the Taxable Bond may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules would apply which could result in a deferral of the amortization of some bond premium until later in the term of the Taxable Bond. Any election to amortize bond premium applies to all taxable debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Disposition of a Taxable Bond

Except as discussed above, upon the sale, exchange or retirement of a Taxable Bond, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest) and such U.S. Holder’s adjusted tax basis in the Taxable Bond. A U.S. Holder’s adjusted tax basis in a Taxable Bond generally will equal such U.S. Holder’s initial investment in the Taxable Bond increased by any original issue discount included in income (and accrued market discount, if any, if the U.S. Holder has included such market discount in income) and decreased by the amount of any payments, other than qualified stated interest payments, received and amortizable bond premium taken with respect to such Taxable Bond. Such gain or loss generally will be long-term capital gain or loss if the Taxable Bond has been held by the U.S. Holder at the time of disposition for more than one year.

Backup Withholding

Backup withholding of U.S. federal income tax may apply to payments made in respect of the Taxable Bonds to registered holders who are not “exempt recipients” and who fail to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Taxable Bonds to a U.S. Holder must be reported to the IRS, unless the U.S. Holder is an exempt recipient or otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner’s U.S. federal income tax provided the required information is furnished to the IRS.

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 an insurance policy to be issued by FSA. 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 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.

Fulbright & Jaworski L.L.P., 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 Tax-Exempt 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 Securities LLC are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Bonds shall be \$2,224,983.74.

The Taxable Bonds will be purchased for reoffering by Goldman, Sachs & Co. The compensation for services rendered in connection with the Taxable Bonds shall be \$18,200.

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 will 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 "2001-2005 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, provisions of federal, State and local laws, including but not limited to the State Constitution, the Financial Emergency 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

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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 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 2003. Since then, Wall Street activity, tourism, and the real estate market have driven a broad based economic recovery. The Financial Plan assumes continued moderate growth in calendar year 2006.

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	30,814	120.0
2003	306.7	37,815	31,500	120.0

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census. Data as of March 2006.
 (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 and 2005, average annual employment in the City increased by 18,600 and 49,000 jobs, respectively. As of February 2006, total employment in the City was approximately 3,597,600 compared to approximately 3,542,100 in February 2005, an increase of approximately 1.6%.

The table below shows the distribution of employment from 1995 to 2005.

EMPLOYMENT DISTRIBUTION

	Average Annual Employment (in thousands)										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Goods Producing Sectors											
Construction	90	91	93	101	112	120	122	116	113	112	113
Manufacturing	208	200	201	196	187	177	156	139	127	121	114
Service Producing Sectors											
Trade Transportation and Utilities	533	533	538	542	556	570	557	536	534	539	545
Information	154	159	163	166	173	187	200	177	164	160	163
Financial Activities	467	464	468	477	481	489	474	445	434	436	446
Professional and Business Services	445	468	494	525	553	587	582	550	537	541	554
Education and Health Services	552	565	576	589	606	620	627	646	658	665	679
Leisure and Hospitality	208	217	228	236	244	257	260	255	260	270	277
Other Services	123	125	129	134	142	147	149	150	149	151	153
Total Private	2,779	2,823	2,890	2,966	3,053	3,154	3,127	3,015	2,975	2,995	3,044
Government	560	546	552	561	567	569	565	569	557	555	555
Total	3,339	3,369	3,442	3,528	3,621	3,723	3,692	3,584	3,532	3,550	3,599

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	<u>3.6</u>	<u>11.2</u>	<u>2.7</u>	<u>13.5</u>
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	<u>4.2</u>	<u>4.2</u>	<u>2.5</u>	<u>3.0</u>
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 February 2006, the total unemployment rate in the City was 5.6% compared to 6.3% in February 2005. 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	2005
New York City	8.7%	8.2%	8.8%	9.4%	7.9%	6.9%	5.8%	6.0%	8.0%	8.3%	7.0%	5.8%
United States	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%

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 February 2006, the number of persons receiving public assistance in the City was 405,328 compared to 420,011 in February 2005. The following table sets forth the number of persons receiving public assistance in the City.

PUBLIC ASSISTANCE(1)

(Annual Averages in Thousands)

<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
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	416.9

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

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)**

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

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

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

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

DISTRIBUTION OF POPULATION BY AGE

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

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

Housing

In 2005, the housing stock in the City consisted of approximately 3,261,000 housing units, excluding certain special types of units primarily in institutions such as hospitals and universities (“Housing Units”) according to the draft 2005 Housing and Vacancy Survey released February 10, 2006. The 2005 housing inventory represented an increase of approximately 52,000 units, or 1.6%, since 2002. The 2005 Housing and Vacancy Survey indicates that rental housing units predominate in the City. Of all occupied housing units in 2005, approximately 33.3% were conventional home-ownership units, cooperatives or condominiums and approximately 67% were rental units. Due to the difference in the inventory basis for the draft 2002 and 2005 Housing and Vacancy Surveys, respectively, and previous Housing and Vacancy Surveys, it is not possible to accurately compare 2002 and 2005 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)

<u>Ownership/Occupancy Status</u>	<u>1981</u>	<u>1984</u>	<u>1987</u>	<u>1991</u>	<u>1993</u>	<u>1996</u>	<u>1999</u>	<u>2002</u>	<u>2005</u>
Total Housing Units	2,792	2,803	2,840	2,981	2,977	2,995	3,039	3,209	3,261
Owner Units	755	807	837	858	825	858	932	997	1,032
Owner-Occupied	746	795	817	829	805	834	915	982	1,010
Vacant for Sale	9	12	19	29	20	24	17	15	21
Rental Units	1,976	1,940	1,932	2,028	2,040	2,027	2,018	2,085	2,092
Renter-Occupied	1,934	1,901	1,884	1,952	1,970	1,946	1,953	2,024	2,027
Vacant for Rent	42	40	47	77	70	81	64	61	65
Vacant Not Available for Sale or Rent(1)	62	56	72	94	111	110	89	127	137

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, 2002 and draft 2005 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.

<u>Property</u>	<u>2006 Fiscal Year Assessed Valuation</u>	<u>Property</u>	<u>2006 Fiscal Year Assessed Valuation</u>
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 Sixth 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, 2005 and 2004

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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 governmental fund, and the aggregate remaining fund information of The City of New York (The "City") as of and for the years ended June 30, 2005 and 2004, 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 35 percent and 17 percent and 36 percent and 17 percent, as of and for the years ended June 30, 2005 and 2004 respectively, of the assets and revenues of the government-wide financial statements and 21 percent and 15 percent and 20 percent and 17 percent, as of and for the years ended June 30, 2005 and 2004 respectively, of the assets and revenues of the fund financial statements of The City. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as they relate to the amounts included for those entities disclosed in Note E.1, are based on the reports 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of 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 governmental fund, and the aggregate remaining fund information of The City as of June 30, 2005 and 2004, and the respective changes in financial position, where applicable, thereof for the years 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 foregoing table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City's management. 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 2005 and 2004 supplementary information. However, we did not audit the information and express no opinion on it.



October 24, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The following is a narrative overview and analysis of the financial activities of The City of New York (City) for the fiscal years ended June 30, 2005 and 2004. 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 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 financial statements

The notes to 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. Blended 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:

- New York City School Construction Authority (SCA)
- New York City Transitional Finance Authority (TFA)
- TSASC, Inc. (TSASC)
- Municipal Assistance Corporation for The City of New York (MAC)
- New York City Educational Construction Fund (ECF)
- Fiscal Year 2005 Securitization Corporation (FSC)
- Sales Tax Asset Receivable Corporation (STAR)

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

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

- WTC Captive Insurance Company, Inc. (WTC Captive)
- Jay Street Development Corporation (JSDC)
- Brooklyn Navy Yard Development Corporation (BNYDC)
- New York City Industrial Development Agency (IDA)
- Business Relocation Assistance Corporation (BRAC)
- 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 decreased the City's net assets by \$.671 billion during fiscal year 2005, and increased net assets by \$.083 billion during fiscal year 2004 and decreased net assets by \$3.064 billion during fiscal year 2003.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2005 governmental funds statement of revenues, expenditures, and changes in fund balances which reports an increase of \$2.842 billion in fund balances and the reported increase in the excess of liabilities over assets reported in the government-wide statement of activities \$.671 billion, a difference of \$3.513 billion. A similar reconciliation is provided for fiscal year 2004 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,		
	2005	2004	2003
	(in thousands)		
Revenues:			
Program revenues:			
Charges for services	\$ 4,143,436	\$ 3,286,407	\$ 2,790,609
Operating grants and contributions . . .	15,936,907	14,507,980	14,515,404
Capital grants and contributions	366,432	477,280	455,520
General revenues:			
Taxes	31,708,689	28,493,546	23,412,848
Investment income	232,109	49,677	102,433
Other Federal and State aid	1,258,399	1,254,101	1,743,466
Other	581,497	348,915	377,613
Total revenues	<u>54,227,469</u>	<u>48,417,906</u>	<u>43,397,893</u>
Expenses:			
General government	3,374,268	2,602,630	1,928,755
Public safety and judicial	12,696,849	9,566,889	8,762,321
Education	15,613,925	14,539,644	14,499,037
City University	646,397	668,841	558,417
Social services	10,882,448	10,283,512	9,785,682
Environmental protection	2,375,604	2,453,205	2,055,835
Transportation services	1,827,871	1,702,394	2,083,259
Parks, recreation and cultural activities . .	628,807	560,670	607,787
Housing	1,007,341	745,544	787,584
Health (including payments to HHC) . . .	3,186,166	2,853,898	2,709,563
Libraries	389,739	263,976	377,647
Debt service interest	2,269,181	2,093,597	2,306,469
Total expenses	<u>54,898,596</u>	<u>48,334,800</u>	<u>46,462,356</u>
Change in net assets	(671,127)	83,106	(3,064,463)
Net Deficit—Beginning	<u>(26,521,414)</u>	<u>(26,604,520)</u>	<u>(23,540,057)</u>
Net Deficit—Ending	<u><u>\$(27,192,541)</u></u>	<u><u>\$(26,521,414)</u></u>	<u><u>\$(26,604,520)</u></u>

In fiscal year 2005, the government-wide revenues increased from fiscal 2004 by approximately \$5.8 billion, while government-wide expenses grew by approximately \$6.6 billion.

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

- An increase in the real estate tax resulting primarily from the continuing increase in billable assessed value.
- An increase in the sales tax from the boom in construction based taxable sales related to the new housing construction boom, the home refinancing boom and the sale of durable goods related to the unprecedented level of real estate transactions, as well as a continued boom in tourism spending.
- An increase in personal income tax resulting from the payout of almost \$20 billion in Wall Street bonuses, installment payment strength based on estimated growth in non-wage income of 30%, plus non-finance wage income growth of 4.5% in fiscal year 2005.
- An increase in business income taxes (the general corporation, banking corporation and the unincorporated business tax) resulting from strong growth in payments from corporate, bank and unincorporated business taxpayers, as Wall Street profits continued strong in fiscal year 2005. In addition, national corporate profits posted double digit growth over the period buoying the non-finance sectors of the City economy. Further, fiscal year 2005 saw payments reflecting the final, and the smallest impact, year of the Federal bonus depreciation, contributing to the year-over-year rebound on collections.
- An increase in other taxes resulting primarily from the large increase in collections seen in the real estate transaction taxes. The real property transaction tax grew 37% in 2005 while the mortgage recording tax grew 53%. This robust growth resulted from the continuation of the real estate boom as homeowners moved to lock-in historically low interest rates and as investor interest in Manhattan commercial real estate, precipitated by low vacancy rates and high rents, continued apace.
- Increases in charges for services results primarily from a one time settlement of a dispute over back rent with the Port Authority of New York and New Jersey. Charges also increased due to new leases with the Port Authority for the City's airports.
- An increase in operating grants reflecting a one-time pass through of Federal funds to capitalize the WTC Captive.

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

- An increase in general government expenditures, primarily as a result of the one-time pass through of Federal funds to the WTC Captive.
- An increase in public safety expenses reflecting a wage increase for police officers, as well as the increased pension and health benefits costs.
- An increase in social service spending reflecting growth in utilization and costs in the medical assistance program, as well as increases in employment and daycare services for public assistance recipients and cost of living increases for employees of not-for-profit social services providers.
- An increase in education spending resulting primarily from increased salary and fringe benefit costs. Increased contract costs for special education schools and bus transportation also contributed significantly to education expenditure growth.

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

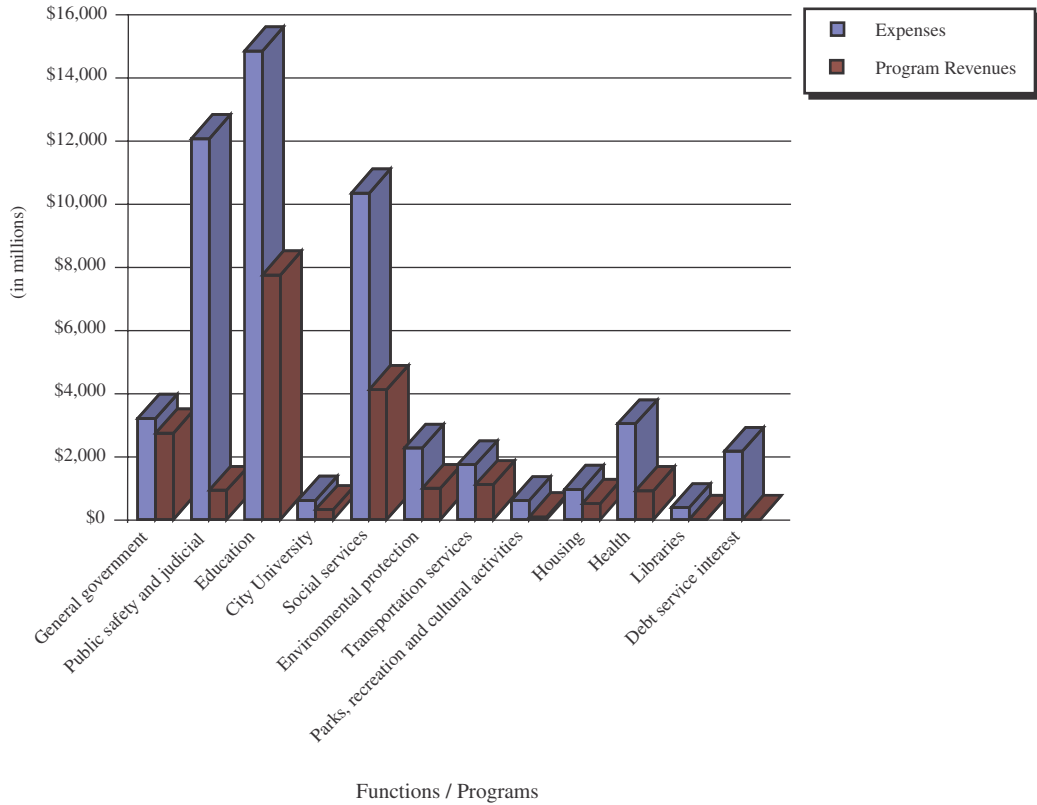
The major components of the government-wide revenue increases were:

- 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, 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 spurred 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.

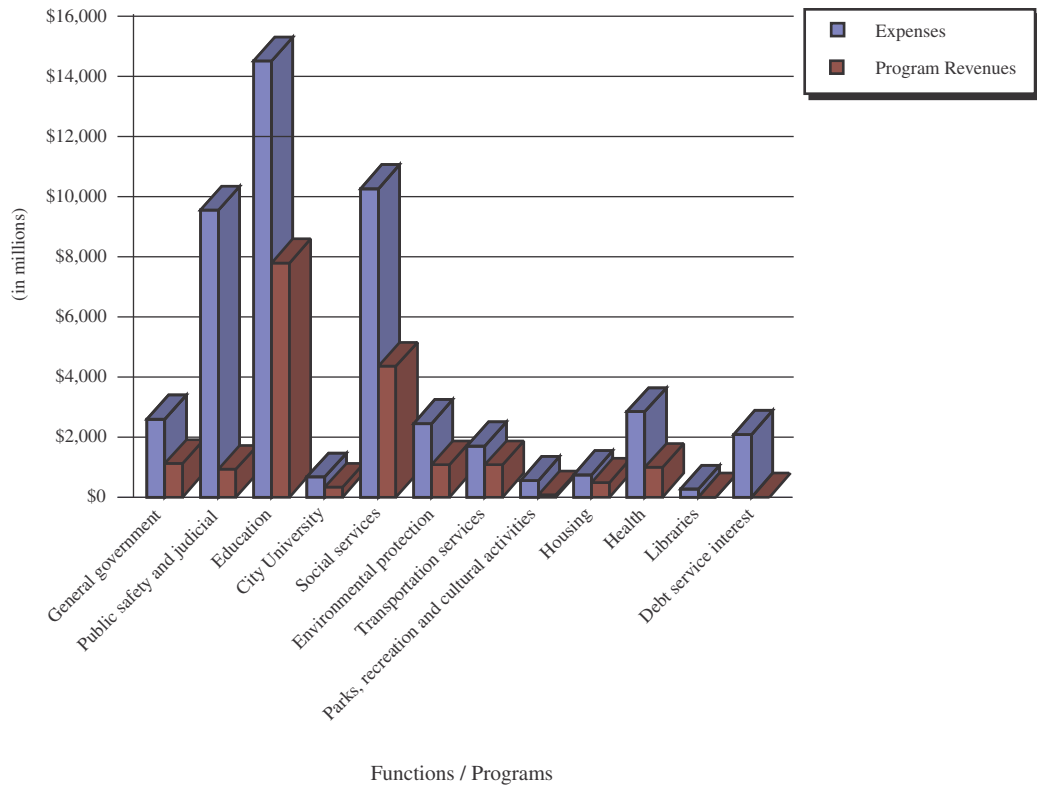
The major components of the government-wide expense increases were:

- 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.

