

**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 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.

**\$997,830,000**

**The City of New York**  
**General Obligation Bonds, Fiscal 2007 Series C and D**  
**\$650,000,000 Tax-Exempt Bonds, Subseries C-1**  
**\$70,000,000 Taxable Bonds, Subseries C-2**  
**\$277,830,000 Tax-Exempt Bonds, Series D**

Dated: Date of Delivery

Due: As shown on the inside cover pages

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

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

The 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 December 11, 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 January 9, 2007.

<b>Bear, Stearns &amp; Co. Inc.</b>	<b>Merrill Lynch &amp; Co. Citigroup</b>	<b>Morgan Stanley</b>
<b>A.G. Edwards First Albany Capital Inc. Lehman Brothers Ramirez &amp; Co., Inc. UBS Investment Bank</b>	<b>Banc of America Securities LLC Goldman, Sachs &amp; Co. Loop Capital Markets LLC RBC Capital Markets</b>	<b>M.R. Beal &amp; Company JPMorgan Prager, Sealy &amp; Co., LLC Siebert Brandford Shank &amp; Co., LLC Wachovia Bank, National Association</b>
<b>Cabrera Capital Markets, Inc. Janney Montgomery Scott LLC Roosevelt &amp; Cross Incorporated</b>	<b>Commerce Capital Markets, Inc. Popular Securities</b>	<b>Jackson Securities Raymond James &amp; Associates, Inc. Southwest Securities, Inc.</b>

## \$820,000,000<sup>(1)</sup> General Obligation Bonds, Fiscal 2007 Series C

<u>January 1</u>	<u>Subseries C-1</u> <u>\$650,000,000 Tax-Exempt Bonds</u>			<u>Subseries C-2</u> <u>\$70,000,000 Taxable Bonds</u>		
	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
2009	\$ 8,210,000	4 %	3.46%	—	—	—
2009	14,855,000	3½	3.46	—	—	—
2010	15,705,000	4	3.58	—	—	—
2010	8,225,000	3¾	3.58	—	—	—
2011	18,540,000	5	3.68	—	—	—
2011	6,310,000	4	3.68	—	—	—
2012	22,255,000	4¼	3.70	—	—	—
2012	6,625,000	3⅝	3.70	—	—	—
2013	23,080,000	5	3.76	—	—	—
2013	6,680,000	3¾	3.76	—	—	—
2014	28,200,000	5	3.81	—	—	—
2014	3,270,000	4	3.81	—	—	—
2015	31,620,000	5	3.87	—	—	—
2015	1,160,000	4	3.87	—	—	—
2016	32,580,000	5	3.91	—	—	—
2016	1,830,000	4	3.91	—	—	—
2017	35,085,000	5	3.96	—	—	—
2017	1,025,000	4	3.96	—	—	—
2018	1,055,000	4	4.03	\$36,820,000	5.18%	100%
2019(2)	4,370,000	5	4.07	33,180,000	5.20	100
2019	2,275,000	4	4.07			
2020(2)	26,915,000	5	4.09			
2020	3,070,000	4	4.09			
2021(2)	28,170,000	5	4.12			
2021	3,320,000	4	4.12			
2022(2)	32,255,000	5	4.14			
2022	820,000	4.10	4.14			
2023(2)	34,065,000	5	4.16			
2023	710,000	4.10	4.16			
2024(2)	33,680,000	5	4.18			
2024	2,860,000	4.10	4.18			
2025(2)	38,400,000	5	4.19			
2026(2)	40,360,000	5	4.21			
2027	42,275,000	4¼	4.50			
2028	44,115,000	4¼	4.52			
2029	46,030,000	4¼	4.53			

<sup>(1)</sup> In addition to the \$720,000,000 aggregate principal amount of Subseries C-1 and Subseries C-2 Bonds, the City expects to issue \$100,000,000 aggregate principal amount of General Obligation Multi-Modal Bonds, Fiscal 2007 Subseries C-3 and C-4 (the “Multi-Modal Bonds”) as auction rate bonds simultaneously therewith. The Multi-Modal Bonds will be offered by a separate official statement.

<sup>(2)</sup> Priced to par call on January 1, 2017.

Interest on the Series C Bonds is payable on each January 1 and July 1 commencing July 1, 2007.

## **\$277,830,000 General Obligation Bonds, Fiscal 2007 Series D**

<u>February 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2008	\$ 9,345,000	3½%	3.45%
2009	11,615,000	3½	3.46
2010	11,940,000	4	3.58
2011	12,415,000	5	3.68
2012	13,045,000	4¼	3.70
2013	13,595,000	5	3.76
2014	14,285,000	5	3.81
2015	15,000,000	5	3.87
2016	15,730,000	5	3.91
2017	16,530,000	5	3.96
2018(1)	16,555,000	5	4.03
2018	795,000	4	4.03
2019(1)	18,220,000	5	4.07
2020(1)	19,130,000	5	4.09
2021(1)	20,090,000	5	4.12
2022(1)	21,095,000	5	4.14
2023(1)	13,090,000	5	4.16
2024(1)	14,435,000	5	4.18
2025(1)	15,155,000	5	4.19
2026(1)	4,155,000	5	4.21
2027	500,000	4¼	4.50
2028	545,000	4¼	4.52
2029	565,000	4¼	4.53

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<sup>(1)</sup> Priced to par call February 1, 2017.

Interest on the Series D Bonds is payable on each February 1 and August 1 commencing August 1, 2007.

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No dealer, broker, salesperson or other person has been authorized by the City or the Underwriters to give any information or to make any representations in connection with the Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The Underwriters may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover pages 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.

Deloitte & Touche LLP, the City's independent auditor has not reviewed, commented on or approved, and is not associated with, this Official Statement. The report of Deloitte & Touche LLP relating to the City's financial statements for the fiscal years ended June 30, 2005 and 2006, which is a matter of public record, is included in this Official Statement. However, Deloitte & Touche LLP has not performed any procedures on any financial statements or other financial information of the City, including without limitation any of the information contained in this Official Statement, since the date of such report and has not been asked to consent to the inclusion of its report in this Official Statement.