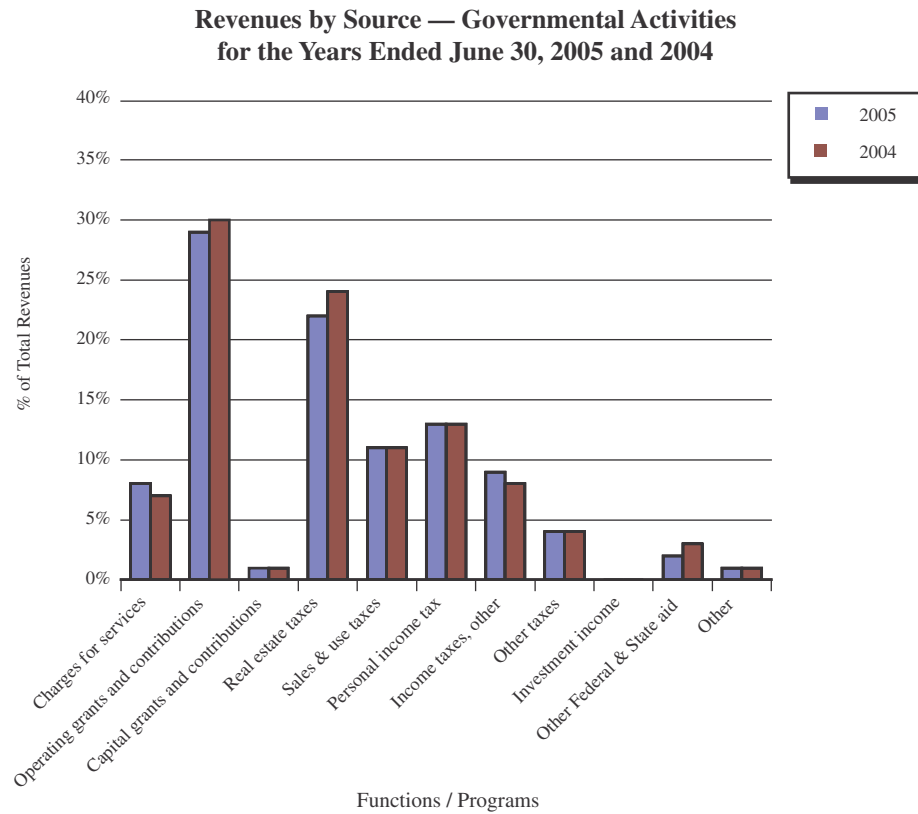
**Expenses and Program Revenues — Governmental Activities
June 30, 2005**



**Expenses and Program Revenues — Governmental Activities
June 30, 2004**



The following chart compares the amounts of program and general revenues for fiscal years 2005 and 2004:



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 \$27.2 billion at the close of the most recent fiscal year, an increase of \$.671 billion from June 30, 2004, compared with a decrease in the excess of liabilities over net assets of \$.083 billion in the prior fiscal year.

	Governmental Activities		
	2005	2004	2003
		(in thousands)	
Current and other assets	\$ 27,783,430	\$ 19,691,909	\$ 17,635,396
Capital assets	30,682,882	29,958,556	28,894,866
Total assets	58,466,312	49,650,465	46,530,262
Long-term liabilities outstanding	66,590,911	61,288,787	59,455,298
Other liabilities	19,067,942	14,883,092	13,679,484
Total liabilities	85,658,853	76,171,879	73,134,782
Net assets:			
Invested in capital assets,			
net of related debt	(6,611,918)	(6,157,298)	(4,770,629)
Restricted	4,640,370	2,239,532	1,651,595
Unrestricted	(25,220,993)	(22,603,648)	(23,485,486)
Total net deficit	\$(27,192,541)	\$(26,521,414)	\$(26,604,520)

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 net deficit as of June 30, 2005 and 2004:

<u>Components of Net Deficit</u>	<u>2005</u>	<u>2004</u>
	(in billions)	
Net Assets Invested in Capital Assets		
Some City-owned assets have a depreciable life used for financial reporting that is different from the period over which the related debt principal is being repaid. Schools and related education assets depreciate more quickly than their related debt is paid, and they comprise the largest component of this difference	\$ (6.6)	\$ (6.1)
Net Assets Restricted for:		
Debt Service	3.8	2.0
Capital Projects	<u>.9</u>	<u>0.2</u>
Total net assets restricted	<u>4.7</u>	<u>2.2</u>
Unrestricted Net Assets		
MAC issued debt during the 1970's which funded some City operating expenses. This is the remaining MAC debt outstanding as of year end	—	(1.8)
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	(2.0)	(2.1)
STAR issued debt related to the defeasance of the MAC issued debt	(2.6)	—
The City has issued debt for the acquisition and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority, NYW, HHC, and certain public libraries and cultural institutions. This is the debt outstanding for non-City owned assets at year end.	(11.4)	(11.9)
Certain long-term obligations do not require current funding:		
Judgments and claims	(4.8)	(4.4)
Vacation and sick leave	(2.6)	(2.6)
Pension liability	(0.8)	(0.7)
Landfill closure and postclosure costs	(1.3)	(1.3)
Other:	<u>.2</u>	<u>2.2</u>
Total unrestricted net assets	<u>(25.3)</u>	<u>(22.6)</u>
Total net deficit	<u>\$(27.2)</u>	<u>\$(26.5)</u>

**Financial Analysis of the
Governmental Funds**

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

	Governmental Funds					Total
	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustments/ Eliminations	
	(in thousands)					
Fund balances (deficit), July 1, 2003	\$ 408,078	\$(1,404,643)	\$ 499,429	\$ 122,927	\$ 2,648	\$ (371,561)
Revenues	47,297,054	1,936,966	76,508	1,287,004	(1,059,953)	49,537,579
Expenditures	(42,861,235)	(5,754,507)	(2,836,801)	(2,365,764)	1,005,764	(52,812,543)
Other financing sources (uses)	(4,431,161)	3,569,376	3,454,913	2,231,622	—	4,824,750
Fund balances (deficit), June 30, 2004	412,736	(1,652,808)	1,194,049	1,275,789	(51,541)	1,178,225
Revenues	52,163,585	1,901,136	79,008	2,200,405	(1,019,261)	55,324,873
Expenditures	(47,713,833)	(6,654,706)	(3,008,966)	(2,514,956)	1,072,631	(58,819,830)
Other financing sources (uses)	(4,444,647)	4,945,493	3,824,189	2,012,400	—	6,337,435
Fund balances (deficit), June 30, 2005	<u>\$ 417,841</u>	<u>\$(1,460,885)</u>	<u>\$ 2,088,280</u>	<u>\$ 2,973,638</u>	<u>\$ 1,829</u>	<u>\$ 4,020,703</u>

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

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies and other payments that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of \$3.534 billion and \$1.928 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2005 and 2004, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of \$5 million in both fiscal years 2005 and 2004, which resulted in an increase in fund balance by this amount.

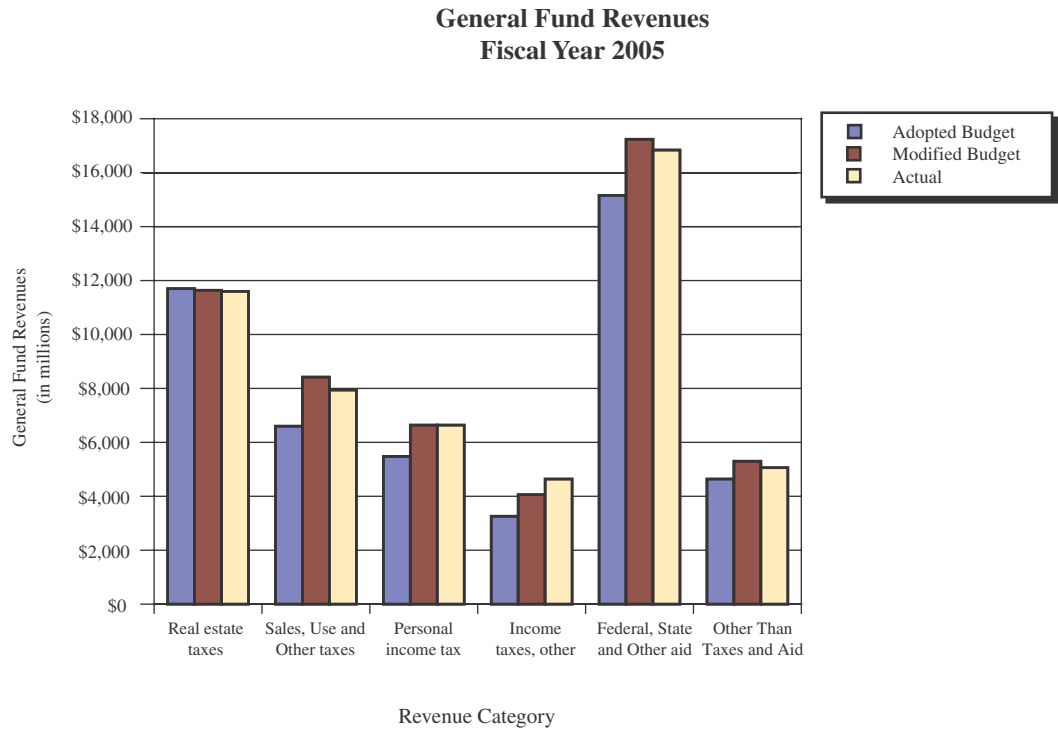
The General Debt Service Fund receives transfers (discretionary and other) from the General Fund from which it pays the City's debt service requirements. Its fund balance at June 30, 2005, can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling \$1.849 billion in fiscal year 2005. Similar transfers in fiscal year 2004 of \$972 million also primarily account for the General Debt Service Fund fund balance at June 30, 2004.

The New York City Capital Projects Fund accounts for the financing of the City's capital program. The primary resource is obtained from the issuance of City debt. 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, 2005 and 2004, 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.

**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.

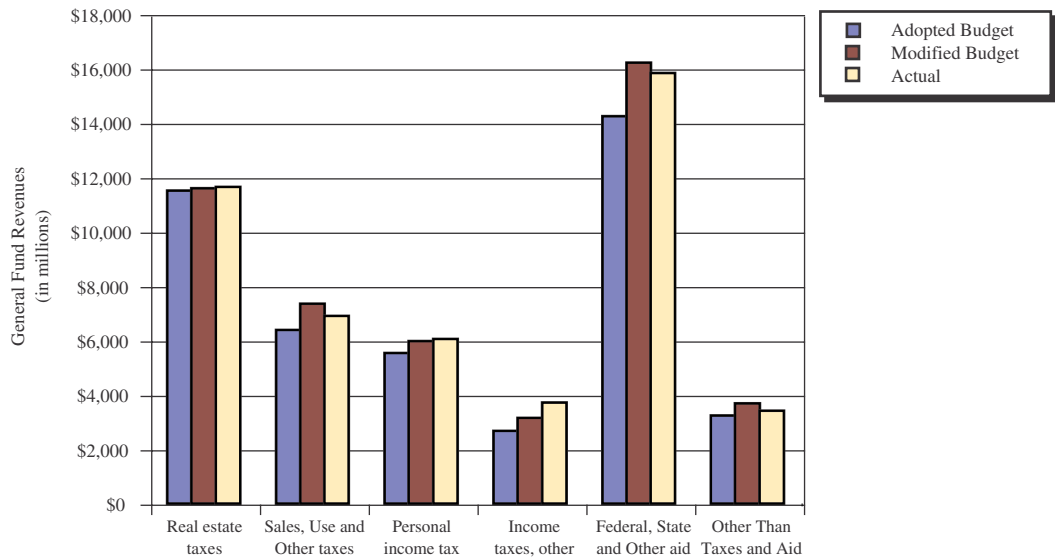
The following charts and tables summarize actual revenues by category for fiscal years 2005 and 2004 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.



General Fund Revenues Fiscal Year 2005 (in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
Taxes (net of refunds):			
Real estate taxes	\$11,698	\$11,647	\$11,616
Sales and use taxes	4,718	5,841	5,823
Personal income tax	5,496	6,637	6,656
Income taxes, other	3,265	4,070	4,641
Other taxes	<u>1,884</u>	<u>2,594</u>	<u>2,130</u>
Taxes (net of refunds)	<u>27,061</u>	<u>30,789</u>	<u>30,866</u>
Federal, State and other aid:			
Categorical	14,151	16,689	16,252
Unrestricted	<u>1,012</u>	<u>562</u>	<u>604</u>
Federal, State and other aid	<u>15,163</u>	<u>17,251</u>	<u>16,856</u>
Other than taxes and aid:			
Charges for services	2,315	2,474	2,479
Other revenues	1,821	2,207	1,963
Transfers from Nonmajor Debt Service Fund	<u>502</u>	<u>631</u>	<u>631</u>
Other than taxes and aid	<u>4,638</u>	<u>5,312</u>	<u>5,073</u>
Total revenues	<u>\$46,862</u>	<u>\$53,352</u>	<u>\$52,795</u>

**General Fund Revenues
Fiscal Year 2004**



General Fund Revenues

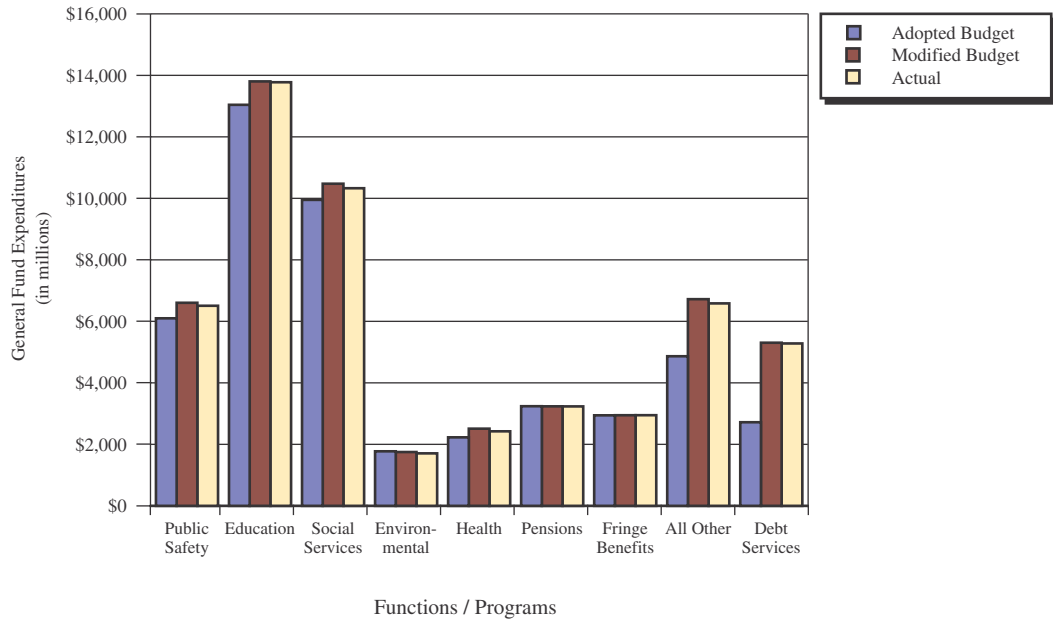
**Fiscal Year 2004
(in millions)**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
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	<u>1,897</u>	<u>2,308</u>	<u>1,798</u>
Taxes (net of refunds)	<u>25,967</u>	<u>27,920</u>	<u>28,165</u>
Federal, State and other aid:			
Categorical	13,622	15,142	14,799
Unrestricted	<u>555</u>	<u>991</u>	<u>963</u>
Federal, State and other aid	<u>14,177</u>	<u>16,133</u>	<u>15,762</u>
Other than taxes and aid:			
Charges for services	1,667	1,563	1,603
Other revenues	<u>1,526</u>	<u>2,071</u>	<u>1,767</u>
Other than taxes and aid	<u>3,193</u>	<u>3,634</u>	<u>3,370</u>
Total revenues	<u>\$43,337</u>	<u>\$47,687</u>	<u>\$47,297</u>

General Fund Expenditures

The following charts and tables summarize actual expenditures by function/program for fiscal years 2005 and 2004 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.

**General Fund Expenditures
Fiscal Year 2005**

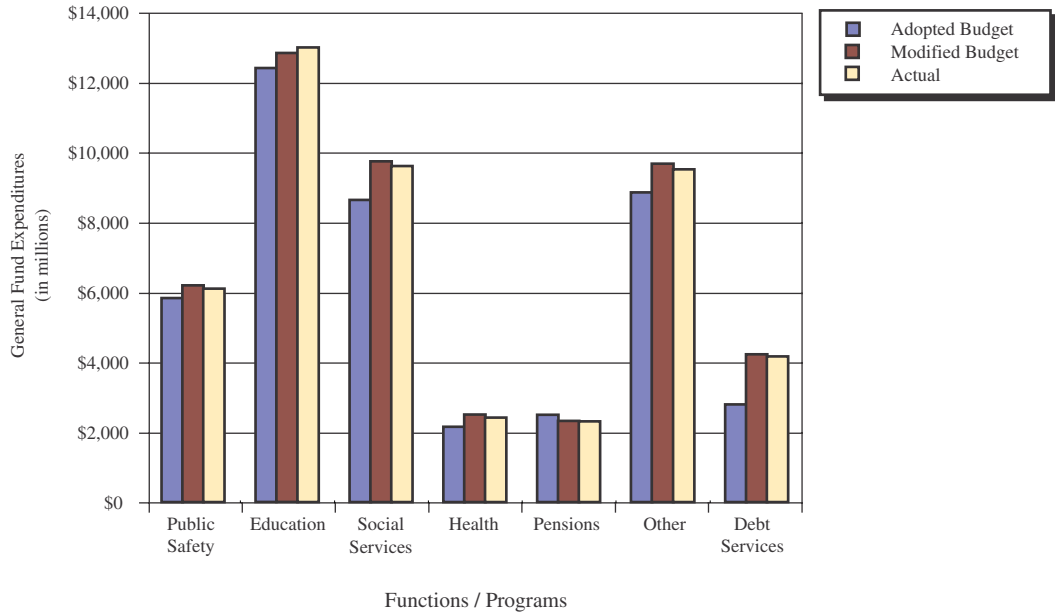


General Fund Expenditures

Fiscal Year 2005
(in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
General government	\$ 1,388	\$ 2,452	\$ 2,385
Public safety and judicial	6,099	6,604	6,507
Education	13,042	13,803	13,776
City University	546	550	567
Social services	9,951	10,476	10,329
Environmental protection	1,774	1,750	1,707
Transportation services	635	984	957
Parks, recreation and cultural activities	331	349	343
Housing	491	552	511
Health (including HHC)	2,228	2,510	2,424
Libraries	135	362	362
Pensions	3,240	3,236	3,234
Judgments and claims	612	590	590
Fringe benefits and other benefit payments	2,944	2,947	2,948
Other	727	882	869
Transfers and other payments for debt service	2,719	5,305	5,281
Total expenditures	<u>\$46,862</u>	<u>\$53,352</u>	<u>\$52,790</u>

**General Fund Expenditures
Fiscal Year 2004**



General Fund Expenditures

Fiscal Year 2004
(in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
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	428	484
Transfers and other payments for debt service	2,796	4,638	4,573
Total expenditures	<u>\$43,337</u>	<u>\$47,687</u>	<u>\$47,292</u>

General Fund Surplus

The City had General Fund operating surpluses of \$3.534 billion, \$1.928 billion and \$1.422 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2005, 2004 and 2003, respectively. For the fiscal years 2005, 2004 and 2003, 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 2005, 2004, and 2003 budgets follow:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
		(in millions)	
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service	\$ 341	\$ 307	\$ 166
Discretionary transfers to the General Debt Service Fund	1,507	662	237
Net equity contribution in bond refunding that accrued to future years debt service savings	1	3	4
Debt service prepayments for lease purchase debt service due in the fiscal year	88	71	73
Grant to TFA	947	400	624
Advance cash subsidies to the Public Library system	225	112	107
Advance cash subsidies to the Transit Authority (TA) and Metropolitan Transportation Authority (MTA)	248	209	206
Advance cash subsidies to the HHC	<u>172</u>	<u>159</u>	<u>—</u>
Total expenditures and transfers (discretionary and other)	3,529	1,923	1,417
Reported operating surplus	<u>5</u>	<u>5</u>	<u>5</u>
Total operating surplus	<u>\$ 3,534</u>	<u>\$ 1,928</u>	<u>\$ 1,422</u>

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and amounts for the fiscal year ended 2005 Adopted Budget:

	<u>2005</u>
	(in millions)
Additional resources:	
Federal categorical aid (including Homeland Security grants)	\$ 921
Higher than expected general corporation tax revenue collections	731
Higher than expected personal income tax revenue collections	1,160
Higher than expected banking corporation revenue tax revenue collections . . .	353
Higher than expected mortgage tax revenue collections	736
Higher than expected general sales tax revenue collections	391
Higher than expected net all other tax revenue collections, net of projected tax audit revenues	294
Higher than expected unincorporated business tax revenue collections	222
State categorical aid	196
Higher than expected MAC proceeds	130
Lower than expected all other general administrative OTPS spending	486
Higher than anticipated interest income	114
Higher than expected non-grant revenues	56
Higher than expected unrestricted Federal and State aid	41
Higher than expected charges for services	164
Lower than anticipated pension costs	6
Lower than anticipated judgment and claims	36
Licenses, permits, privileges, and franchises	37
Higher than expected assets sales	35
Lower than anticipated health insurance expenditures	90
Higher than expected revenues from fines and forfeitures	37
Lower than anticipated supplies and materials costs	242
Lower than anticipated all other social services excluding Medicaid and public assistance	63
Lower than anticipated debt service costs	80
Lower than anticipated public assistance spending	37
General reserve	300
Total	<u>6,958</u>
Enabled the City to provide for:	
Higher than anticipated personal services costs excluding pensions, health insurance, and overtime	1,092
Higher than expected other fixed and miscellaneous charges	196
Higher than expected property and equipment costs	153
Lower than expected all other miscellaneous revenues	80
Higher than anticipated overtime costs	299
Higher than anticipated Medicaid costs	117
Increased contractual services costs	1,053
Prepayment of certain debt service costs and subsidies due in fiscal year 2006	3,308
Lower than expected Federal and State revenue actions	450
Lower than expected real estate tax collections (including tax lien sales)	82
Higher than expected provisions for disallowance reserve	72
Higher than expected fuel and energy costs	48
All other net overspending and revenues below budget	3
Total	<u>6,953</u>
Reported surplus	<u>\$ 5</u>

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

	<u>2004</u>
	(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	<u>5,439</u>
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	<u>5,434</u>
Reported surplus	<u>\$ 5</u>

Capital Assets

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

	Governmental Activities		
	2005	2004	2003
		(in millions)	
Land	\$ 948	\$ 761	\$ 739
Buildings	19,006	17,652	16,395
Equipment	1,574	2,289	2,546
Infrastructure	7,101	6,569	6,242
Construction work-in-progress	2,054	2,688	2,973
Total	<u>\$30,683</u>	<u>\$29,959</u>	<u>\$28,895</u>

The net increase in the City’s capital assets during fiscal year 2005 was \$724 million, a 2.4% increase. Capital assets additions in fiscal year 2005 were \$5.451 billion, an increase of \$393 million from fiscal year 2004. Capital assets additions in the Education program totaling \$999 million and total new construction work-in-progress (the majority of which are in the Education program) totaling \$1.707 billion accounted for 50.0% of the capital assets additions in fiscal year 2005.

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.

Additional information on the City’s capital assets can be found in Note D.2 of 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 2005, 2004, and 2003.

	New York City and City-Related Debt		
	2005	2004	2003
		(in millions)	
General Obligation Bonds ^(a)	\$33,903	\$31,378	\$29,679
1991 General Resolution Bonds (MAC)	—	1,758	2,151
Future Tax Secured Bonds (TFA)	11,022	11,337	9,997
TSASC, Inc.	1,283	1,256	1,258
IDA Bonds	106	108	—
STAR Bonds	2,552	—	—
FSC Bonds	460	—	—
Revenue Bonds (ECF)	135	107	117
Bond Anticipation Notes (TFA)	—	—	1,110
Recovery Bonds (TFA)	1,955	2,027	2,027
Total bonds and notes payable	51,416	47,971	46,339
Less treasury obligations	39	51	64
Net outstanding debt	<u>\$51,377</u>	<u>\$47,920</u>	<u>\$46,275</u>

(a) Does not include capital contract liabilities.

General Obligation

On June 30, 2005, the City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled \$37.9 billion (compared with \$33.8 and \$31.0 billion as of June 30, 2004 and 2003, 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, 2005, the City's 10% general limitation was \$47 billion (compared with \$43 and \$40 billion as of June 30, 2004 and 2003, respectively). The combined City and TSASC remaining GO debt incurring power as of June 30, 2005, after providing for capital contract liabilities, totaled \$9.13 billion.

As of June 30, 2005, the City's outstanding GO variable and fixed rate debt totaled \$5.73 billion and \$28.17 billion, respectively. During fiscal year 2005, the City's GO tax exempt daily and weekly variable rate debt averaged 1.75% and 1.83%, respectively. Of the \$6.78 billion in GO bonds issued by the City in fiscal year 2005 a total of \$2.86 billion was issued to refund certain outstanding bonds and a total of \$3.92 billion was issued for new money capital purposes. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produced debt service savings of \$1.06 million, \$100.43 million and \$26.03 million in fiscal years 2005, 2006, and 2007, respectively. The refundings will generate approximately \$126.58 million in net present value savings throughout the life 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. This authorization to designate bonds as advanced refunding bonds under the additional advance refunding legislation expired in December 2004. The City completed its usage of the full authorization during fiscal year 2005.

A total of \$603.4 million of the \$6.78 billion GO bonds issued during fiscal year 2005 was issued as taxable debt. The taxable debt issued in fiscal year 2005 was sold on a competitive basis.

On April 4, 2005, Moody's Investors Service (Moody's) improved its rating on New York City General Obligation bonds from A2 to A1. In May of 2005, Standard & Poor's (S&P) also upgraded New York City General Obligation bonds from A to A+. Fitch Ratings (Fitch) maintained its ratings of New York City general obligation debt at A+. Each of the three rating agencies maintained a stable rating outlook on New York City General Obligation bonds in fiscal year 2005.

Short-term Financing

In fiscal year 2005, the City had no short-term borrowings.

In fiscal year 2004, 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

The New York City Transitional Finance Authority (TFA) is a separate 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. As of June 30, 2004, the TFA had reached its debt limit and did not have the authority to issue new money bonds pursuant to this authorization.

The TFA issued \$920.64 million of refunding bonds during fiscal year 2005. This refunding included \$133.75 million of subordinate bonds. The refinancing produced debt service savings of \$.57 million, \$7.66 million and \$22.46 million in fiscal years 2006, 2007, and 2008, respectively. This refinancing will generate approximately \$29.11 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, secured solely by State or Federal aid received as a result of the disaster. To date, the TFA has issued \$2 billion in Recovery Bonds pursuant to this authorization.

The TFA's fixed rate debt outstanding, including \$110 million of recovery bonds, was \$10.1 billion as of June 30, 2005. This amount includes \$292.8 million of bonds economically defeased through previous refundings, but that remain legally as outstanding debt. The TFA's variable rate debt outstanding, including recovery bonds, was \$2.9 billion. During fiscal year 2005, TFA's tax exempt daily and weekly variable rate debt averaged 1.76% and 1.84%, respectively.

In March 2005, S&P upgraded the TFA's bonds from an AA+ to AAA. Moody's upgraded its rating for TFA's senior lien bonds from Aa2 to Aa1. Fitch maintained its rating on TFA Bonds at AA+.

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, 2005, TSASC had approximately \$1.28 billion of bonds outstanding, including \$161 million of a Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) loan.

In June 2003, Moody's downgraded R.J. Reynolds Tobacco Holdings to Ba1, which resulted in a Downgrade Trapping Event, as defined in the indenture, in connection with TSASC's outstanding bonds. The trapping event requires that a portion of Tobacco Settlement Revenues (TSRs), not needed for debt service and that would otherwise flow to the City, be deposited in a trapping account for the benefit of bondholders. These excess TSR's must flow into the trapping account until an amount equal to 25% of the outstanding TSASC's bonds have been trapped. As of June 30, 2005, \$128.6 million had been trapped towards a requirement totaling \$321 million.

On March 23, 2004, Moody's downgraded its rating on most TSASC bonds to Baa2. The majority of TSASC's bonds are now rated BBB by S&P. All TSASC bonds are rated BBB by Fitch.

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

Sales Tax Asset Receivable Corporation

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

In November of 2004, STAR issued \$2.55 billion of new money and refunding bonds, which consisted of \$1.89 billion to refinance certain outstanding Liberty and MAC bonds and \$658.87 million for new money purposes. The refunding portion contained \$682.43 million of taxable bonds, which were awarded competitively.

Fiscal 2005 Securitization Corporation

In fiscal year 2005, \$498.85 million of taxable bonds were issued by the Fiscal 2005 Securitization Corporation, a bankruptcy-remote local development corporation, established to restructure an escrow fund that was previously funded with general obligation bonds proceeds. This restructuring resulted in a net present value benefit of \$49.84 million to the City.

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. As of June 30, 2005, the City's outstanding notional amount on the various swap agreements was \$3.06 billion. The City received specific authorization to enter into these agreements, or swaps, under Section 54.90 of the New York State Local Finance Law. During fiscal year 2005, the City entered into a basis swap agreement with a notional amount of \$500 million, and two CPI swap agreements with a total notional amount of \$94.15 million.

Subsequent Events Subsequent to June 30, 2005, the City completed the following financings:

On August 3, 2005, the City completed a \$917 million of General Obligation transaction for capital and refunding purposes.

On August 17, 2005, the City completed a \$550 million of General Obligation transaction for capital purposes.

On September 22, 2005, the City completed a \$790 million of General Obligation transaction for capital purposes.

On October 19, 2005, TFA sold approximately \$597 million of refunding bonds.

Commitments At June 30, 2005, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately \$11.3 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 \$62.4 billion over the remaining fiscal years 2006 through 2015. To help meet its capital spending program, the City borrowed \$4.1 billion in the public credit market in fiscal year 2005.

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, 2005
(in thousands)

	Primary Government	Component
	Governmental	Units
	Activities	Units
ASSETS:		
Cash and cash equivalents	\$ 6,272,568	\$ 2,193,852
Investments, including accrued interest	7,405,967	2,617,559
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$357,758)	572,716	—
Federal, State and other aid	4,988,381	—
Taxes other than real estate	2,964,526	—
Other	594,218	1,930,525
Mortgage loans and interest receivable, net	308	3,738,030
Inventories	240,936	38,592
Due from Primary Government	—	31,390
Due from Component Units	711,087	—
Restricted cash and investments	2,687,790	1,912,836
Deferred charges	1,223,658	—
Capital assets:		
Land and construction work-in-progress	3,002,366	4,554,279
Other capital assets (net of depreciation):		
Property, plant and equipment	20,579,507	18,685,275
Infrastructure	7,101,009	—
Other	121,275	306,896
Total assets	58,466,312	36,009,234
LIABILITIES:		
Accounts payable and accrued liabilities	13,021,409	1,937,332
Accrued interest payable	644,431	73,805
Unearned revenues:		
Prepaid real estate taxes	3,287,473	—
Other	1,385,898	193,264
Due to Primary Government	—	711,088
Due to Component Units	31,390	—
Estimated disallowance of Federal, State and other aid	362,913	—
Payable for investment securities purchased	257,000	—
Other	77,428	64,044
Noncurrent Liabilities:		
Due within one year	3,937,817	1,253,277
Due in more than one year	62,653,094	20,780,107
Total liabilities	85,658,853	25,012,917
NET ASSETS:		
Invested in capital assets, net of related debt	(6,611,918)	8,883,401
Restricted for:		
Capital projects	880,627	64,986
Debt service	3,759,743	769,106
Loans/security deposits	—	70,982
Donor/statutory restrictions	—	39,807
Operations	—	145,693
Unrestricted (deficit)	(25,220,993)	1,022,342
Total net assets (deficit)	\$(27,192,541)	\$10,996,317

See accompanying notes to financial statements.