**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 \$720,000,000 aggregate principal amount of the City’s General Obligation Bonds, Fiscal 2007 Series C, Subseries C-1 and C-2 (the “Series C Bonds”) and \$277,830,000 aggregate principal amount of the City’s General Obligation Bonds, Fiscal 2007 Series D (the “Series D Bonds” and, together with the Series C Bonds, the “Bonds”). The Bonds consist of \$650,000,000 tax-exempt bonds, Subseries C-1, (the “Subseries C-1 Bonds”), \$70,000,000 taxable bonds, Subseries C-2 (the “Taxable Bonds”) and \$277,830,000 tax-exempt bonds, Series D. The Subseries C-1 Bonds and the Series D Bonds are referred to as the “Tax-Exempt Bonds”. Concurrently with the delivery of the Bonds, the City will deliver \$100,000,000 tax-exempt multi-modal bonds of Fiscal 2007 Series C, Subseries C-3 and C-4 (the “Multi-Modal Bonds”), which are described in a separate official statement and are not offered hereby.

**INTRODUCTORY STATEMENT**

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

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

For each of the 1981 through 2006 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—2002-2006 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 2007 fiscal year 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 2007 through 2010 fiscal years submitted to the Control Board in July 2006 (the "July Financial Plan") and Modification No. 07-1 to the July Financial Plan (as so modified the "2007-2010 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") and the New York City Transitional Finance Authority ("TFA"). See "SECTION VII: FINANCIAL PLAN—Financing Program." In addition, the City may issue revenue and tax anticipation notes to finance its seasonal working capital requirements. The success of projected public sales of City, Water Authority, TFA 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**

### **2007-2010 Financial Plan**

For the 2006 fiscal year, the City's General Fund had an operating surplus of \$3.756 billion, before discretionary and other transfers, and achieved balanced operating results in accordance with GAAP, after discretionary and other transfers. The 2006 fiscal year is the twenty-sixth 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 2007 fiscal year were adopted on June 30, 2006. The July Financial Plan, which was consistent with the City's expense and capital budgets as adopted for the 2007 fiscal year, projected revenues and expenditures for the 2007 fiscal year balanced in accordance with GAAP, and projected gaps of \$3.8 billion, \$4.6 billion and \$4.1 billion in fiscal years 2008 through 2010, respectively.

On November 1, 2006, the City submitted to the Control Board the Financial Plan which is a modification to the July Financial Plan and projects revenues and expenses for the 2007 fiscal year balanced in accordance with GAAP, and projects gaps of \$510 million, \$4.1 billion and \$3.6 billion in fiscal years 2008 through 2010, respectively.

The Financial Plan reflects increases in projected net revenues since the July Financial Plan totaling \$2.3 billion, \$1.9 billion, \$1.4 billion and \$1.5 billion in fiscal years 2007 through 2010, respectively.



Changes in projected revenues include: (i) increases in projected net tax revenues of \$2.2 billion, \$2.0 billion, \$1.5 billion and \$1.5 billion in fiscal years 2007 through 2010, respectively, resulting primarily from increases in projected real estate transaction, personal income and business tax revenues, offset by a proposed City child care tax credit against the personal income tax with an estimated cost of approximately \$42 million, \$43 million and \$44 million in fiscal years 2008, 2009 and 2010, respectively, which requires State legislative and City Council approval and (ii) an increase in non-tax revenues of \$27 million in fiscal year 2007 followed by decreases of \$5 million, \$5 million and \$4 million in fiscal years 2008 through 2010, respectively.

The Financial Plan also reflects, since the July Financial Plan, increases in projected net expenditures totaling \$308 million, \$553 million, \$906 million and \$1.0 billion in fiscal years 2007 through 2010, respectively. Changes in projected expenditures since the July Financial Plan include: (i) increases in labor costs totaling \$256 million, \$452 million, \$783 million and \$930 million in fiscal years 2007 through 2010, respectively, reflecting settlements of labor negotiations, provision for similar increases for collective bargaining units not yet settled and subsequent increases in the out-years of the Financial Plan; (ii) decreases in annual State education aid of \$41 million in each of fiscal years 2007 through 2010 associated with debt service on bonds issued by the Municipal Bond Bank Agency to finance prior year education claims by the City; (iii) decreases in pension contributions of \$22 million, \$24 million, \$27 million and \$29 million in fiscal years 2007 through 2010, respectively; and (iv) increases in agency spending of \$48 million, \$17 million, \$15 million and \$16 million in fiscal years 2007 through 2010, respectively. The Financial Plan also reflects a decrease in net debt service costs of \$15 million in fiscal year 2007 and increases in net debt service costs of \$67 million, \$94 million and \$62 million in fiscal years 2008 through 2010, respectively, reflecting: increases in City education funding of \$57 million, \$79 million, \$103 million and \$92 million in fiscal years 2007 through 2010, respectively, to replace State education building aid currently assigned to the TFA in connection with its financing a portion of the City's five-year educational facilities capital plan, decreases in City debt service of \$129 million, \$160 million, \$190 million and \$209 million in fiscal years 2007 through 2010, respectively, as a result of lower general obligation borrowing levels and interest rates, and decreases in personal income tax revenues of \$57 million, \$148 million, \$180 million and \$180 million in fiscal years 2007 through 2010, respectively, as a result of increased personal income tax revenue retention by the TFA for debt service on the additional \$2 billion of bonds authorized to be issued by the TFA for general City capital purposes. For additional information on bonds issued by the TFA, see "SECTION VII: FINANCIAL PLAN—Financing Program."

The Financial Plan does not reflect the additional cost of the recently negotiated tentative agreement with the United Federation of Teachers (the "UFT") which covers the period from October 13, 2007 through October 31, 2009. This agreement calls for a one-time cash payment of \$750 payable on January 1, 2007 and wage increases of 2% effective October 2007 and 5% effective May 2008. The proposed settlement also includes provision for a \$1,000 longevity payment to most UFT members with 5 to 10 years of service. This settlement will result in expenditures beyond those assumed in the Financial Plan of approximately \$70 million, \$60 million, \$101 million and \$85 million in fiscal years 2007 through 2010, respectively. For additional information, see "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—1. Personal Services Costs."