THE CITY OF NEW YORK
STATEMENT OF NET ASSETS

JUNE 30, 2004
(in thousands)

	Primary Government	Component
	Governmental	Units
	Activities	Units
ASSETS:		
Cash and cash equivalents	\$ 2,133,928	\$ 1,381,585
Investments, including accrued interest	5,688,557	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	1,342,812
Mortgage loans and interest receivable, net	636	3,531,172
Inventories	229,454	42,474
Due from Primary Government	—	3,323
Due from Component Units	865,615	—
Restricted cash and investments	1,107,744	3,430,119
Deferred charges	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
Unearned 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)	9,209,029
Restricted for:		
Capital projects	239,369	55,346
Debt service	2,000,163	745,917
Loans/security deposits	—	71,623
Donor/statutory restrictions	—	37,939
Operations	—	135,691
Unrestricted (deficit)	(22,603,648)	806,867
Total net assets (deficit)	\$(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, 2005
(in thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Units</u>
Primary Government:						
General government	\$ 3,374,268	\$ 1,345,622	\$ 1,536,247	\$ 4,023	\$ (488,376)	\$ —
Public safety and judicial	12,696,849	369,050	600,268	3,016	(11,724,515)	—
Education	15,613,925	53,168	8,066,532	26,699	(7,467,526)	—
City University	646,397	189,048	144,269	—	(313,080)	—
Social services	10,882,448	54,419	4,273,577	3,524	(6,550,928)	—
Environmental protection	2,375,604	1,002,679	4,939	32,683	(1,335,303)	—
Transportation services	1,827,871	818,110	147,765	197,941	(664,055)	—
Parks, recreation and cultural activities	628,807	68,090	14,448	1,323	(544,946)	—
Housing	1,007,341	186,500	269,113	76,811	(474,917)	—
Health (including payments to HHC)	3,186,166	56,750	879,749	20,412	(2,229,255)	—
Libraries	389,739	—	—	—	(389,739)	—
Debt service interest	2,269,181	—	—	—	(2,269,181)	—
Total primary government	<u>\$54,898,596</u>	<u>\$ 4,143,436</u>	<u>\$15,936,907</u>	<u>\$ 366,432</u>	<u>(34,451,821)</u>	<u>—</u>
Component Units	<u>\$11,019,329</u>	<u>\$ 7,201,203</u>	<u>\$ 2,116,813</u>	<u>\$ 964,921</u>	<u>—</u>	<u>(736,392)</u>
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes					11,677,383	—
Sales and use taxes					5,828,383	—
Personal income tax					7,176,764	—
Income taxes, other					4,888,238	—
Other taxes					2,137,921	—
Investment income					232,109	169,710
Other Federal and State aid					1,258,399	3,384
Other					581,497	497,203
Total general revenues					<u>33,780,694</u>	<u>670,297</u>
Change in net assets					(671,127)	(66,095)
Net Assets (Deficit) — Beginning					<u>(26,521,414)</u>	<u>11,062,412</u>
Net Assets (Deficit) — Ending					<u>\$(27,192,541)</u>	<u>\$10,996,317</u>

See accompanying notes to financial statements.

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

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Governmental Activities</u>	<u>Component Units</u>
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	<u>\$48,334,800</u>	<u>\$ 3,286,407</u>	<u>\$14,507,980</u>	<u>\$ 477,280</u>	<u>(30,063,133)</u>	<u>—</u>
Component Units	<u>\$10,289,405</u>	<u>\$ 6,858,692</u>	<u>\$ 1,836,666</u>	<u>\$ 1,036,173</u>	<u>—</u>	<u>(557,874)</u>
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					<u>30,146,239</u>	<u>591,698</u>
Change in net assets					83,106	33,824
Net Assets (Deficit) — Beginning					<u>(26,604,520)</u>	<u>11,028,588</u>
Net Assets (Deficit) — Ending					<u>\$(26,521,414)</u>	<u>\$11,062,412</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2005
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 3,003,936	\$ 83,660	\$ 1,993,716	\$ 1,191,256	\$ —	\$ 6,272,568
Investments, including accrued interest	6,955,141	—	103,248	387,625	(40,047)	7,405,967
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of \$357,758)	572,716	—	—	—	—	572,716
Federal, State and other aid	4,603,736	384,645	—	—	—	4,988,381
Taxes other than real estate	2,880,526	—	—	90,301	(6,301)	2,964,526
Other	600,311	—	—	—	—	600,311
Mortgage loans and interest receivable (less allowance for uncollectible amounts of \$451,620)	—	—	—	308	—	308
Due from other funds	1,715,766	—	—	167,327	(167,327)	1,715,766
Due from Component Units	422,951	288,136	—	—	—	711,087
Restricted cash and investments	—	1,015,664	—	1,672,126	—	2,687,790
Other	—	61,502	—	28,335	—	89,837
Total assets	\$20,755,083	\$ 1,833,607	\$ 2,096,964	\$ 3,537,278	\$ (213,675)	\$28,009,257
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	\$11,569,981	\$ 1,277,486	\$ 8,684	\$ 213,435	\$ (48,177)	\$13,021,409
Accrued tax refunds:						
Real estate taxes	37,272	—	—	—	—	37,272
Personal income taxes	38,078	—	—	6,301	—	44,379
Other	37,159	—	—	—	—	37,159
Accrued judgments and claims	411,842	120,820	—	—	—	532,662
Deferred revenues:						
Prepaid real estate taxes	3,287,473	—	—	—	—	3,287,473
Uncollected real estate taxes	519,855	—	—	—	—	519,855
Taxes other than real estate	2,419,628	—	—	—	—	2,419,628
Other	1,621,651	13,093	—	86,904	—	1,721,648
Due to other funds	—	1,883,093	—	—	(167,327)	1,715,766
Due to Component Units	31,390	—	—	—	—	31,390
Estimated disallowance of Federal, State and other aid	362,913	—	—	—	—	362,913
Payable for investment securities purchased	—	—	—	257,000	—	257,000
Total liabilities	20,337,242	3,294,492	8,684	563,640	(215,504)	23,988,554
Fund balances:						
Reserved for:						
Capital projects	—	876,011	—	4,616	—	880,627
Debt service	—	—	2,088,280	1,669,326	1,829	3,759,435
Noncurrent mortgage loans	—	—	—	308	—	308
Unreserved (deficit), reported in:						
General Fund	417,841	—	—	—	—	417,841
New York City Capital Projects Fund	—	(2,336,896)	—	—	—	(2,336,896)
Nonmajor Governmental Funds	—	—	—	1,299,388	—	1,299,388
Total fund balances (deficit)	417,841	(1,460,885)	2,088,280	2,973,638	1,829	4,020,703
Total liabilities and fund balances	\$20,755,083	\$ 1,833,607	\$ 2,096,964	\$ 3,537,278	\$ (213,675)	\$28,009,257

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, 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 Accounts receivable:	4,326,259	—	1,071,964	347,976	(57,642)	5,688,557
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	—	780,543	—	1,107,744
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	—	13,518	—	239,369
Debt service	—	—	1,194,049	857,019	(51,541)	1,999,527
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
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS

JUNE 30, 2005
(in thousands)

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

Total fund balances—governmental funds	\$ 4,020,703
Inventories recorded in the Statement of Net Assets are recorded as expenditures in the governmental funds	240,936
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	30,682,882
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	4,524,236
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds payable	(51,992,797)
Accrued interest payable	(644,431)
Other long-term liabilities	<u>(14,024,070)</u>
Net assets (deficit) of governmental activities	<u>\$ (27,192,541)</u>

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 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
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
REVENUES:						
Real estate taxes	\$ 11,615,939	\$ —	\$ —	\$ —	\$ —	\$11,615,939
Sales and use taxes	5,822,751	—	—	—	—	5,822,751
Personal income tax	6,656,334	—	—	497,094	46,632	7,200,060
Income taxes, other	4,640,541	—	—	—	—	4,640,541
Other taxes	2,130,072	—	—	—	—	2,130,072
Federal, State and other categorical aid	16,251,806	344,217	—	340,000	—	16,936,023
Unrestricted Federal and State aid	603,500	—	—	—	—	603,500
Charges for services	2,479,372	—	—	—	—	2,479,372
Tobacco settlement	67,579	—	—	149,341	—	216,920
Investment income	148,824	—	8,938	62,488	(369)	219,881
Interest on mortgages, net	—	—	—	3,743	—	3,743
Unrealized loss on investment	—	—	—	(1,182)	—	(1,182)
Other revenues	1,746,867	1,556,919	70,070	1,148,921	(1,065,524)	3,457,253
Total revenues	<u>52,163,585</u>	<u>1,901,136</u>	<u>79,008</u>	<u>2,200,405</u>	<u>(1,019,261)</u>	<u>55,324,873</u>
EXPENDITURES:						
General government	2,385,327	719,829	—	—	—	3,105,156
Public safety and judicial	6,506,707	996,069	—	—	—	7,502,776
Education	13,776,018	975,368	—	1,061,342	(1,065,524)	14,747,204
City University	566,613	15,042	—	—	—	581,655
Social services	10,329,111	57,221	—	—	—	10,386,332
Environmental protection	1,706,594	1,838,220	—	—	—	3,544,814
Transportation services	956,527	946,161	—	—	—	1,902,688
Parks, recreation and cultural activities	342,999	317,256	—	—	—	660,255
Housing	511,638	343,274	—	—	—	854,912
Health (including payments to HHC)	2,424,183	384,586	—	—	—	2,808,769
Libraries	362,310	61,680	—	—	—	423,990
Pensions	3,233,826	—	—	—	—	3,233,826
Judgments and claims	590,294	—	—	—	—	590,294
Fringe benefits and other benefit payments	2,947,681	—	—	—	—	2,947,681
Grant to The State of New York	—	—	—	170,000	—	170,000
Administrative and other	869,351	—	125,396	60,297	—	1,055,044
Debt Service:						
Interest	—	—	1,380,854	697,052	5,557	2,083,463
Redemptions	—	—	1,502,716	526,265	(12,664)	2,016,317
Lease payments	204,654	—	—	—	—	204,654
Total expenditures	<u>47,713,833</u>	<u>6,654,706</u>	<u>3,008,966</u>	<u>2,514,956</u>	<u>(1,072,631)</u>	<u>58,819,830</u>
Excess (deficiency) of revenues over expenditures	<u>4,449,752</u>	<u>(4,753,570)</u>	<u>(2,929,958)</u>	<u>(314,551)</u>	<u>53,370</u>	<u>(3,494,957)</u>
OTHER FINANCING SOURCES (USES):						
Transfers from General Fund	—	—	3,816,394	628,253	—	4,444,647
Transfers from Nonmajor Capital Projects						
Funds	—	44,140	—	11,703	(44,140)	11,703
Principal amount of bonds issued	—	3,920,000	—	3,097,685	—	7,017,685
Bond premium	—	145,453	123,026	112,985	—	381,464
Capitalized leases	—	835,900	—	—	—	835,900
Refunding bond proceeds	—	—	2,855,250	1,079,379	—	3,934,629
Transfer to New York City Capital Projects						
Fund	—	—	—	(44,140)	44,140	—
Transfers (to) from General Debt Service Fund	(3,816,394)	—	(6,270)	6,270	—	(3,816,394)
Transfer to Nonmajor Debt						
Service Funds, net	(628,253)	—	—	(11,703)	—	(639,956)
Payments to refunded bond escrow holder	—	—	(2,964,211)	(2,868,032)	—	(5,832,243)
Total other financing sources (uses)	<u>(4,444,647)</u>	<u>4,945,493</u>	<u>3,824,189</u>	<u>2,012,400</u>	<u>—</u>	<u>6,337,435</u>
Net change in fund balances	5,105	191,923	894,231	1,697,849	53,370	2,842,478
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	412,736	(1,652,808)	1,194,049	1,275,789	(51,541)	1,178,225
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 417,841</u>	<u>\$(1,460,885)</u>	<u>\$ 2,088,280</u>	<u>\$ 2,973,638</u>	<u>\$ 1,829</u>	<u>\$ 4,020,703</u>

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

THE CITY OF NEW YORK
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 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	1,798,313	—	—	—	—	1,798,313
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
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	<u>47,297,054</u>	<u>1,936,966</u>	<u>76,508</u>	<u>1,287,004</u>	<u>(1,059,953)</u>	<u>49,537,579</u>
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	484,288	—	15,405	14,314	—	514,007
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	134,597	—	—	—	—	134,597
Refunding escrow	—	—	3,050	—	—	3,050
Total expenditures	<u>42,861,235</u>	<u>5,754,507</u>	<u>2,836,801</u>	<u>2,365,764</u>	<u>(1,005,764)</u>	<u>52,812,543</u>
Excess (deficiency) of revenues over expenditures	<u>4,435,819</u>	<u>(3,817,541)</u>	<u>(2,760,293)</u>	<u>(1,078,760)</u>	<u>(54,189)</u>	<u>(3,274,964)</u>
OTHER FINANCING SOURCES (USES):						
Transfers from General Fund	—	—	3,526,689	904,472	—	4,431,161
Transfers from (to) Nonmajor Capital Projects Funds	—	315,027	—	(5,068)	(315,027)	(5,068)
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 (to) from General Debt Service Fund Transfer (to) from Nonmajor Debt Service Funds, net	(3,526,689)	—	—	2,830	—	(3,523,859)
Payments to refunded bond escrow holder	(904,472)	—	(2,830)	5,068	—	(902,234)
Total other financing sources (uses)	<u>(4,431,161)</u>	<u>3,569,376</u>	<u>3,454,913</u>	<u>2,231,622</u>	<u>(54,189)</u>	<u>4,824,750</u>
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	<u>\$ 412,736</u>	<u>\$(1,652,808)</u>	<u>\$1,194,049</u>	<u>\$ 1,275,789</u>	<u>\$ (51,541)</u>	<u>\$ 1,178,225</u>

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

THE CITY OF NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
(in thousands)

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

Net change in fund balances—governmental funds		\$ 2,842,478	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>			
Purchases of capital assets	\$ 3,110,766		
Depreciation expense	<u>(2,366,576)</u>	744,190	
The net effect of various miscellaneous transactions involving capital assets and other (<i>i.e.</i> sales, trade-ins, and donations) is to decrease net assets			(706,473)
<p>The issuance of long-term debt (e.g., bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>			
Proceeds from sales of bonds	(10,952,314)		
Principal payments of bonds	7,467,096		
Other	<u>(121,785)</u>		(3,607,003)
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			(386,990)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds			<u>442,671</u>
Change in net assets—governmental activities			<u>\$ (671,127)</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 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
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Purchases of capital assets	\$ 2,901,369	
Depreciation expense	<u>(1,800,106)</u>	1,101,263
The net effect of various miscellaneous transactions involving capital assets and other (<i>i.e.</i> sales, trade-ins, and donations) is to decrease net assets		(156,906)
<p>The issuance of long-term debt (<i>e.g.</i>, bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Proceeds from sales of bonds	(8,663,481)	
Principal payments of bonds	6,090,955	
Other	<u>(119,636)</u>	(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		<u>329,419</u>
Change in net assets—governmental activities		<u><u>\$ 83,106</u></u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005
(in thousands)

	Budget		Actual	Better (Worse) Than Modified Budget
	Adopted	Modified		
REVENUES:				
Real estate taxes	\$11,698,280	\$11,647,280	\$11,615,939	\$ (31,341)
Sales and use taxes	4,717,700	5,840,700	5,822,751	(17,949)
Personal income tax	5,496,164	6,636,906	6,656,334	19,428
Income taxes, other	3,264,800	4,069,900	4,640,541	570,641
Other taxes	1,884,259	2,593,491	2,130,072	(463,419)
Federal, State and other categorical aid	14,150,524	16,688,677	16,251,806	(436,871)
Unrestricted Federal and State aid	1,012,418	562,418	603,500	41,082
Charges for services	2,315,042	2,474,064	2,479,372	5,308
Tobacco settlement	174,754	64,505	67,579	3,074
Investment income	34,760	150,740	148,824	(1,916)
Other revenues	1,611,318	1,992,035	1,746,867	(245,168)
Total revenues	<u>46,360,019</u>	<u>52,720,716</u>	<u>52,163,585</u>	<u>(557,131)</u>
EXPENDITURES:				
General government	1,387,810	2,451,504	2,385,327	66,177
Public safety and judicial	6,099,409	6,603,928	6,506,707	97,221
Education	13,041,841	13,803,343	13,776,018	27,325
City University	546,199	550,112	566,613	(16,501)
Social services	9,951,189	10,476,108	10,329,111	146,997
Environmental protection	1,773,730	1,749,917	1,706,594	43,323
Transportation services	635,085	983,872	956,527	27,345
Parks, recreation and cultural activities	330,777	348,556	342,999	5,557
Housing	491,010	551,655	511,638	40,017
Health (including payments to HHC)	2,227,663	2,510,354	2,424,183	86,171
Libraries	134,765	362,371	362,310	61
Pensions	3,240,222	3,235,540	3,233,826	1,714
Judgments and claims	612,206	590,294	590,294	—
Fringe benefits and other benefit payments	2,943,805	2,947,048	2,947,681	(633)
Interest on short-term borrowings	39,715	—	—	—
Lease payments for debt service	128,732	206,222	204,654	1,568
Other	727,200	881,552	869,351	12,201
Total expenditures	<u>44,311,358</u>	<u>48,252,376</u>	<u>47,713,833</u>	<u>538,543</u>
Excess of revenues over expenditures	<u>2,048,661</u>	<u>4,468,340</u>	<u>4,449,752</u>	<u>(18,588)</u>
OTHER FINANCING SOURCES (USES):				
Transfer from Nonmajor Debt Service Fund	501,535	631,232	631,232	—
Transfer to Nonmajor Debt Service Fund	(203,166)	(1,268,380)	(1,259,485)	8,895
Transfers and other payments for debt service	(2,347,030)	(3,831,192)	(3,816,394)	14,798
Total other financing uses	<u>(2,048,661)</u>	<u>(4,468,340)</u>	<u>(4,444,647)</u>	<u>23,693</u>
EXCESS OF REVENUES OVER EXPENDITURES AND				
OTHER FINANCING SOURCES (USES)	<u>\$ —</u>	<u>\$ —</u>	5,105	<u>\$ 5,105</u>
FUND BALANCE AT BEGINNING OF YEAR			412,736	
FUND BALANCE AT END OF YEAR			<u>\$ 417,841</u>	

See accompanying notes to financial statements.

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

	Budget		Actual	Better (Worse) Than Modified Budget
	Adopted	Modified		
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	1,896,935	2,308,387	1,798,313	(510,074)
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	<u>43,337,007</u>	<u>47,687,301</u>	<u>47,297,054</u>	<u>(390,247)</u>
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	109,794	143,116	134,597	8,519
Other	675,429	427,818	484,288	(56,470)
Total expenditures	<u>40,693,165</u>	<u>43,199,620</u>	<u>42,861,235</u>	<u>338,385</u>
Excess of revenues over expenditures	<u>2,643,842</u>	<u>4,487,681</u>	<u>4,435,819</u>	<u>(51,862)</u>
OTHER FINANCING USES:				
Transfer to Nonmajor Debt Service Fund	(3,163)	(904,498)	(904,472)	26
Transfers and other payments for debt service	(2,640,679)	(3,583,183)	(3,526,689)	56,494
Total other financing uses	<u>(2,643,842)</u>	<u>(4,487,681)</u>	<u>(4,431,161)</u>	<u>56,520</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER				
FINANCING USES	<u>\$ —</u>	<u>\$ —</u>	4,658	<u>\$ 4,658</u>
FUND BALANCE AT BEGINNING OF YEAR			408,078	
FUND BALANCE AT END OF YEAR			<u>\$ 412,736</u>	

See accompanying notes to financial statements.

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

JUNE 30, 2005
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash and cash equivalents	\$ 351,779	\$ 623,829
Receivables:		
Member loans	1,569,615	—
Investment securities sold	3,057,868	—
Accrued interest and dividends	425,440	—
Investments:		
Other short-term investments	3,520,718	—
Debt securities	24,154,400	736,245
Equity securities	50,218,622	—
Guaranteed investment contracts	2,112,418	—
Management investment contracts	129,196	—
Mutual funds	21,086,381	—
Collateral from securities lending transactions	17,394,339	—
Due from other funds	2,936	—
Other	97,267	—
Total assets	<u>124,120,979</u>	<u>1,360,074</u>
LIABILITIES:		
Accounts payable and accrued liabilities	330,467	619,119
Payable for investment securities purchased	6,116,650	—
Accrued benefits payable	339,981	—
Due to other funds	2,936	—
Securities lending transactions	17,450,308	—
Other	917	740,955
Total liabilities	<u>24,241,259</u>	<u>1,360,074</u>
NET ASSETS:		
Held in Trust for Benefit Payments	<u>\$ 99,879,720</u>	<u>\$ —</u>

See accompanying notes to financial statements.

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

JUNE 30, 2004
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>	<u>Agency Funds</u>
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	1,934,942	—
Management investment contracts	138,054	—
Mutual funds	18,117,309	—
Collateral from securities lending transactions	17,681,528	—
Due from other funds	1,911	—
Other	65,704	10
Total assets	<u>118,849,528</u>	<u>1,704,524</u>
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	<u>23,996,323</u>	<u>1,704,524</u>
NET ASSETS:		
Held in Trust for Benefit Payments	<u>\$ 94,853,205</u>	<u>\$ —</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>
ADDITIONS:	
Contributions:	
Member contributions	\$ 1,203,213
Employer contributions	3,670,481
Other employer contributions	20,429
Total contributions	<u>4,894,123</u>
Investment income:	
Interest income	1,504,709
Dividend income	1,098,519
Net appreciation in fair value of investments	6,751,803
Less investment expenses	168,249
Investment income, net	<u>9,186,782</u>
Securities lending transactions:	
Securities lending income	428,609
Securities lending fees	(371,066)
Net securities lending income	<u>57,543</u>
Payments from other funds	4,963
Other	88,869
Total additions	<u>14,232,280</u>
DEDUCTIONS:	
Benefit payments and withdrawals	9,074,863
Other	24,729
Administrative expenses	106,173
Total deductions	<u>9,205,765</u>
Increase in plan net assets	5,026,515
NET ASSETS:	
Held in Trust for Benefit Payments:	
Beginning of Year	<u>94,853,205</u>
End of Year	<u>\$ 99,879,720</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(in thousands)

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2005
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2004	Housing Development Corporation October 31, 2004	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	\$ 1,099,053	\$ 497,026	\$ 73	\$ 470,357	\$ 49,296	\$ 19,545	\$ 58,502	\$ 2,193,852
Investments, including accrued interest	868,302	555,463	152,057	42,209	236	—	999,292	2,617,559
Other receivables	437,477	93,974	63,598	648,391	91,250	917	594,918	1,930,525
Mortgage loans and interest receivable, net	—	327	3,708,419	—	29,284	—	—	3,738,030
Inventories	—	12,502	—	26,090	—	—	—	38,592
Due from Primary Government	31,390	—	—	—	—	—	—	31,390
Restricted cash and investments	—	9,367	1,362,298	260,061	135,110	6,432	139,568	1,912,836
Capital assets:								
Construction work-in-progress	4,010,861	—	—	543,418	—	—	—	4,554,279
Property, plant and equipment	18,179,382	10,056,173	5,364	4,426,387	8,654	62,953	149,405	32,888,318
Accumulated depreciation	(6,181,283)	(5,081,693)	(1,992)	(2,846,214)	(4,627)	(49,868)	(37,366)	(14,203,043)
Other	125,582	68,858	59,249	24,531	21,374	—	7,302	306,896
Total assets	<u>18,570,764</u>	<u>6,211,997</u>	<u>5,349,066</u>	<u>3,595,230</u>	<u>330,577</u>	<u>39,979</u>	<u>1,911,621</u>	<u>36,009,234</u>
LIABILITIES:								
Accounts payable and accrued liabilities	13,535	629,724	213,263	967,540	79,255	22,295	11,720	1,937,332
Accrued interest payable	31,300	1,225	28,339	12,941	—	—	—	73,805
Deferred revenues	89,210	16,883	74,509	—	790	—	11,872	193,264
Due to Primary Government	288,136	—	422,726	—	—	226	—	711,088
Other	—	47,946	—	—	3,744	9,219	3,135	64,044
Noncurrent Liabilities:								
Due within one year	1,037,984	41,532	108,730	61,982	—	1,900	1,149	1,253,277
Due in more than one year	13,955,495	212,133	3,697,386	1,088,998	91,293	6,981	1,727,821	20,780,107
Total liabilities	<u>15,415,660</u>	<u>949,443</u>	<u>4,544,953</u>	<u>2,131,461</u>	<u>175,082</u>	<u>40,621</u>	<u>1,755,697</u>	<u>25,012,917</u>
NET ASSETS:								
Invested in capital assets, net of related debt	2,803,031	4,871,990	—	1,081,764	2,933	12,682	111,001	8,883,401
Restricted for:								
Capital projects	—	—	—	—	58,554	6,432	—	64,986
Debt service	152,544	—	367,534	111,101	—	—	137,927	769,106
Loans/security deposits	—	—	—	—	68,385	—	2,597	70,982
Statutory reserve	—	—	—	27,948	—	—	—	27,948
Donor restrictions	—	—	—	11,859	—	—	—	11,859
Operations	145,693	—	—	—	—	—	—	145,693
Unrestricted (deficit)	53,836	390,564	436,579	231,097	25,623	(19,756)	(95,601)	1,022,342
Total net assets (deficit)	<u>\$ 3,155,104</u>	<u>\$ 5,262,554</u>	<u>\$ 804,113</u>	<u>\$ 1,463,769</u>	<u>\$ 155,495</u>	<u>\$ (642)</u>	<u>\$ 155,924</u>	<u>\$10,996,317</u>

See accompanying notes to financial statements.

**THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS**

JUNE 30, 2004
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2003	Housing Development Corporation October 31, 2003	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
ASSETS:								
Cash and cash equivalents	\$ 10,929	\$ 719,562	\$ 262,728	\$ 282,189	\$ 34,932	\$ 17,231	\$ 54,014	\$ 1,381,585
Investments, including accrued interest	96	315,693	293,513	77,381	236	—	11,284	698,203
Other receivables	444,106	104,660	9,381	672,583	107,044	700	4,338	1,342,812
Mortgage loans and interest receivable, net	—	840	3,499,161	—	31,171	—	—	3,531,172
Inventories	—	16,658	—	25,816	—	—	—	42,474
Due from Primary Government	3,323	—	—	—	—	—	—	3,323
Restricted cash and investments	1,964,855	9,139	904,272	244,867	145,151	4,704	157,131	3,430,119
Capital assets:								
Construction work-in-progress	3,564,455	—	—	480,936	—	—	539,631	4,585,022
Property, plant and equipment	17,358,070	9,653,963	6,711	4,161,736	6,931	62,227	124,891	31,374,529
Accumulated depreciation	(5,748,397)	(4,776,187)	(2,447)	(2,718,335)	(3,522)	(47,354)	(31,164)	(13,327,406)
Other	112,540	40,480	63,926	27,456	20,366	—	7,169	271,937
Total assets	<u>17,709,977</u>	<u>6,084,808</u>	<u>5,037,245</u>	<u>3,254,629</u>	<u>342,309</u>	<u>37,508</u>	<u>867,294</u>	<u>33,333,770</u>
LIABILITIES:								
Accounts payable and accrued liabilities	31,550	622,234	194,328	865,399	95,560	17,246	12,574	1,838,891
Accrued interest payable	24,331	1,381	30,931	12,413	—	—	—	69,056
Deferred revenues	78,231	13,068	63,104	—	850	—	29,239	184,492
Due to Primary Government	451,162	—	414,183	—	—	270	—	865,615
Other	—	39,083	—	—	6,568	5,819	1,717	53,187
Noncurrent Liabilities:								
Due within one year	1,004,640	44,255	306,982	29,369	—	1,892	1,260	1,388,398
Due in more than one year	12,565,882	235,405	3,250,165	1,020,432	101,167	7,148	691,520	17,871,719
Total liabilities	<u>14,155,796</u>	<u>955,426</u>	<u>4,259,693</u>	<u>1,927,613</u>	<u>204,145</u>	<u>32,375</u>	<u>736,310</u>	<u>22,271,358</u>
NET ASSETS:								
Invested in capital assets, net of related debt	3,368,355	4,763,939	—	966,674	3,172	14,254	92,635	9,209,029
Restricted for:								
Capital projects	—	—	—	—	50,642	4,704	—	55,346
Debt service	179,106	—	390,761	114,790	—	—	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)	(128,971)	365,443	386,791	207,613	15,266	(13,825)	(25,450)	806,867
Total net assets	<u>\$ 3,554,181</u>	<u>\$ 5,129,382</u>	<u>\$ 777,552</u>	<u>\$ 1,327,016</u>	<u>\$ 138,164</u>	<u>\$ 5,133</u>	<u>\$ 130,984</u>	<u>\$11,062,412</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2004	Housing Development Corporation October 31, 2004	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
Expenses	\$ 2,460,002	\$ 2,708,293	\$ 153,225	\$ 4,790,666	\$ 601,067	\$ 257,041	\$ 49,035	\$11,019,329
Program Revenues:								
Charges for services	1,884,727	655,012	153,911	3,924,462	285,843	248,325	48,923	7,201,203
Operating grants and contributions	—	1,688,271	—	405,007	23,535	—	—	2,116,813
Capital grants, contributions and other	—	405,522	—	236,740	301,347	—	21,312	964,921
Total program revenues	<u>1,884,727</u>	<u>2,748,805</u>	<u>153,911</u>	<u>4,566,209</u>	<u>610,725</u>	<u>248,325</u>	<u>70,235</u>	<u>10,282,937</u>
Net (expenses) program revenues	<u>(575,275)</u>	<u>40,512</u>	<u>686</u>	<u>(224,457)</u>	<u>9,658</u>	<u>(8,716)</u>	<u>21,200</u>	<u>(736,392)</u>
General Revenues:								
Investment income	97,362	28,585	25,875	11,915	3,645	483	1,845	169,710
Unrestricted Federal and State aid	—	—	—	—	3,384	—	—	3,384
Other	78,836	64,075	—	349,295	644	2,458	1,895	497,203
General revenues, net	<u>176,198</u>	<u>92,660</u>	<u>25,875</u>	<u>361,210</u>	<u>7,673</u>	<u>2,941</u>	<u>3,740</u>	<u>670,297</u>
Change in net assets	(399,077)	133,172	26,561	136,753	17,331	(5,775)	24,940	(66,095)
Net assets—beginning	<u>3,554,181</u>	<u>5,129,382</u>	<u>777,552</u>	<u>1,327,016</u>	<u>138,164</u>	<u>5,133</u>	<u>130,984</u>	<u>11,062,412</u>
Net assets (deficit)—ending	<u>\$ 3,155,104</u>	<u>\$ 5,262,554</u>	<u>\$ 804,113</u>	<u>\$ 1,463,769</u>	<u>\$ 155,495</u>	<u>\$ (642)</u>	<u>\$ 155,924</u>	<u>\$10,996,317</u>

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)

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

See accompanying notes to financial statements.

THE CITY OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 and 2004

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. No obligations of MAC may mature later than July 1, 2008. The Act provides that MAC shall continue for a term of one year after all its liabilities have been fully paid and discharged.

In May, 2003, the State of New York legislature passed a bill entitled the MAC Refinancing Act (MRA). Under the terms of MRA, the City established a local development corporation known as STAR — see **Sales Tax Asset Receivable Corporation (STAR)**.

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.

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 develop combined occupancy structures containing school and nonschool portions. 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.

Fiscal Year 2005 Securitization Corporation (FSC). FSC was established in 2004 as a special purpose, bankruptcy-remote, local development corporation organized under the not-for-profit corporation law of the State of New York. FSC is a financing instrumentality of the City, but is a separate legal entity from the City. FSC was formed to lessen the burdens of City government and to act in the public interest by issuing and selling 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. FSC does not have any employees; its affairs are administered by employees of another component unit of the City, for which FSC pays a management fee based on its allocated share of personnel and overhead costs.

Sales Tax Asset Receivable Corporation (STAR). STAR is a special purpose, bankruptcy-remote, local development corporation organized under the not-for-profit corporation law of the State of New York in 2003. STAR is a financing instrumentality of the City, but is a separate legal entity from the City. STAR was created to issue debt to finance the payment of principal, interest, and

redemption premium (if any), on all outstanding bonds, notes, or other obligations of MAC, on all outstanding bonds of the City held by MAC, and to reimburse the City for amounts retained by MAC since July 1, 2003 for debt service; also, to pay certain expenses including capitalized interest and financing costs. The foregoing was consideration for an assignment by the City of all of its rights and interest in the \$170 million annual payment by the New York State Local Government Assistance Corporation which commenced with fiscal year 2004 and will terminate with fiscal year 2034 and which will be used for debt service on STAR bonds. STAR does not have any employees; its affairs are administered by employees of another component unit of the City, for which STAR pays a management fee based on its allocated share of personnel and overhead costs.

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 integrated health care networks provide the full continuum of care—primary and specialty care, inpatient acute, outpatient, long-term care, and home health services—under a single medical and financial management structure. HHC's financial statements include the accounts of HHC and its blended component units, MetroPlus Health Plan, Inc., HHC Insurance Company, Inc., 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. HHC 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-mutuel 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 pari-mutuel tickets to the State; (iv) allocates the 1% capital acquisition surcharge on multiple, exotic, and super exotic wagering pools for financing the acquisition, construction, or equipping of offices, facilities, or premises of OTB; 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 was created to purchase, lease, sublease, own, hold, sell, assign, or pledge the real property known as 330 Jay Street in Brooklyn, New York and to finance the costs of construction of a building thereon which will be used for the "Courts Facility."

JSDC entered into a lease with 330 Jay Street Associates, LLC (the Developer) pursuant to which JSDC leased the Courts Facility from the Developer and the Developer undertook the design, construction, and furnishing of the Courts Facility pursuant to specifications established by the City. On April 1, 2005, JSDC purchased from the Developer both the Courts Facility and an undivided interest in the land appurtenant to the Courts Facility pursuant to JSDC's and the City's purchase option under the lease agreements and the lease with the Developer ceased. The City entered into a lease and agreement with JSDC for the City to lease the Courts Facility in exchange for rental payments in amounts sufficient to pay the principal and interest (and redemption premium if any) on bonds issued, financing costs for the bonds, administrative expenses of JSDC, and certain other costs. Unless sooner terminated,

the lease and agreement will expire in 2022 (when all of JSDC's outstanding bonds will have been paid), at which time the title for the Courts Facility and the undivided interest in the land appurtenant will transfer to the City. The City has the option to purchase the Courts Facility and the undivided interest in the land appurtenant to the Courts Facility at any time prior to the expiration of the lease by providing 60 day's written notice and making payment to JSDC of an amount sufficient to pay in full all principal and interest on bonds outstanding and all other obligations of JSDC. JSDC does not have any employees; its affairs are administered by employees of another component unit of the City, for which JSDC pays a management fee based on its allocated share of personnel and overhead costs.