For information on reports issued by the City Comptroller and others reviewing and commenting on the Financial Plan and the July Financial Plan and identifying various risks, see "SECTION VII: FINANCIAL PLAN—Certain Reports."

## **The State**

The State ended its fiscal year 2005-2006 on March 31, 2006 in balance on a cash basis, with a reported closing balance in the General Fund of \$3.3 billion. The Governor's Executive Budget for fiscal year 2006-2007 projected balance on a cash basis for fiscal year 2006-2007, with a closing balance in the General Fund of \$3.8 billion, and projected gaps of \$1.9 billion in fiscal year 2007-2008 and \$3.9 billion in fiscal year 2008-2009, assuming that all of the Governor's Executive Budget savings proposals were implemented.

The State Legislature completed action on the budget for fiscal year 2006-2007 on April 26, 2006 (the "Enacted Budget"). The State released its Annual Information Statement on June 12, 2006 (the "AIS"),

which reflected the State Legislature's modifications, gubernatorial vetoes and legislative overrides to the Enacted Budget through May 12, 2006, the date of the State financial plan. In the AIS, the State Division of the Budget (the "State DOB") noted that, in comparison to the Executive Budget, the Enacted Budget was also balanced in fiscal year 2006-2007, but projected a closing fund balance in the General Fund of \$3.3 billion and gaps of approximately \$3.7 billion in fiscal year 2007-2008 and \$4.3 billion in fiscal year 2008-2009.

The State released updates to its AIS dated as of August 4, 2006 and November 6, 2006 (the "November AIS Update" and, together with the August 4, 2006 update, the "AIS Updates"). The AIS Updates contain information regarding changes to the Enacted Budget, revisions to the State financial plan projections for fiscal years 2006-2007 through 2008-2009, a review of operating results for the first and second quarters of fiscal year 2006-2007, a GAAP basis summary of results for fiscal year 2005-2006 and projections for fiscal year 2006-2007, a summary of debt and capital management, State retirement system information, a revised economic forecast for the nation and State and the status of certain litigation with the potential to adversely affect the State's finances. The State financial plan, as updated in the AIS Updates, projects a \$1.1 billion surplus on a cash basis for fiscal year 2006-2007, with a closing balance in the general fund of \$3.1 billion, and projected gaps of \$2.4 billion in fiscal year 2007-2008 and \$4.5 billion in fiscal year 2008-2009.

The AIS and AIS Updates identify a number of substantive fiscal and policy actions since the adoption of the Enacted Budget, including the use of a \$787 million spending stabilization reserve (funded with the fiscal year 2005-2006 surplus) to lower the projected budget gap for fiscal year 2007-2008 to the indicated projected level; a new statewide school construction grant program totaling \$2.6 billion with \$1.8 billion for the City; authorization for the TFA to issue \$9.4 billion in bonds which will be supported by State aid payments for the purpose of funding City school construction projects; Medicaid and health care cost containment; a \$250 million deposit to the State's debt reduction reserve that was used to eliminate high cost debt; an expansion of local property tax relief initiatives; a cap on the State sales tax on gasoline; and authorization for new State debt for economic development projects. The November AIS Update includes information from a preliminary report by the State's consultants on liabilities for retiree health care costs that will be reported starting with fiscal year 2007-2008 under Governmental Accounting Standards Board Statement 45. According to that preliminary report, the State's total unfunded long-term liability could be roughly \$47 billion based on several actuarial cost methods or up to \$54 billion based on one method, with the liability amortized over a period of up to 30 years.

The AIS and the AIS Updates identify a number of risks inherent in the implementation of the Enacted Budget and the State financial plan. Such risks include court actions affecting the receipts and disbursements included in the Enacted Budget; costs that could materialize as a result of adverse rulings in pending litigation; federal disallowances or other federal actions that could produce adverse effects on the State's projections of receipts and disbursements; costs that may materialize in connection with the State's negotiation of future collective bargaining agreements with the State's employee unions; and risks relating to the national and local economics, including large increases in energy prices, national security concerns and financial sector performance.

The State plans to issue its third update to the AIS in February of 2007 in conjunction with its third quarterly update to the 2006-2007 State financial plan.

## **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 pages 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; that the Multi-Modal Bonds will include the terms set forth in the Certificate; and that the City will comply with the variable rate provisions applicable to the Multi-Modal Bonds 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 Tax-Exempt Bonds will be used for capital purposes and to redeem, at or prior to maturity, the bonds identified in Appendix C hereto by providing, with other City funds, for the payment of the principal of and interest and redemption premium, if any, on such bonds to the extent and to the payment dates shown and the proceeds of the Taxable Bonds will be used for other discrete capital purposes, in each case including the expenses of the City incurred in connection with the issuance and sale of the Bonds.

#### **Optional Redemption**

The Subseries C-1 Bonds maturing after January 1, 2017 will be subject to redemption at the option of the City, on or after January 1, 2017, in whole or in part, by lot within each maturity and coupon, on any date, upon 30 days’ notice to Bondholders, at par, plus accrued interest to the date of redemption. The Series D Bonds maturing after February 1, 2017, will be subject to redemption at the option of the City, on or after February 1, 2017, 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. In both cases, 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. Any Bonds that are escrowed to maturity in the future will remain subject to optional redemption by the City. The Subseries C-2 Bonds are not subject to optional redemption.

#### **Bond Certificates**

##### *Book-Entry Only System*

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Taxable Bonds are also expected to be available for delivery through the Euroclear System and Clearstream, in Luxembourg, Europe. 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](http://www.dtcc.com) and [www.dtc.org](http://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 \$100 billion as of September 30 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 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 2005 fiscal year, which includes, among other things, the City's financial statements for the 2005 fiscal year, has received the Government Finance Officers Association award of the Certificate of Achievement for Excellence in Financial Reporting, the twenty-sixth consecutive year the CAFR has won such award.