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 became an inactive subsidiary of HDC. On September 20, 2004, the NYC HDC Real Estate Owned Corporation was established as a new subsidiary of HDC and was inactive as of October 31, 2004. 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 loan and bond program fees that may include: 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 bond issue and component unit, and its general operating fund to control and manage money for particular purposes and 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 debt service and capital payments; and (c) New York City in the form of operating assistance and capital 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 assists industrial, commercial, and not-for-profit organizations in obtaining long-term, low-cost financing for fixed assets through a financing transaction which includes the issuance of double and triple tax-exempt industrial development bonds and, in turn, the participating organizations must meet certain economic development criteria, the most important of which is job creation and/or retention. IDA may also provide one or more of the following tax benefits: exemption from mortgage recording tax; payments in lieu of real property taxes that are less than full taxes; and exemption from City and State sales and use taxes as applied to construction materials and machinery and equipment. 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 assists the City through the development, enhancement, and protection of the trademarks, patents, copyrights, and other unique intangible assets of the City and by utilizing these assets in developing marketing partnerships, sponsorships, and licensing and other agreements for the financial benefit of the City. 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.

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. BNYDC's financial statements include the accounts of BNYDC and its wholly-owned subsidiary, Craneway, Inc. 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.

WTC Captive Insurance Company, Inc. (WTC Captive). WTC Captive is a not-for-profit corporation formed in the State of New York in 2004 in response to the events of September 11, 2001. WTC Captive was funded by the Federal Emergency Management Agency (FEMA) and used this funding to support issuance of an insurance contract which provides specified coverage (general liability, environmental liability, professional liability, and marine liability) against certain third-party claims made against the City and approximately 145 contractors and subcontractors working on the City's FEMA-funded debris removal project at and near the World Trade Center site during the 'exposure period' from September 11, 2001 to August 30, 2002. WTC Captive has a calendar year-end.

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 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 2005, the City adopted two new statements and a Technical Bulletin of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 46 *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34
- Statement No. 47 *Accounting for Termination Benefits*
- Technical Bulletin No. 2004-2 *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*

Statement No. 46 amends a paragraph of Statement No. 34, *Basic Financial Statements — and Managements' Discussion and Analysis — for State and Local Governments* which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to the City — such as citizens, public interest groups, or the judiciary — can compel the City to honor. Statement No. 46 states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the City has other cause for reconsideration. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires the City to disclose the portion of total net assets that is restricted by enabling legislation. The changes wrought by Statement No. 46 improve the understandability and comparability of net asset information by: (i) making the assessment of legal enforceability more uniform across governments; (ii) helping governments determine how to respond to changes in the circumstances surrounding an enabling legislation restriction; and (iii) by allowing users to distinguish qualifying restrictions on resource use imposed through the City's own actions from other types of net asset restrictions.

There was no impact on the City's financial statements as a result of the implementation of Statment No. 46.

Statement No. 47 provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, including voluntary termination benefits (*e.g.*, early-retirement incentives), without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits (*e.g.*, severance benefits). This Statement excludes postemployment benefits (pensions and other postemployment benefits [OPEB]) which are part of the compensation that is offered in exchange for services received because they differ in nature from termination benefits. Accounting and reporting requirements for pensions and OPEB are addressed in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, respectively. Statement No. 47 requires the City to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the City becomes obligated if that information is not otherwise identifiable

from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities.

There was no impact on the City's financial statements as a result of the implementation of Statement No. 47. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement will be implemented simultaneously with the requirements of Statement No. 45 (see Note A.24.).

Technical Bulletin No. 2004-2 clarifies the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for recognition of pension and other postemployment benefit (OPEB) expenditures/expense and liabilities by the City. This Technical Bulletin requires the City to recognize pension expenditures/expense equal to their contractually required contributions for the financial reporting period and a liability to the plan for contributions due and unpaid at the end of that period. The provisions of Technical Bulletin No. 2004-2 as it relates to the recognition of OPEB transactions will be implemented simultaneously with the requirements of Statement No. 45 (see Note A.24.).

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 2005 and 2004 were approximately \$.946 billion and \$2.711 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 2005 and 2004 is included in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2005 and 2004 (estimated at \$241 million and \$229 million, respectively, based on average cost) have been reported on the government-wide 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. None of the government-wide statement of net assets is restricted by enabling legislation.

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 \$451.6 million and \$695.5 million for fiscal years 2005 and 2004, 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 2005 and 2004 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 some of its existing derivatives portfolio, the City has entered into Interest Rate Exchange Agreements (swaps) and sold options related to some of these swaps. As of June 30, 2005 and 2004, the total notional amount of swaps and swaptions entered into by the City was \$3.062 billion and \$2.476 billion, respectively. The total marked to market value of the City's swaps and swaptions for fiscal years 2005 and 2004 was approximately \$(73.8) million and \$(28.3) 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	2005			2004			2003
	12	13	14	8	9	10-11	1-7
Corresponding Bond Series	2005A and 2005B	2002C, 2002D, 2003F, 2003I, 2004C, 2004D, and 2004F	2005J, 2005K, and 2005L	2004 A and B	2004 F	1998F, 1998G, 1998H, 1999A, 1999F, 2001D, 2001G, 2002G, 2003A, 2003C-1, and 2003G-1	
Swap Type	CPI Swap to Fixed	Basis Swap	CPI Swap to Fixed	Synthetic Fixed	Total Return	Swaption to Floating	
Notional Amount (000):							
as of 6/30/05	\$50,000	\$500,000	\$44,145	\$350,000	\$500,000	\$350,000	\$1,267,670
as of 6/30/04	\$ —	\$ —	\$ —	\$350,000	\$500,000	\$350,000	\$1,275,845
Up-front Cash Payment							
to the City (000)	\$ —	\$20,585	\$ —	\$ —	\$ —	\$ —	\$ 20,000
Effective Date	7/29/04	8/1/04	3/3/05	7/14/03	12/18/03	8/1/07	
Termination Date	8/1/14	12/1/33	8/1/17	8/1/31	12/15/11	8/1/24	
Final Bond Maturity	8/1/14	12/15/33	8/1/17	8/1/31	12/15/33	8/1/24	
Provider Cancel Option Date	N/A	N/A	N/A	N/A	N/A	8/1/07	
Option Premium (000)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 10,048	\$ 9,812
City Pays	4.01%/ 4.12%	BMA	4.55%/ 4.63%/ 4.71%	2.964%	BMA Index + .0035	BMA	
Payments Made by the City (000):							
as of 6/30/05	\$(1,028)	\$(7,752)	\$ —	\$(16,051)	\$(13,990)	\$ —	\$(64,072)
as of 6/30/04	\$ —	\$ —	\$ —	\$(5,677)	\$(3,354)	\$ —	\$(31,805)
City Receives	CPI plus .80% for the 2013 Maturity; and CPI plus .90% for the 2014 Maturity	Stepped % of 1-month LIBOR	CPI plus 1.50% for the 2015 Maturity; CPI plus 1.55% for the 2016 Maturity; and CPI plus 1.55% for the 2017 Maturity	61.85% of USD- LIBOR- BBA	Adjusted rates as set forth in the Confirm	4.10%	
Payments Received by the City (000):							
as of 6/30/05	\$ 747	\$ 8,330	\$ —	\$ 6,839	\$ 35,370	\$ —	\$ 35,451
as of 6/30/04	\$ —	\$ —	\$ —	\$ 2,126	\$ 11,769	\$ —	\$ 14,472
First Counterparty Payment Date	2/1/05	9/1/04	8/1/05	8/1/03	6/15/04	N/A	
First City Payment Date	2/1/05	9/1/04	8/1/05	2/4/04	6/15/04	N/A	
Marked to Market Value (000):							
as of 6/30/05	\$(1,828)	\$(11,427)	\$(1,257)	\$(11,513)	\$ 25,706	\$(6,112)	\$(67,390)
as of 6/30/04	\$ —	\$ —	\$ —	\$ 17,868	\$(2,018)	\$(11,690)	\$(32,434)

N/A Not applicable.
LIBOR London Interbank Offered Rate
BBA British Bankers Association
BMA Bond Market Association Municipal Swap Index
USD United States Dollar

Synthetic Fixed Rate Transaction

The City entered into a synthetic fixed rate swap to take advantage of the low financing costs available through the swap market. To execute this transaction in fiscal year 2004, the City issued variable rate bonds and entered into a swap in which it pays a fixed interest rate and receives 61.85% of LIBOR. As demonstrated in the table below, the net interest costs incurred through this swap was significantly below those of a hypothetical concurrent traditional fixed rate financing.

Net Effective Interest Rates Resulting From Synthetic Fixed Rate Swap

	2004 AB Variable \$350M	
	2005	2004
Fixed payment to counterparty	2.964%	2.964%
Variable payment from counterparty(1)	-1.450	-0.693
Net swap payments	1.514	2.271
Variable rate bond payments	1.822	0.963
Net effective total interest costs	<u>3.336%</u>	<u>3.234%</u>
Concurrent traditional fixed rate(2)	<u>5.050%</u>	<u>5.050%</u>

(1) Percentage of LIBOR: 2004AB Variable - 61.85%.

(2) 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.

Consumer Price Index Swaps

In July, 2004, the City entered into a \$50 million Consumer Price Index (CPI) swap because the resulting synthetic fixed rate was lower than that available with traditional fixed rate bonds. To execute this transaction, the City issued variable rate bonds referenced to an 80 basis points (2013 maturity) and 90 basis points (2014 maturity) spread to the CPI index. Under the terms of this swap, the City receives a variable rate equal to that on its underlying bonds and pays fixed rates of 4.01% (2013) and 4.12% (2014). This structure was repeated in the \$44.1 million CPI swap executed in March, 2005, except that the City pays three fixed rates (4.55%/4.63%/4.71%) and receives three variable rates (CPI+1.50%/CPI+1.55%/CPI+1.55%) referenced to each of three separate maturities (2015/2016/2017).

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 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.

Swaptions

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 option premium without any additional financial exposure.

Basis Swap

In August, 2004, the City entered into a \$500.0 million basis swap in which the City pays a variable rate based on BMA and receives a variable rate based on a stepped percentage of one-month LIBOR. This basis swap 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. Although this effect is mitigated somewhat by the stepped decreases

in the percentage of LIBOR that the City receives as the overall level of LIBOR increases, this structure provides protection against the historic compression of the BMA and LIBOR indices in low interest rate environments.

Risks

Below is a list of risks inherent in the types of swap transactions that the City has entered into during fiscal years 2005 and 2004.

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 just described: 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 August, 2004 basis swap, the City's variable payer rate is based on BMA and its variable receiver rate on a percentage of LIBOR. However, the stepped percentages of LIBOR received by the City mitigate the risk that the City will be harmed in low interest rate environments by the compression of the BMA and LIBOR indices. As the overall level of interest rates decrease, the percentage of LIBOR received by the City increases.

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 transaction and variable payer rate in the basis swap.

15. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2005 were due July 1, 2004 and January 1, 2005 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 2005 taxes was June 24, 2004. 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.

In fiscal year 2005, there was a change in the calculation of the discount offered for the prepayment of fiscal year 2006 real estate taxes. Payment of real estate taxes before July 15, 2005, on properties with an assessed value of \$80,000 or less and before July 1, 2005, on properties with an assessed value over \$80,000 received an actual 1.5% discount. In fiscal year 2004, the discount calculation was based on an annualized rate of 2% from when payment was due. Collections of these real estate taxes received on or before June 30, 2005 and 2004 were \$3.3 billion and \$2.4 billion, respectively. These amounts were recorded as deferred revenue.

The City sold approximately \$48.7 million of real property tax liens, fully attributable to fiscal year 2005, at various dates in fiscal year 2005. 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 \$10.6 million worth of liens sold in fiscal year 2005 will require replacement. The estimated refund accrual amount of \$11.0 million, including the surcharge and interest, results in fiscal year 2005 sale proceeds of \$37.7 million.

In fiscal year 2005, \$10.9 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2004 sale. This resulted in a decrease to fiscal year 2005 revenue of \$2.9 million for the refund amount in excess of the fiscal year 2004

accrual of \$8 million and decreased the proceeds of the fiscal year 2004 sale to \$86.9 million down from the original fiscal year 2004 proceeds reported last year of \$89.8 million.

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.

In fiscal years 2005 and 2004, \$358 million and \$346 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, 2005 and 2004, excess amounts of \$341 million and \$307 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.

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.

In June, 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. The Statement provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, including voluntary termination benefits (e.g., early-retirement incentives), without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits (e.g., severance benefits). Statement No. 47 excludes postemployment benefits (pensions and other postemployment benefits [OPEB]) which are part of the compensation that is offered in exchange for services received because they differ in nature from termination benefits. Accounting and reporting requirements for pensions and OPEB are addressed in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, respectively. The Statement requires

the City to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the City becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. The requirements of Statement No. 47 are effective in two parts. While Statement No. 47 should be implemented simultaneously with the requirements of Statement No. 45 for termination benefits provided through an existing defined benefit OPEB plan and its earlier implementation encouraged, there is presently no impact on the City's financial statements from the issuance of Statement No. 47 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. For all other termination benefits, Statement No. 47 was implemented for fiscal year 2005 (see Note A.2.).

In December, 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*. The Technical Bulletin clarifies the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for recognition of pension and other postemployment benefit (OPEB) expenditures/expense and liabilities by the City. This Technical Bulletin requires the City to recognize OPEB expenditures/expense equal to their contractually required contributions for the financial reporting period and a liability to the plan for contributions due and unpaid at the end of that period. While the provisions of Technical Bulletin No. 2004-2 as it relates to the recognition of OPEB transactions will be implemented simultaneously with the requirements of Statement No. 45 and their earlier implementation encouraged, there is presently no impact on the City's financial statements from the issuance of Technical Bulletin No. 2004-2 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. As it relates to pension transactions, Technical Bulletin No. 2004-2 was implemented for fiscal year 2005 (see Note A.2.).

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 \$6.490 billion and \$4.350 billion subsequent to its original adoption in fiscal years 2005 and 2004, respectively.

Financial Plans

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

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

2. Deficit Fund Balance

The New York City Capital Projects Fund has cumulative deficits of \$1.5 billion and \$1.7 billion at June 30, 2005 and 2004, 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, 2005 and 2004, the carrying amount of the City’s unrestricted cash and cash equivalents was \$6.273 billion and \$2.134 billion, respectively, and the bank balances were \$5.282 billion and \$1.865 billion, respectively. Of the unrestricted bank balances, \$1.189 billion and \$.674 billion were uninsured and uncollateralized at June 30, 2005 and 2004, respectively. At June 30, 2005 and 2004, the carrying amount of the restricted cash and cash equivalents was \$1.784 billion and \$.606 billion, respectively, and the bank balances were \$3.665 million and \$.9 million, respectively. Of the restricted bank balances, \$3.347 million and \$.708 million, respectively, were uninsured and uncollateralized.

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, 2005 and 2004:

Governmental activities:

Investment Type	Investment Maturities			
	(in years)			
	2005		2004	
	Less than 1	1 to 5	Less than 1	1 to 5
	(in thousands)			
Unrestricted				
Commercial paper	\$1,111,156	\$ —	\$1,260,969	\$ —
U.S. Government securities	325,344	18,352	1,291,836	—
Money markets	4,403,601	—	1,411,286	—
U.S. Discount notes	1,203,597	—	709,487	—
Repurchase agreements	113,854	—	1,014,979	—
Certificates of deposit	200,000	—	—	—
Agency Fixed coupon	10,169	19,894	—	—
Total unrestricted	<u>\$7,367,721</u>	<u>\$ 38,246</u>	<u>\$5,688,557</u>	<u>\$ —</u>
Restricted				
Commercial paper	\$ 48,637	\$ —	\$ 161,470	\$ —
U.S. Government securities	157,316	392,021	26,616	—
U.S. Discount notes	18	32,634	6,105	307,295
U.S. Federal notes	—	273,457	—	—
Total restricted	<u>\$ 205,971</u>	<u>\$ 698,112</u>	<u>\$ 194,191</u>	<u>\$ 307,295</u>

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

1. Fixed income investments may be made in U.S. Government guaranteed securities or securities of U.S. Government agencies, securities of companies rated BBB or better by both Standard and Poor's Corporation and Moody's Investors Service, Inc., and any bond that meets the qualifications of the New York State Retirement and Social Security Law, the New York State Banking Law, and the New York City Administrative Code.
2. Equity investments may be made only in those stocks that meet the qualifications of the New York State Retirement and Social Security Laws, the New York State Banking Law, and the New York City Administrative Code.
3. Short-term investments may be made in the following:
 - a. U.S. Government guaranteed securities or U.S. Government agency securities.
 - b. Commercial paper rated A1 or P1 or F1 by Standard & Poor's Corporation or Moody's Investors Service, Inc. or Fitch, respectively.
 - c. Repurchase agreements collateralized in a range of 100% to 102% of matured value, purchased from primary dealers of U.S. Government securities.
 - d. Investments in bankers' acceptances, certificates of deposit, and time deposits are limited to banks with worldwide assets in excess of \$50 billion that are rated within the highest categories of the leading bank rating services and selected regional banks also rated within the highest categories.
4. Investments up to 15% of total pension fund assets in instruments not specifically covered by the New York State Retirement and Social Security Law.
5. No investment in any one corporation can be: (i) more than 2% of the pension plan net assets; or (ii) more than 5% of the total outstanding issues of the corporation.