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

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

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

#### *Financial Reporting and Control Systems*

Since 1978, the City's financial statements have been required to be audited by independent certified public accountants and to be presented in accordance with GAAP. The City has completed twenty-six 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 these standards beginning in its financial statements for fiscal year 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, 2005 and 2006, with declines in net assets in each of the fiscal years 2003, 2005 and 2006 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. Although GASB 45 was not required to be implemented by the City until its 2008 fiscal year, the City implemented GASB 45 in its financial statements for fiscal year 2006 and reported an accrued amount of \$53.5 billion for OPEB liability in its government-wide financial statements, based upon an actuarial valuation in accordance with GASB 45. See "APPENDIX B—FINANCIAL STATEMENTS—Note A.2" and "—Note E.4.". The component units currently included in the City's financial reporting entity have implemented or will implement GASB 45 for their first fiscal year ending on or after June 30, 2006. 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 trust established 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 September 30, 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 2006, while federal aid has been sharply reduced. The City projects that local revenues will provide approximately 71.8% of total revenues in the 2007 fiscal year while federal aid, including categorical grants, will provide 9.8%, and State aid, including unrestricted aid and categorical grants, will provide 18.4%. Adjusting the data for comparability, local revenues provided approximately 60.6% of total revenues in 1980, while federal and State aid each provided approximately 19.7%. A discussion of the City's principal revenue sources follows. 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 23.3% of its total revenues for the 2007 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—2002-2006 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

<u>Fiscal Year</u>	<u>Total Levy(1)</u>	<u>Levy Within Operating Limit</u>	<u>Debt Service Levy(2)</u>	<u>Debt Service Levy as a Percentage of Total Levy</u>	<u>Operating Limit</u>	<u>Levy Within Operating Limit as a Percentage of Operating Limit</u>	<u>Rate Per \$100 of Full Valuation(3)</u>	<u>Average Tax Rate Per \$100 of Assessed Valuation(4)</u>
<b>(Dollars in Millions, except for Tax Rates)</b>								
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
2007 . . . . .	14,291.2	13,094.4	221.0	1.5	13,224.4	99.0	2.30	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 \$839 million, \$1.7 billion, \$1.8 billion, \$2.0 billion and \$2.1 billion in increased collections in the 2003 through 2007 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 2007 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 2005 market value survey.

**BILLABLE ASSESSED AND FULL VALUE OF TAXABLE REAL ESTATE<sup>(1)</sup>**

<u>Fiscal Year</u>	<u>Billable Assessed Valuation of Taxable Real Estate(2)</u>	÷	<u>Special Equalization Ratio</u>	=	<u>Full Valuation(2)</u>
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		0.1860		557,403,073,177
2006. . . . .	111,397,956,330		0.1925		578,690,682,234
2007. . . . .	116,477,764,261		0.1875		621,214,742,725
				Average:	\$533,355,005,165

- (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 2006 fiscal year, the billable assessed value of all real estate (taxable and exempt) was \$192.6 billion comprised of \$71.5 billion of fully exempt real estate, \$44.6 billion of partially taxable real estate and \$76.5 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 2007 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 2007 tax rates were set on June 29, 2006 and reflect a 5% 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 year level.

City real estate tax revenues may be reduced in future fiscal years as a result of tax refund claims asserting overvaluation, inequality of assessment and illegality. For a discussion of various proceedings challenging assessments of real property for real estate tax purposes, see “SECTION IX: OTHER INFORMATION—Litigation—*Taxes*.” For further information regarding the City’s potential exposure in certain of these proceedings, see “APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note D.4.”

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, \$102.4 billion and \$110.2 billion for fiscal years 2002 through 2006 respectively. The Department of Finance released the final assessment roll for fiscal year 2007 on May 25, 2006. The billable assessed value rose by \$5.1 billion over the 2006 assessment roll to \$115.1 billion, a growth of 4.6% over fiscal year 2006. Billable assessed valuations are forecast to grow by 4.9% in fiscal year 2008 and 4.7% and 4.6% in fiscal years 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 has been 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. The authorization to sell real estate tax liens expired June 30, 2006. The Financial Plan assumes the enactment of local legislation to re-authorize such sales within this fiscal 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 2002 through 2006, the City sold to separate statutory trusts real estate tax liens for which the City received net proceeds of approximately \$44.5 million, \$22.6 million, \$89.8 million, \$37.7 million and \$93.8 million, respectively. The Financial Plan reflects receipt of \$49.0 million in fiscal year 2007 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)									
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)	(898.0)	(300.3)	2.36	37.7
2006 . . . . .	13,668.1	12,459.0	91.2	140.3	(222.1)	(929.9)	(279.2)	2.04	93.8
2007(6) . . . . .	14,291.2	12,988.9	90.9	148.0	(215.0)	(976.2)	(326.0)	2.28	49.0

- (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 \$3.9 million, \$11.1 million, \$5.6 million, \$2.9 million and \$0.2 million in the 2002, 2003, 2004, 2005 and 2006 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 2007 fiscal year from a variety of taxes other than the real estate tax, such as: (i) the 4<sup>1</sup>/<sub>8</sub>% sales and compensating use tax, in addition to the 4<sup>1</sup>/<sub>2</sub>% 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 2007. 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 2006 fiscal year increased by \$2.325 billion, an increase of approximately 12.1% from the 2005 fiscal year. The following table sets forth, by category, revenues from taxes, other than the real estate tax, for each of the City's 2002 through 2006 fiscal years.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(In Millions)				
Personal Income(1) .....	\$ 4,538	\$ 4,460	\$ 5,984	\$ 6,638	\$ 7,657
General Corporation .....	1,330	1,237	1,540	1,994	2,379
Banking Corporation .....	320	213	415	601	656
Unincorporated Business Income .....	791	832	908	1,117	1,308
Sales .....	3,360	3,535	4,018	4,355	4,418
Commercial Rent .....	380	397	426	445	477
Real Property Transfer .....	425	513	766	1,055	1,295
Mortgage Recording .....	477	526	817	1,250	1,353
Utility .....	258	295	291	340	391
Cigarette .....	27	159	138	125	123
Hotel .....	184	192	217	257	296
All Other(2) .....	381	367	487	475	448
Audits .....	485	571	576	600	775
<b>Total .....</b>	<b><u>\$12,957</u></b>	<b><u>\$13,297</u></b>	<b><u>\$16,583</u></b>	<b><u>\$19,250</u></b>	<b><u>\$21,575</u></b>

Note: Totals may not add due to rounding.

- (1) Personal Income excludes \$451 million, \$537 million, \$109 million, \$497 million and \$350 million retained by the TFA in fiscal years 2002 through 2006, respectively. In fiscal years 2002 through 2006, Personal Income includes \$520 million, \$540 million, \$540 million, \$632 million and \$692 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, \$400 million and \$947 million in fiscal years 2003, 2004 and 2005, respectively, which were used by the TFA to pay debt service in each subsequent fiscal year, thereby increasing tax revenue by \$624 million, \$400 million and \$947 million in fiscal years 2004, 2005 and 2006, respectively.
- (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 \$632 million, \$660 million, \$677 million, \$784 million and \$857 million in fiscal years 2002 through 2006, respectively.



## 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 2002 through 2006 fiscal years.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(In Millions)				
Licenses, Permits and Franchises . . . . .	\$ 356	\$ 357	\$ 374	\$ 395	\$ 418
Interest Income . . . . .	81	43	30	149	362
Charges for Services . . . . .	461	501	592	614	611
Water and Sewer Payments . . . . .	858	846	885	899	990
Rental Income . . . . .	115	109	108	944	209
Fines and Forfeitures . . . . .	485	548	697	745	723
Other . . . . .	<u>1,383</u>	<u>2,244</u>	<u>684</u>	<u>1,327</u>	<u>548</u>
Total . . . . .	<u>\$3,739</u>	<u>\$4,648</u>	<u>\$3,370</u>	<u>\$5,073</u>	<u>\$3,862</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. Rental income in fiscal year 2006 includes approximately \$93.5 million in Port Authority lease payments for the City 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 2002 through 2006 include \$211 million, \$150 million, \$67 million, \$68 million and \$5 million, respectively, of tobacco settlement receivables (“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 2002 through 2006 do not include TSRs retained by TSASC for debt service, trapping requirements and operating expenses, totaling \$45 million, \$103 million, \$147 million, \$149 million and \$194 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 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. Other miscellaneous revenues for fiscal year 2006 include a \$49 million payment from the Fiscal Year 2005 Securitization Corp., \$45 million from the release of remediation funds in a trust and agency account, \$11 million from the refund of prior year expenditures, \$9 million from the reimbursement for landfill closure costs and \$7.9 million from HHC for City administrative support.

## 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 2002 through 2006 fiscal years.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(In Millions)				
State Per Capita Aid.....	\$328	\$ 400	\$327	\$327	\$327
Other(1) .....	<u>338</u>	<u>1,043</u>	<u>636</u>	<u>277</u>	<u>167</u>
Total.....	<u>\$666</u>	<u>\$1,443</u>	<u>\$963</u>	<u>\$604</u>	<u>\$494</u>

(1) Included in the 2002 through 2006 fiscal years are \$201 million, \$180 million, \$250 million, \$264 million and \$142 million, respectively, of aid associated with the partial State takeover of long-term care Medicaid costs. Included in the 2003 and 2004 fiscal years are approximately \$762 million and \$151 million, respectively, in non-recurring Federal Emergency Management Agency ("FEMA") reimbursement for costs related to the September 11 attack. A total of approximately \$197 million for unpaid prior year education aid and \$9 million of federal reimbursement for snow removal costs are included in fiscal year 2004.

## Federal and State Categorical Grants

The City makes certain expenditures for services required by federal and State mandates which are then wholly or partially reimbursed through federal and State categorical grants. State categorical grants are received by the City primarily in connection with City welfare, education, higher education, health and mental health expenditures. The City also receives substantial federal categorical grants in connection with the federal Community Development Block Grant Program ("Community Development"). The federal government also provides the City with substantial public assistance, social service and education grants as well as reimbursement for all or a portion of certain costs incurred by the City in maintaining programs in a number of areas, including housing, criminal justice and health. All City claims for federal and State grants are subject to subsequent audit by federal and State authorities. 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 2002 through 2006 fiscal years.