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

Securities Lending

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

All securities loans can be terminated on demand within a period specified in each agreement by either the Systems and Funds or the borrowers. The underlying fixed income securities have an average maturity of 10 years. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. During fiscal year 2003, the value of certain underlying securities became impaired because of the credit failure of the issuer. Accordingly, the carrying amounts of the collateral reported in four of the Systems' statements of fiduciary net assets 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 during fiscal year 2005, an additional \$18.2 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, 2004 and 2005:

Primary Government	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
	(in thousands)						
Governmental activities:							
Capital assets, not being depreciated:							
Land	\$ 738,911	\$ 21,694	\$ —	\$ 760,605	\$ 187,630	\$ —	\$ 948,235
Construction work-in-progress	2,972,487	1,872,094	2,156,848	2,687,733	1,706,981	2,340,583	2,054,131
Total capital assets, not being depreciated	3,711,398	1,893,788	2,156,848	3,448,338	1,894,611	2,340,583	3,002,366
Capital assets, being depreciated:							
Buildings	26,005,880	2,156,848	49,814	28,112,914	2,340,583	41,318	30,412,179
Equipment	5,736,545	163,613	202,044	5,698,114	170,562	343,773	5,524,903
Infrastructure	10,026,917	843,968	376,617	10,494,268	1,045,593	433,963	11,105,898
Total capital assets, being depreciated	41,769,342	3,164,429	628,475	44,305,296	3,556,738	819,054	47,042,980
Less accumulated depreciation:							
Buildings	9,610,498	869,455	19,110	10,460,843	981,157	35,940	11,406,060
Equipment	3,190,941	413,061	195,175	3,408,827	871,976	329,288	3,951,515
Infrastructure	3,784,435	517,590	376,617	3,925,408	513,443	433,962	4,004,889
Total accumulated depreciation	16,585,874	1,800,106 ⁽¹⁾	590,902	17,795,078	2,366,576 ⁽¹⁾	799,190	19,362,464
Total capital assets, being depreciated, net	25,183,468	1,364,323	37,573	26,510,218	1,190,162	19,864	27,680,516
Governmental activities capital assets, net	<u>\$28,894,866</u>	<u>\$3,258,111</u>	<u>\$2,194,421</u>	<u>\$29,958,556</u>	<u>\$3,084,773</u>	<u>\$2,360,447</u>	<u>\$30,682,882</u>

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2005 and 2004 as follows:

	2005	2004
	(in thousands)	
Governmental activities:		
General government	\$ 260,528	\$ 250,978
Public safety and judicial	644,899	158,771
Education	564,431	504,266
City University	10,870	11,054
Social services	49,554	75,066
Environmental protection	193,380	160,663
Transportation services	399,272	393,981
Parks, recreation and cultural activities	167,689	185,576
Housing	32,354	31,065
Health	31,761	17,630
Libraries	11,838	11,056
Total depreciation expense—governmental activities	<u>\$2,366,576</u>	<u>\$1,800,106</u>

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2005 and 2004. Sources of funding for capital assets are not available prior to fiscal year 1987.

	<u>2005</u>	<u>2004</u>
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	\$ 5,356,751	\$ 5,756,420
City bonds	39,776,698	37,925,804
Federal grants	881,652	879,841
State grants	168,352	167,799
Private grants	161,950	159,727
Capitalized leases	<u>3,699,943</u>	<u>2,864,043</u>
Total funding sources	<u>\$50,045,346</u>	<u>\$47,753,634</u>

At June 30, 2005 and 2004, 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, 2005 and 2004 are leased properties capitalized at \$3.700 billion and \$2.864 billion, respectively, with related accumulated amortization of \$656 million and \$517 million, respectively.

Capital Commitments

At June 30, 2005, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately \$11.3 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 \$62.4 billion over fiscal years 2006 through 2015. To help meet its capital spending program, the City borrowed \$4.1 billion in the public credit market in fiscal year 2005. The City plans to borrow \$4.2 billion in the public credit market in fiscal year 2006.

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, 2005 and 2004 were approximately \$556 million and \$519 million, respectively.

As of June 30, 2005, the City (excluding discretely presented component units) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u> (in thousands)	<u>Total</u>
Governmental activities:			
Fiscal year ending June 30:			
2006	\$ 206,029	\$ 317,868	\$ 523,897
2007	254,265	307,612	561,877
2008	251,088	291,757	542,845
2009	225,192	275,550	500,742
2010	232,810	255,434	488,244
2011-2015	1,131,027	992,160	2,123,187
2016-2020	982,726	621,924	1,604,650
2021-2025	633,084	174,539	807,623
2026-2030	342,421	12,234	354,655
2031-2035	168,660	—	168,660
2036-2040	75,126	—	75,126
Future minimum payments	<u>4,502,428</u>	<u>\$3,249,078</u>	<u>\$7,751,506</u>
Less interest	<u>1,458,348</u>		
Present value of future minimum payments	<u>\$3,044,080</u>		

The present value of future minimum lease payments includes approximately \$1.648 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, 2005 and 2004 was approximately \$944 million and \$108 million, respectively. As of June 30, 2005, the following future minimum rentals are provided for by the leases:

	<u>Capital Leases</u>	<u>Operating Leases</u> (in thousands)	<u>Total</u>
Governmental activities:			
Fiscal year ending June 30:			
2006	\$ 3,666	\$ 157,331	\$ 160,997
2007	3,714	149,233	152,947
2008	3,715	142,545	146,260
2009	3,716	141,043	144,759
2010	3,716	136,972	140,688
2011-2015	8,852	650,804	659,656
2016-2020	7,025	617,606	624,631
2021-2025	6,895	583,095	589,990
2026-2030	6,981	556,813	563,794
2031-2035	6,858	557,803	564,661
2036-2040	4,045	536,559	540,604
2041-2045	2,384	516,399	518,783
2046-2050	2,206	515,635	517,841
2051-2055	2,150	88,992	91,142
2056-2060	2,150	42,242	44,392
2061-2065	2,150	42,242	44,392
2066-2070	2,150	42,030	44,180
2071-2075	2,150	40,117	42,267
2076-2080	1,841	30,266	32,107
2081-2085	—	21,692	21,692
2086-2090	—	6,508	6,508
2091-2095	—	2	2
Future minimum lease rentals	<u>76,364</u>	<u>\$ 5,575,929</u>	<u>\$ 5,652,293</u>
Less interest	<u>44,926</u>		
Present value of future minimum lease rentals	<u>\$ 31,438</u>		

4. Short-Term Liabilities

Changes in Short-term liabilities

In fiscal years 2004 and 2005, the changes in short-term liabilities were as follows:

Primary Government	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
	(in thousands)						
Governmental activities:							
Notes payable:							
Revenue anticipation notes (1) . . . \$	—	\$1,250,000	\$1,250,000	\$ —	\$ —	\$ —	\$ —
Tax anticipation notes (1)	—	250,000	250,000	—	—	—	—
Bond anticipation notes (2) . . .	1,110,000	—	1,110,000	—	—	—	—
Total notes payable	<u>\$1,110,000</u>	<u>\$1,500,000</u>	<u>\$2,610,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

- (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 2004 and 2005, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005	Due Within One Year
	(in thousands)							
Governmental activities:								
Bonds payable:								
General obligation bonds	\$29,679,009	\$6,461,265	\$4,761,889	\$31,378,385	\$ 6,775,250	\$4,250,356	\$33,903,279	\$1,433,498
1991 general resolution bonds	2,151,320	—	393,305	1,758,015	—	1,758,015	—	—
Future tax secured bonds	12,024,260	1,940,860	601,235	13,363,885	920,645	1,307,915	12,976,615	373,245
Tobacco flexible amortization bonds . .	1,258,320	39,709	42,310	1,255,719	48,333	20,755	1,283,297	14,654
IDA bonds	—	107,960	—	107,960	—	1,695	106,265	1,775
STAR bonds	—	—	—	—	2,551,435	—	2,551,435	46,785
FSC bonds	—	—	—	—	498,845	38,550	460,295	73,735
Revenue bonds(1)	116,965	—	9,775	107,190	99,140	71,370	134,960	51,015
Total before treasury obligations and discounts	45,229,874	8,549,794	5,808,514	47,971,154	10,893,648	7,448,656	51,416,146	1,994,707
Less treasury obligations	63,996	—	12,480	51,516	—	12,664	38,852	12,968
Total before discounts	45,165,878	8,549,794	5,796,034	47,919,638	10,893,648	7,435,992	51,377,294	1,981,739
Less premiums/discounts (net)	130,068	35,523	341,574	(175,983)	37,933	477,453	(615,503)	—
Total bonds payable	45,035,810	8,514,271	5,454,460	48,095,621	10,855,715	6,958,539	51,992,797	1,981,739
Capital lease obligations	2,211,159	204,652	69,822	2,345,989	835,900	137,809	3,044,080	134,329
Real estate tax refunds	696,562	111,380	173,563	634,379	125,323	137,350	622,352	148,331
Other tax refunds	1,417,604	119,649	367,386	1,169,867	81,538	(170,133)	1,421,538	81,538
Judgments and claims	4,537,402	1,115,333	1,225,601	4,427,134	1, 424,305	1,041,268	4,810,171	1,352,784
Vacation and sick leave	2,597,492	118,499	159,326	2,556,665	237,811	200,785	2,593,691	200,785
Pension liability	585,500	187,600	65,100	708,000	176,100	77,900	806,200	—
Landfill closure and post-closure care costs	1,263,769	126,531	39,168	1,351,132	49,797	100,847	1,300,082	38,311
Total changes in governmental activities long-term liabilities	<u>\$58,345,298</u>	<u>\$10,497,915</u>	<u>\$7,554,426</u>	<u>\$61,288,787</u>	<u>\$13,786,489</u>	<u>\$8,484,365</u>	<u>\$66,590,911</u>	<u>\$3,937,817</u>

(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, 2005 and 2004 summarized by type of issue are as follows:

Primary Government	2005			2004		
	General Obligations	Revenue	Total	General Obligations	Revenue	Total
(in thousands)						
Governmental activities:						
Bonds payable:						
General obligation bonds	\$33,864,427	\$ —	\$33,864,427	\$31,326,869	\$ —	\$31,326,869
1991 general resolution bonds	—	—	—	1,758,015	—	1,758,015
Future tax secured bonds	12,976,615	—	12,976,615	13,363,885	—	13,363,885
Tobacco flexible amortization bonds	1,283,297	—	1,283,297	1,255,719	—	1,255,719
IDA bonds	106,265	—	106,265	107,960	—	107,960
STAR bonds	2,551,435	—	2,551,435	—	—	—
FSC bonds	460,295	—	460,295	—	—	—
Revenue bonds	—	134,960	134,960	—	107,190	107,190
Total bonds payable	<u>\$51,242,334</u>	<u>\$134,960</u>	<u>\$51,377,294</u>	<u>\$47,812,448</u>	<u>\$107,190</u>	<u>\$47,919,638</u>

The following table summarizes future debt service requirements as of June 30, 2005:

Primary Government	Governmental Activities			
	General Obligation Bonds		Revenue Bonds	
	Principal	Interest(1)	Principal	Interest
(in thousands)				
Fiscal year ending June 30:				
2006	\$ 1,930,724	\$ 2,258,608	\$ 51,015	\$ 3,639
2007	2,227,277	2,175,625	12,095	3,365
2008	2,248,729	2,076,016	13,665	2,903
2009	2,278,136	1,981,067	7,220	2,364
2010	2,306,314	1,877,278	5,880	2,063
2011-2015	11,583,549	8,066,902	21,630	7,215
2016-2020	11,271,658	5,444,702	9,380	4,313
2021-2025	9,541,076	2,974,427	11,585	2,136
2026-2030	5,785,482	1,113,205	2,490	109
2031-2035	2,052,973	175,366	—	—
2036-2040	16,369	1,393	—	—
2041-2045	2	17	—	—
Thereafter until 2147	45	159	—	—
	<u>51,242,334</u>	<u>28,144,765</u>	<u>134,960</u>	<u>28,107</u>
Less interest component	—	28,144,765	—	28,107
Total future debt service requirements	<u>\$51,242,334</u>	<u>\$ —</u>	<u>\$134,960</u>	<u>\$ —</u>

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

The average (weighted) interest rates for outstanding City general obligation bonds as of June 30, 2005 and 2004 were 4.8% and 4.9%, respectively, and both ranged from 0% to 13.5%, and the interest rates on outstanding MAC bonds as of both June 30, 2005 and 2004 ranged from 9% to 13.5%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2005 and 2004, the City issued \$2.855 billion and \$3.417 billion, respectively, of general obligation bonds to advance refund general obligation bonds of \$2.741 billion and \$3.258 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of \$1.4 million and \$3.0 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 2005, the refunding transactions will decrease the City's aggregate debt service payments by \$174.7 million and provide an economic gain of \$126.6 million. In fiscal year 2004, the refunding transactions decreased the City's aggregate debt service payments by \$240.1 million and provided an economic gain of \$198.5 million. At June 30, 2005 and 2004, \$10.524 billion and \$8.538 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, 2005, the 10% general limitation was approximately \$47.051 billion (compared with \$43.115 billion as of July 1, 2004). Also, as of July 1, 2005, the combined City and TSASC remaining debt-incurring power totaled \$9.134 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, 2005 and 2004, 49.61% and 47.86%, 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 \$320.8 million and \$313.9 million as of June 30, 2005 and 2004, 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 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 2005, discretionary and other transfers of \$1.849 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2006 debt service. In addition, in fiscal year 2005, discretionary transfers of \$88 million were made to component units of the Debt Service Funds. 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.

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, 2005. 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, 2005 remains constant over the life of the bonds.

Primary Government	Governmental Activities			Total
	General Obligation Bonds		Interest Rate Swaps, Net	
	Principal	Interest		
(in thousands)				
Fiscal year ending June 30:				
2006	\$ 8,370	\$ 87,192	\$(5,396)	\$ 90,166
2007	8,660	86,896	(5,362)	90,194
2008	9,005	86,590	(5,327)	90,268
2009	19,845	86,192	(5,269)	100,768
2010	49,705	85,260	(5,270)	129,695
2011-2015	276,710	407,585	(26,960)	657,335
2016-2020	646,345	334,465	(25,269)	955,541
2021-2025	625,940	235,170	(25,037)	836,073
2026-2030	574,955	155,880	(15,270)	715,565
2031-2035	394,310	32,500	(4,640)	422,170
Total	<u>\$2,613,845</u>	<u>\$1,597,730</u>	<u>\$(123,800)</u>	<u>\$4,087,775</u>

Judgments and Claims

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

As of June 30, 2005 and 2004, claims in excess of \$529 billion and \$534 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be \$4.8 billion and \$4.4 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.

Numerous proceedings 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. Currently, 306 of the proceedings are actions seeking approximately \$500 million in damages. Additionally, a Summons with Notice representing 1,958 plaintiffs alleging similar World Trade Center related injuries naming the City and numerous other parties as defendants was served on the City in May, 2005. Since that time, several additional Summonses with Notice representing approximately 2000 plaintiffs have been served. The amount of damages has not yet been alleged. To date, fewer than 150 of these plaintiffs have served complaints on the City. Complaints so served are included in the 306 actions described above. 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) (the 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 of New York 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 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. 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.

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 of \$214 million, subject to further calculation, 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.

One hundred ninety-one notices of claim were filed and of these, 177 actions have been commenced in Federal court 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.

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. 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.

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.

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) (the Department 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 Department of Health has formally submitted a response to the Centers for Medicare and Medicaid Services raising objections, based in law and policy, to the audit findings and requesting that the Centers for Medicare and Medicaid Services take no action to disallow Medicaid funding on the basis of the audit report of the Office of the Inspector General of HHS. In addition, on September 15, 2005, the Office of the Inspector General of HHS issued its audit report on claims submitted to the New York State Medicaid program by the Department of Education with respect to transportation services for students with disabilities for the period 1993 through 2001. The audit states that none of the claims in the statistical sample of 120 claims complied with laws and regulations generally relating to documentation of services; it concludes that approximately \$96 million in claims improperly billed to HHS should be refunded, and that the State should work with the Centers for Medicare and Medicaid Services to resolve approximately \$12 million in additional claims. The State will have an opportunity to respond to these findings.

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 \$622 million and \$634 million at June 30, 2005 and 2004, respectively, as reported in the government-wide financial statements.

Pension Liability

As of June 30, 2005 and 2004, the City's pension liability resulted from State legislation [Chapter 125 of the Laws of 2000 (Chapter 125/00)], as later modified by Chapter 278 of the Laws of 2002, 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 Chapter 125/00 (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, 2005 which equates to the total estimated current cost is \$1.077 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 2005, expenditures for landfill closure and postclosure care costs totaled \$46.7 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 21, 2005, by the City's Chief Financial Officer placing in the Fresh Kills landfill operating record representations in satisfaction of the Local Government Financial Test.