	<u>2002</u>	<u>2003</u>	<u>2004</u> (In Millions)	<u>2005</u>	<u>2006</u>
<b>Federal</b>					
Community Development(1).....	\$ 281	\$ 226	\$ 240	\$ 268	\$ 261
Social Services(2).....	2,541	2,550	2,448	2,405	2,181
Education(2).....	1,364	1,595	1,770	1,909	1,693
Other(2)(3).....	1,911	1,247	957	2,072	1,108
Total.....	<u>\$6,097</u>	<u>\$5,618</u>	<u>\$5,415</u>	<u>\$6,654</u>	<u>\$5,243</u>
<b>State</b>					
Social Services.....	\$1,585	\$1,576	\$1,724	\$1,741	\$1,906
Education.....	5,592	5,834	5,873	6,177	6,702
Higher Education.....	129	133	139	140	153
Health and Mental Health.....	434	416	377	393	415
Other.....	290	358	342	372	410
Total.....	<u>\$8,030</u>	<u>\$8,317</u>	<u>\$8,455</u>	<u>\$8,823</u>	<u>\$9,586</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 Social Services, 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—2002-2006 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 2007 through 2010 fiscal years. Actual enrollment in fiscal years 2002 through 2006 has been 1,068,849, 1,065,363, 1,060,415, 1,048,664 and 1,033,553, respectively. See "SECTION VII: FINANCIAL PLAN—Assumptions—*Expenditure Assumptions*—2. OTHER THAN PERSONAL SERVICES COSTS—*Department of Education*." The City's system of higher education, consisting of its Senior Colleges and Community Colleges, is operated under the supervision of the City University of New York ("CUNY"). The City is projected to provide approximately 37.9% of the costs of the Community Colleges in the 2007 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, 2006, due to, among other factors, the increasing costs of pensions and Medicaid, 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 2002 through 2006 fiscal years.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Education . . . . .	138,411	135,282	134,325	135,771	137,067
Police . . . . .	51,924	50,787	50,544	50,141	51,223
Social Services, Homeless and Children's Services . . . . .	24,376	22,361	23,340	23,060	23,178
City University Community Colleges and Hunter Campus Schools . . . . .	5,756	6,039	6,450	6,582	6,444
Environmental Protection and Sanitation . . . . .	15,985	14,933	15,473	15,570	15,800
Fire . . . . .	15,854	15,180	15,522	15,902	16,140
All Other . . . . .	<u>54,062</u>	<u>49,982</u>	<u>50,903</u>	<u>52,645</u>	<u>53,186</u>
Total . . . . .	<u>306,368</u>	<u>294,564</u>	<u>296,557</u>	<u>299,671</u>	<u>303,038</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 2002 through 2006 fiscal years.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Transit Authority .....	47,954	47,694	47,400	46,706	47,114
Housing Authority .....	14,694	14,673	13,841	13,128	12,751
HHC .....	<u>35,377</u>	<u>35,956</u>	<u>35,833</u>	<u>36,227</u>	<u>36,727</u>
Total(1).....	<u>98,025</u>	<u>98,323</u>	<u>97,074</u>	<u>96,061</u>	<u>96,592</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, 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 TFA and 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 \$31.1 billion during the 2002 through 2006 fiscal years. City-funded expenditures, which totaled \$27.3 billion during the 2002 through 2006 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 2002 through 2006 fiscal years.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>
	(In Millions)					
Education . . . . .	\$1,765	\$1,315	\$1,192	\$ 975	\$1,782	\$ 7,029
Environmental Protection . . . . .	1,037	1,301	1,631	1,679	1,841	7,489
Transportation . . . . .	724	739	763	786	657	3,669
Transit Authority(1) . . . . .	191	446	199	160	126	1,122
Housing . . . . .	380	301	360	343	459	1,843
Hospitals . . . . .	62	67	35	346	232	742
Sanitation . . . . .	185	114	173	159	94	725
All Other(2) . . . . .	<u>1,976</u>	<u>1,451</u>	<u>1,402</u>	<u>2,207</u>	<u>1,404</u>	<u>8,440</u>
Total Expenditures(3) . . . . .	<u>\$6,320</u>	<u>\$5,734</u>	<u>\$5,755</u>	<u>\$6,655</u>	<u>\$6,595</u>	<u>\$31,059</u>
City-funded Expenditures(4) . . . . .	<u>\$5,436</u>	<u>\$5,376</u>	<u>\$5,133</u>	<u>\$5,274</u>	<u>\$6,065</u>	<u>\$27,284</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 2002 through 2006 fiscal years include City, State and federal funding and represent amounts which include an accrual for work-in-progress. These figures for the 2002 through 2006 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, 2006, 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 "2002-2006 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.

## 2002-2006 Summary of Operations

The following table sets forth the City's results of operations for its 2002 through 2006 fiscal years in accordance with GAAP.

The information regarding the 2002 through 2006 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 2005 and 2006 financial statements included in "APPENDIX B—FINANCIAL STATEMENTS." The 2002 through 2004 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				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(In Millions)				
<b>Revenues and Transfers</b>					
Real Estate Tax(2) . . . . .	\$ 8,761	\$10,063	\$11,582	\$11,616	\$12,636
Other Taxes(3)(4) . . . . .	12,957	13,297	16,583	19,250	21,575
Miscellaneous Revenues(3) . . . . .	3,739	4,648	3,370	5,073	3,862
Other Categorical Grants . . . . .	615	1,006	956	862	1,150
Unrestricted Federal and State Aid(3) . . . . .	666	1,443	963	604	494
Federal Categorical Grants . . . . .	6,097	5,618	5,415	6,654	5,243
State Categorical Grants . . . . .	8,030	8,317	8,455	8,823	9,586
Less: Disallowances Against Categorical Grants . . . . .	<u>0</u>	<u>(47)</u>	<u>(27)</u>	<u>(87)</u>	<u>(542)</u>
Total Revenues and Transfers(5) . . . . .	<u>\$40,865</u>	<u>\$44,345</u>	<u>\$47,297</u>	<u>\$52,795</u>	<u>\$54,004</u>
<b>Expenditures and Transfers</b>					
Social Services . . . . .	\$ 9,098	\$ 9,321	\$ 9,650	\$10,329	\$10,148
Board of Education . . . . .	11,718	12,673	13,061	13,776	14,794
City University . . . . .	418	444	493	567	550
Public Safety and Judicial . . . . .	6,462	6,204	6,125	6,507	6,694
Health Services . . . . .	2,132	2,241	2,418	2,424	2,758
Pensions(6) . . . . .	1,392	1,631	2,308	3,234	3,879
Debt Service(3)(7) . . . . .	1,371	2,309	3,472	4,023	4,510
MAC Debt Service and Administrative Expenses(3)(7) . . .	5	225	502	111	10
All Other(7) . . . . .	<u>8,264</u>	<u>9,292</u>	<u>9,263</u>	<u>11,819</u>	<u>10,656</u>
Total Expenditures and Transfers(5) . . . . .	<u>\$40,860</u>	<u>\$44,340</u>	<u>\$47,292</u>	<u>\$52,790</u>	<u>\$53,999</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 2002 through 2006, Real Estate Tax includes \$112.4 million, \$119.6 million, \$137.3 million, \$151.7 million and \$165.4 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 \$451 million, \$537 million, \$109 million, \$497 million and \$350 million



in fiscal years 2002 through 2006, respectively, retained by the TFA. Debt Service does not include debt service on TFA bonds or TSASC bonds. Miscellaneous Revenues includes TSRs that are not retained by TSASC for debt service and operating expenses.

- (4) Other Taxes includes transfers of net OTB revenues. Other Taxes 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 \$3.756 billion, \$3.534 billion, \$1.928 billion, \$1.422 billion and \$686 million before discretionary and other transfers and expenditures for the 2006, 2005, 2004, 2003 and 2002 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.

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## Forecast of 2007 Results

The following table compares the forecast for the 2007 fiscal year contained in the July Financial Plan, which was submitted to the Control Board in July 2006 (the “July 2006 Forecast”) with the forecast contained in the Financial Plan, which was submitted to the Control Board in November 2006 (the “November 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 2006 Forecast</u>	<u>November 2006 Forecast</u>	<u>Increase/(Decrease) from July 2006 Forecast</u>
	(In Millions)		
<b>REVENUES</b>			
Taxes			
General Property Tax .....	\$12,972	\$12,971	\$ (1)
Other Taxes .....	19,040	20,961	1,921 (1)
Tax Audit Revenue .....	509	759	250 (2)
Miscellaneous Revenues .....	5,155	5,232	77
Unrestricted Intergovernmental Aid .....	340	340	—
Less: Intra-City Revenues .....	(1,355)	(1,395)	(40)
Disallowances Against Categorical Grants .....	(15)	(15)	—
Subtotal – City Funds .....	<u>\$36,646</u>	<u>\$38,853</u>	<u>\$2,207</u>
Other Categorical Grants .....	967	1,041	74
Inter-Fund Revenues .....	395	414	19
Total City Funds & Inter-Fund Revenues .....	<u>\$38,008</u>	<u>\$40,308</u>	<u>\$2,300</u>
Federal Categorical Grants .....	5,063	5,464	401 (3)
State Categorical Grants .....	9,869	9,872	3
Total Revenues .....	<u>\$52,940</u>	<u>\$55,644</u>	<u>\$2,704</u>
<b>EXPENDITURES</b>			
Personal Services			
Salaries and Wages .....	\$19,248	\$19,624	\$ 376 (4)
Pensions .....	4,891	4,869	(22)
Fringe Benefits .....	6,920	7,085	165 (5)
Total – Personal Services .....	<u>\$31,059</u>	<u>\$31,578</u>	<u>\$ 519</u>
Other Than Personal Services			
Medical Assistance .....	4,935	4,935	—
Public Assistance .....	2,199	1,355	(844) (6)
Pay-As-You-Go Capital .....	200	200	—
All Other .....	15,410	16,665	1,255 (7)
Total – Other Than Personal Services .....	<u>\$22,744</u>	<u>\$23,155</u>	<u>\$ 411</u>
Debt Service & MAC Administrative Expenses .....	3,943	3,812	(131) (8)
FY 2006 Budget Stabilization & Discretionary			
Transfers .....	(3,751)	(3,751)	— (9)
FY 2007 Budget Stabilization & Discretionary			
Transfers .....	—	1,946	1,946
General Reserve .....	300	299	(1)
Total Expenditures .....	<u>\$54,295</u>	<u>\$57,039</u>	<u>\$2,744</u>
Less: Intra-City Expenses .....	(1,355)	(1,395)	(40)
Net Total Expenditures .....	<u>\$52,940</u>	<u>\$55,644</u>	<u>\$2,704</u>

(1) The increase in Other Taxes is due to increases in personal income taxes of \$325 million, sales and use taxes of \$30 million, banking corporation tax of \$131 million, general corporation tax of \$215 million, unincorporated business tax of \$143 million, mortgage recording tax of \$406 million, real property transfer tax of \$406 million, utility tax of \$15 million, hotel occupancy tax of \$23 million, cigarette tax revenue of \$2 million, all other taxes of \$6 million and the State’s STAR Program aid of \$219 million.

- (2) The increase in Tax Audit Revenue reflects increases of \$250 million in general corporation tax as a result of the resolution of eight years of open audits.
- (3) The increase in Federal Categorical Grants is due to increases of \$353.6 million in categorical grants which offset categorical expenditures, \$43.6 million in social services funding and \$3.8 million in other grants.
- (4) The increase in Personal Services—Salaries and Wages is due to increases of \$136 million for recent collective bargaining settlements, \$10 million in net agency needs, and \$230 million in budget modifications reflecting categorical expenditures which are offset by categorical grants and the transfer of expenditures from Personal Services to Other Than Personal Services.
- (5) The increase in Personal Services—Fringe Benefits is primarily due to the recent collective bargaining settlement.
- (6) The decrease in Other Than Personal Services—Public Assistance is due to the reclassification of certain social service expenditures from Public Assistance to All Other.
- (7) The increase in Other Than Personal Services — All Other is due to increases of \$335 million in budget modifications reflecting categorical expenditures which are offset by categorical grants and the transfer of expenditures from Personal Services to Other Than Personal Services. \$844 million reflecting the reclassification of certain social services expenditures from Public Assistance to All Other, and \$76 million in net agency spending.
- (8) The decrease in Debt Service & MAC Administrative Expenses is due to the elimination of short-term borrowing and reduced level of general obligation debt issuance.
- (9) FY 2006 Budget Stabilization & Discretionary Transfers reflects the discretionary transfer of \$3.204 billion into the General Debt Service Fund in fiscal year 2006 for debt service due in fiscal year 2007 and the payment in fiscal year 2006 of \$74 million in lease debt service and \$473 million in subsidies, respectively, otherwise due in fiscal year 2007.

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## SECTION VII: FINANCIAL PLAN