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

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

	<u>Amount</u> <u>(in thousands)</u>
Landfill	\$1,076,978
Hazardous waste sites	<u>223,104</u>
Total landfill and hazardous waste sites liability	<u><u>\$1,300,082</u></u>

6. Interfund Receivables and Payables

At June 30, 2005 and 2004, primary government and discretely presented component unit receivable and payable balances were as follows:

Governmental activities:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>2005</u>	<u>2004</u>
		(in thousands)	
General Fund:	NYC Capital Projects Fund	\$1,715,766 ⁽¹⁾	\$2,813,173 ⁽¹⁾
	General Debt Service Fund	—	7,408
		<u>1,715,766</u>	<u>2,820,581</u>
NYC Capital Projects Fund	General Fund	—	1,268,368 ⁽¹⁾
			<u>1,268,368</u>
	Total due from/to other funds	<u>1,715,766⁽¹⁾</u>	<u>4,088,949</u>

Component units:

Due from/to primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>		
Primary government—General Fund:	Component units: HDC	422,725	414,183
	OTB	226	270
		<u>422,951</u>	<u>414,453</u>
Primary government—NYC Capital Projects Fund	Component unit—Water Authority	288,136	451,162
Total due from component units		<u>711,087</u>	<u>865,615</u>
Component unit—Water Board	Primary government—General Fund	31,390	3,323
Total due to component units		<u>31,390</u>	<u>3,323</u>
Total due from/to primary government and component units		<u>742,477</u>	<u>868,938</u>
Total primary government and component units receivable and payable balances		<u>\$2,458,243</u>	<u>\$4,957,887</u>

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

Note: During both fiscal years 2005 and 2004, the New York City Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

E. Other Information

1. Audit Responsibility

In fiscal years 2005 and 2004, 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 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. Fiscal year 2005 also includes the WTC Captive Insurance Company, Inc.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2005 and 2004:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Pension and Other Employee Benefit Trust Funds	
	2005	2004	2005	2004	2005	2004	2005	2004
	(percent)							
Total assets	6	6	83	82	60	81	6	5
Revenues / additions (deductions) and other financing sources	5	4	74	75	64	95	8	8

The report of independent auditors dated August 26, 2005 on the New York City Off-Track Betting Corporation’s financial statements included an explanatory paragraph stating that “...the Corporation’s current liabilities exceed its current assets, it has a net deficit, and the statutory distribution requirements of New York State laws raise substantial doubt about its ability to continue as a going concern...”

2. Subsequent Events

Subsequent to June 30, 2005, the City and TFA completed the following long-term financing; also, a blended component unit was added to the financial reporting entity.

Long-term Financing

City Debt: On August 3, 2005, the City sold: its Series A bonds of \$345 million for the financing of capital expenditures and its Series B, C, and D bonds of \$571.8 million for refunding purposes. On August 17, 2005, the City sold its Series E bonds of \$550 million for the financing of capital expenditures. On September 22, 2005, the City sold its Series F bonds of \$790 million for the financing of capital expenditures.

TFA Debt: On October 19, 2005, TFA sold its Series A bonds of \$597.2 million for refunding purposes.

Component Unit

Hudson Yards Infrastructure Corporation (HYIC): On August 4, 2005, HYIC became an active component unit within the City's reporting entity. HYIC was created in 2004 as a not-for-profit local development corporation under the not-for-profit corporation law of the State of New York. HYIC was formed to lessen the burdens of City government and to act in the public interest by issuing bonds, notes, and other obligations to finance development and redevelopment activities in the City's Hudson Yards Redevelopment Area.

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 eight 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 94.9% 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 \$66.60 per month.

The amounts expended for health care benefits for fiscal years 2005 and 2004 are as follows:

	2005		2004	
	Active	Retired	Active	Retired
Number of employees	325,117	198,064	323,842	194,338
Cost of health care (in thousands)*	\$2,108,343	\$911,213	\$1,926,946	\$849,919

* 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 2005 and 2004 are as follows:

	2005		2004	
	Active	Retired	Active	Retired
Number of claims	36,699	15,626	27,439	13,515
Cost of Superimposed Major Medical (in thousands)*	\$ 4,291	\$2,070	\$ 3,190	\$1,548

* 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 collectively known as the New York City Retirement Systems (NYCRS):

1. New York City Employees' Retirement System (NYCERS) is 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) is a cost-sharing, multiple-employer public employee retirement system, for pedagogical employees 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) is 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) is 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 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) is 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 referred to herein as the New York City Fire Pension Fund as set forth in ACNY Section 13-313.1.

NYCRS provide pension benefits to retired employees based on salary, length of service, and member contributions. In addition, NYCRS 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. NYCRS 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 NYCRS 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, 2004 and 2003, the membership of NYCERS consisted of:

	2004					
	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
Retirees and beneficiaries receiving benefits	127,345	62,728	11,625	39,452	17,459	258,609
Terminated vested members not yet receiving benefits	5,888	4,754	187	597	12	11,438
Active members	174,997	105,391	20,899	35,049	11,239	347,575
Total plan membership	<u>308,230</u>	<u>172,873</u>	<u>32,711</u>	<u>75,098</u>	<u>28,710</u>	<u>617,622</u>

	2003					
	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
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	<u>306,051</u>	<u>160,426</u>	<u>32,834</u>	<u>74,591</u>	<u>28,285</u>	<u>602,187</u>

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 NYCERS, 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 provided a Supplementation and 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 Supplementation benefits and COLA, these enhancements are fully reflected in the actuarial valuations as of June 30, 2004, 2003, 2002, 2001, and 2000.

Annual Pension Costs

NYCERS annual pension costs and the City's statutory contributions for fiscal year 2005 were determined as part of the June 30, 2004 actuarial valuations on the basis of current actuarial assumptions and methods including the Frozen Initial Liability Actuarial Cost Method.

The annual pension costs for NYCERS, for the fiscal years ended June 30, 2005, 2004, and 2003 were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(in millions)		
NYCERS	\$1,020.4	\$ 542.2	\$ 197.8
TRS	1,304.0	1,015.3	805.8
BERS	106.4	95.0	87.9
POLICE	1,105.9	902.7	813.1
FIRE	515.1	424.5	387.0
Total annual pension costs	<u>\$4,051.8</u>	<u>\$2,979.7</u>	<u>\$2,291.6</u>

For fiscal year 2005, the City’s statutory contributions for the NYCERS based on the actuarial valuations performed as of June 30, 2004, plus other pension expenditures were approximately \$3,369.9 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 for NYCERS 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) provided 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 NYCERS, in calculating the statutory contributions for fiscal years 2001 and 2002 included the following percentages of the increase in additional actuarial liabilities attributable to the Chapter 125/00 COLA benefits:

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

Chapter 278/02 revised the phase-in schedule of Chapter 125/00 for fiscal years 2003 and later.

Chapter 278/02 provided that, for the June 30, 2000 actuarial valuation, the Actuary is required 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 were 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 greater employer contributions in later years.

The City's statutory contributions for the fiscal years ended June 30, 2005, 2004, and 2003 were as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
		(in millions)	
NYCERS*	\$ 455.7	\$ 166.0	\$ 50.7
TRS*	1,212.5	908.0	629.6
BERS*	92.6	80.9	67.1
POLICE	1,033.3	812.0	625.4
FIRE	489.5	392.7	317.0
OTHER**	86.3	84.9	60.8
Total actual pension contributions	<u>\$3,369.9</u>	<u>\$2,444.5</u>	<u>\$1,750.6</u>

* 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, 2005, 2004, and 2003 were:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
NYCERS	55.38%	53.44%	46.95%
TRS	98.71	98.67	98.44
BERS	95.85	96.28	95.53

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 NYCERS. 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 2005 are as follows:

	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
		(in millions)	
(1) Annual Required Contribution	\$1,123.9	\$518.4	\$1,642.3
(2) Interest on Net Pension Obligation	40.5	16.1	56.6
(3) Adjustment to Annual Required Contribution	58.5	19.4	77.9
(4) Annual Pension Cost=(1)+(2)-(3)	1,105.9	515.1	1,621.0
(5) Statutory Contribution	1,033.3	489.5	1,522.8
(6) Increase in Net Pension Obligation=(4)-(5)	72.6	25.6	98.2
(7) Net Pension Obligation Beginning of Year	506.4	201.6	708.0
(8) Net Pension Obligation End of Year=(6)+(7)	<u>\$ 579.0</u>	<u>\$227.2</u>	<u>\$ 806.2</u>

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	6/30/05	\$1,105.9	93%	\$579.0
	6/30/04	902.7	90	506.4
	6/30/03	813.1	77	415.7
FIRE	6/30/05	515.1	95	227.2
	6/30/04	424.5	93	201.6
	6/30/03	387.0	82	169.8

Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of employer contributions to the actuarially-funded pension systems for the fiscal years ending June 30, 2005 and 2004 are as follows:

	2005	2004
<i>Valuation Date</i>	<i>June 30, 2004.</i>	<i>June 30, 2003.</i>
<i>Actuarial Cost Method</i>	<i>Frozen Initial Liability.(1)</i>	<i>Frozen Initial Liability.(1)</i>
<i>Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)</i>	<i>Increasing dollar for FIRE.(2) Level dollar for UAAL attributable to NYCERS and TRS 1999 Early Retirement Incentive (ERI); NYCERS 2000 ERI; BERS, NYCERS, and TRS 2002 ERI (Part A only). (3) All outstanding components of UAAL are being amortized over closed periods.</i>	<i>Increasing dollar for FIRE. (2) Level dollar for UAAL attributable to NYCERS and TRS 1999 Early Retirement Incentive (ERI); NYCERS 2000 ERI; BERS, NYCERS, and TRS 2002 ERI (Part A only). (3) All outstanding components of UAAL are being amortized over closed periods.</i>
<i>Remaining Amortization Period</i> . . .	<i>6 years for FIRE(2), 1 year for 1999 ERI, 2 years for 2000 ERI, and 4 years for 2002 ERI (Part A only).</i>	<i>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).</i>
<i>Actuarial Asset Valuation Method</i> . .	<i>Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.</i>	<i>Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.</i>
<i>Investment Rate of Return</i>	<i>8.0% per annum(4) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).</i>	<i>8.0% per annum(4) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).</i>
<i>Post-Retirement Mortality</i>	<i>Tables adopted by Board of Trustees during fiscal year 2000.</i>	<i>Tables adopted by Board of Trustees during fiscal year 2000.</i>
<i>Active Service: Withdrawal, Death, Disability, Retirement</i>	<i>Tables adopted by Board of Trustees during fiscal year 2000.</i>	<i>Tables adopted by Board of Trustees during fiscal year 2000.</i>
<i>Salary Increases</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(4)</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(4)</i>
<i>Cost-of-Living Adjustments</i>	<i>1.3% per annum.(4)</i>	<i>1.3% per annum.(4)</i>

- (1) Under the Frozen Initial Liability Actuarial Cost Method, the excess of the Actuarial Present Value (APV) of projected benefits of the membership as of the valuation date, over the sum of the Actuarial Value of Assets plus the UAAL, if any, and the APV 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 NYCERS 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 NYCERS 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 NYCERS 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 actuarial study dated October, 2003 analyzed experience for fiscal years 1998 through 2001. The Actuary has proposed changes to the actuarial assumptions and methods to be used to determine employer contributions for fiscal year 2006. As of October, 2005, the Boards of Trustees of NYCERS have adopted the Actuary's proposed changes in actuarial assumptions and methods that require Board approval. For those changes to the actuarial assumptions and methods that require legislation, such actions are anticipated during fiscal year 2006.

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 TPSOVSF 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 HPSOVSF 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. Prior to calendar year 2019, total supplemental benefits paid are limited to the assets of COVSF. For calendar years 2019 and later, the plan provides for a schedule of defined supplemental benefits that are guaranteed by the City.

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 2005 and 2004, no excess earnings on equity investments are estimated to be transferable to VSFs.

For both fiscal years 2005 and 2004, required transfers from NYCERS of approximately \$2.3 million were made to HPSOVSF.

For fiscal year 2005, required transfer from NYCERS of approximately \$1.9 million was made to TPSOVSF.

As of June 30, 2005, NYCERS has accrued approximately \$1.3 million and \$1.4 million toward the amounts expected to be transferred to HPSOVSF and TPSOVSF, respectively, to meet the December, 2005 benefit obligations of those funds.

Required Supplementary Information (Unaudited)

The schedule of funding progress presents the following information for each of the past six consecutive fiscal years for each of NYCERS: the actuarial valuation date, the actuarial asset value, the actuarial accrued liability, the unfunded actuarial accrued liability, the actuarial asset value as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial accrued liability to annual covered payroll. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of June 30, 2004, 2003, 2002, 2001, 2000, and 1999.

		(1)	(2)	(3)	(4)	(5)	(6)
	Actuarial Valuation Date	Actuarial Asset Value (AAV) (a)	Actuarial Accrued Liability (AAL)* (a) & (b)	Unfunded Actuarial Accrued Liability (UAAL)(c) (2) - (1) (in millions)	Funded Ratio (1) ÷ (2)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) ÷ (5)
NYCERS	6/30/04	\$40,088.2	\$40,236.2	\$148.0	99.6%	\$9,157.4	1.6%
	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	6/30/04	32,817.1	32,827.5	10.4	100.0	6,219.8	0.2
	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	6/30/04	1,822.7	1,829.5	6.8	99.6	624.9	1.1
	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	6/30/04	18,510.6	18,510.6	0.0	100.0	2,460.8	0.0
	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	6/30/04	6,185.8	6,291.0	105.2	98.3	805.0	13.1
	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 noneconomic assumptions due to experience review as of June 30, 1999. The Actuarial Asset Valuation Method (AAVM) was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999. Under 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.

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BOND INSURER

The following information pertaining to Financial Security Assurance Inc. (“FSA”) has been supplied by FSA. The City makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the dates indicated. Summaries of or references to the insurance policy to be issued by FSA are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all such provisions. See “APPENDIX D—SPECIMEN BOND INSURANCE POLICY.”

FSA

Concurrently with the issuance of the Bonds, FSA will issue its Municipal Bond Insurance Policy (the “Policy”) for the Bonds maturing in 2017 (5% coupon, 4.18% yield), 2019 (5% coupon, 4.25% yield) and 2022 (5% coupon) (the “Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix D to this Official Statement.

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

Financial Security Assurance Inc.

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

At December 31, 2005, FSA’s combined policyholders’ surplus and contingency reserves were approximately \$2,417,516,000 and its total net unearned premium reserve was approximately \$1,850,446,000 in accordance with statutory accounting practices. At December 31, 2005, FSA’s consolidated shareholder’s equity was approximately \$2,822,902,000 and its total net unearned premium reserve was approximately \$1,509,867,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of FSA included in, or as exhibits to, the annual quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. All financial statements of FSA included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Insured Bonds shall be deemed incorporated herein by reference. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc., 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

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

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SPECIMEN BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N-

Effective Date:

Premium:

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

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

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by contract, claim, subrogation or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise), to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. **THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 38 OF THE NEW YORK INSURANCE LAW.**

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

(Countersignature)

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019
Form 500NY (5/90)

(212) 505-0100

FORM OF LEGAL OPINION OF BOND COUNSEL

April 11, 2006

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 I (the “Bonds”).

The Bonds are issued pursuant to the provisions of the Constitution of the State, the Local Finance Law of the State, and the Charter of the City, and in accordance with a certificate of the Deputy Comptroller for Public Finance and related proceedings (the “Certificate”).

Based on our examination of existing law, such legal proceedings and such other documents as we deem necessary to render this opinion, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued in accordance with the Constitution and statutes of the State and the Charter of the City and constitute valid and legally binding obligations of the City for the payment of which the City has validly pledged its faith and credit, and all real property within the City subject to taxation by the City is subject to the levy by the City of *ad valorem* taxes, without limit as to rate or amount, for payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof, including the City.

3. Except as provided in the following sentence, interest on the Subseries I-1, I-3, I-4, I-5, I-6, I-7 and I-8 Bonds (the “Tax-Exempt 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 Tax-Exempt Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Tax-Exempt Bonds in the event of a failure by the City to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and the covenants regarding use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the United States Treasury; and we render no opinion as to the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes on or after the date on which any action is taken under the Certificate upon the approval of counsel other than ourselves.

4. Interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, upon which we render no opinion, as a result of ownership of such Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income.

5. The excess, if any, of the amount payable at maturity of any maturity of the Tax-Exempt Bonds over the initial offering price of such Bonds to the public at which price a substantial amount of such maturity is sold represents original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Tax-Exempt Bonds. The Code further provides that such original issue discount excluded as interest accrues in accordance with a

constant interest method based on the compounding of interest, and that a holder's adjusted basis for purposes of determining a holder's gain or loss on disposition of Tax-Exempt Bonds with original issue discount will be increased by the amount of such accrued interest.

The rights of the owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the extent constitutionally applicable, and the enforcement of related contractual and statutory covenants of the City and the State may also be subject to the exercise of the State's police powers and of judicial discretion in appropriate cases.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur and we have no obligation to update this opinion in light of such actions or events.

Very truly yours,

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