The following table sets forth the City's projected operations on a basis consistent with GAAP for the 2007 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)			
	2007	2008	2009	2010
	(In Millions)			
<b>REVENUES</b>				
Taxes				
General Property Tax(3) .....	\$12,971	\$13,852	\$14,508	\$15,187
Other Taxes(4)(5) .....	20,961	20,692	20,742	21,734
Tax Audit Revenue .....	759	559	559	560
Tax Reduction Program(6) .....	—	(298)	(299)	(300)
Miscellaneous Revenues(7) .....	5,232	5,194	4,781	4,808
Unrestricted Intergovernmental Aid .....	340	340	340	340
Less: Intra-City Revenues .....	(1,395)	(1,326)	(1,328)	(1,328)
Disallowances Against Categorical Grants ..	(15)	(15)	(15)	(15)
Subtotal: City Funds .....	<u>\$38,853</u>	<u>\$38,998</u>	<u>\$39,288</u>	<u>\$40,986</u>
Other Categorical Grants .....	1,041	983	996	1,001
Inter-Fund Revenues(8) .....	414	392	384	384
Total City Funds and Inter-Fund Revenues .	<u>\$40,308</u>	<u>\$40,373</u>	<u>\$40,668</u>	<u>\$42,371</u>
Federal Categorical Grants .....	5,464	5,112	5,110	5,113
State Categorical Grants .....	9,872	9,857	9,928	10,054
Total Revenues .....	<u>\$55,644</u>	<u>\$55,342</u>	<u>\$55,706</u>	<u>\$57,538</u>
<b>EXPENDITURES</b>				
Personal Services				
Salaries and Wages .....	\$19,624	\$20,054	\$20,495	\$20,776
Pension .....	4,869	5,595	5,960	5,972
Fringe Benefits(9) .....	7,805	6,349	6,669	6,928
Subtotal-Personal Services .....	<u>\$31,578</u>	<u>\$31,998</u>	<u>\$33,124</u>	<u>\$33,676</u>
Other Than Personal Services				
Medical Assistance .....	4,935	5,083	5,222	5,376
Public Assistance .....	1,355	1,355	1,355	1,355
Pay-As-You-Go Capital .....	200	200	200	200
All Other(10) .....	16,665	16,024	16,396	16,709
Subtotal-Other Than Personal Services ....	<u>\$23,155</u>	<u>\$22,662</u>	<u>\$23,173</u>	<u>\$23,640</u>
Debt Service & MAC Administrative				
Expenses(11) .....	3,812	4,164	4,505	4,858
FY 2006 Budget Stabilization & Discretionary				
Transfers(12) .....	(3,751)	—	—	—
FY 2007 Budget Stabilization & Discretionary				
Transfers .....	1,946	(1,946)	—	—
General Reserve .....	299	300	300	300
Less: Intra-City Expenses .....	<u>(1,395)</u>	<u>(1,326)</u>	<u>(1,328)</u>	<u>(1,328)</u>
Total Expenditures .....	<u>\$57,039</u>	<u>\$57,178</u>	<u>\$61,102</u>	<u>\$62,474</u>
Total Expenditures .....	<u>\$55,644</u>	<u>\$55,852</u>	<u>\$59,774</u>	<u>\$61,146</u>
GAP TO BE CLOSED .....	<u>\$ —</u>	<u>\$ (510)</u>	<u>\$ (4,068)</u>	<u>\$ (3,608)</u>

(1) The four year financial plan for the 2007 through 2010 fiscal years, as submitted to the Control Board in July 2006, contained the following projections for the 2007-2010 fiscal years: (i) for 2007, total revenues of \$52.940 billion and total expenditures of \$52.940 billion; (ii) for 2008, total revenues of \$53.589 billion and total expenditures of \$57.399 billion, with a gap to be closed of \$3.810 billion; (iii) for 2009, total revenues of \$54.497 billion and total expenditures of \$59.081 billion, with a gap to be closed of \$4.584 billion; and (iv) for 2010, total revenues of \$56.259 billion and total expenditures of \$60.328 billion, with a gap to be closed of \$4.069 billion.

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.

(Footnotes continued on next page)

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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.

- (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 and a City child care credit against the City personal income tax for families with children up to three years old with an estimated annual value of \$42 million, \$43 million and \$44 million in fiscal years 2008, 2009 and 2010, respectively. Both tax proposals require State and local approval. For information on the rebate in fiscal year 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) Inter-Fund Revenues represents General Fund expenditures, properly includable in the Capital Budget, made on behalf of the Capital Projects Fund pursuant to inter-fund agreements.
- (9) Personal Services—Fringe Benefits includes contributions of \$1 billion in fiscal year 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."
- (10) 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."
- (11) 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."
- (12) FY 2006 Budget Stabilization & Discretionary Transfers reflects discretionary transfers of \$3.204 billion into the General Debt Service Fund in fiscal year 2006 for debt service due in fiscal year 2007 and the payment in fiscal year 2006 of \$74 million in lease debt service and \$473 million in subsidies, respectively, otherwise due in fiscal year 2007.

Implementation of various measures in the Financial Plan may be uncertain. If these measures cannot be implemented, the City will be required to take 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-six fiscal years and is projected to achieve balanced operating results for the 2007 fiscal year, 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 2007 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 are reviewed in reports issued 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 October 2006.

**FORECAST OF KEY ECONOMIC INDICATORS**

<b>U.S. ECONOMY</b>	<b>Calendar Years</b>					
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<i>Economic Activity and Income</i>						
Real GDP (billions of 2000 dollars) . . . . .	11,049	11,430	11,690	12,058	12,465	12,862
Percent Change . . . . .	3.2	3.4	2.3	3.1	3.4	3.2
Non-Agricultural Employment (millions) . .	133.5	135.3	136.7	138.5	140.6	142.5
Change from Prior Year . . . . .	2.0	1.8	1.4	1.8	2.1	1.8
CPI-All Urban (1982-84=100) . . . . .	195.3	201.8	206.5	210.9	215.1	219.3
Percent Change . . . . .	3.4	3.4	2.3	2.1	2.0	2.0
Wage Rate (\$ per year) . . . . .	42,446	45,134	46,771	48,511	50,429	52,425
Percent Change . . . . .	3.5	6.3	3.6	3.7	4.0	4.0
Personal Income (\$ billions) . . . . .	10,239	10,963	11,554	12,206	12,947	13,710
Percent Change . . . . .	5.2	7.1	5.4	5.6	6.1	5.9
Pre-Tax Corp Profits (\$ billions) . . . . .	1,519	1,805	1,803	1,840	1,852	1,848
Percent Change . . . . .	32.7	18.9	(0.1)	2.1	0.6	(0.2)
Unemployment Rate (Percent) . . . . .	5.1	4.7	4.9	4.9	4.7	4.5
10-Year Treasury Bond Rate . . . . .	4.3	4.9	5.0	5.2	5.6	5.6
Federal Funds Rate . . . . .	3.2	5.0	5.1	4.8	5.0	5.1
<b>NEW YORK CITY ECONOMY</b>						
Real Gross City Product (billions of 2000 dollars) . . . . .	453	464	456	468	485	501
Percent Change . . . . .	3.7	2.3	(1.6)	2.7	3.6	3.3
Non-Agricultural Employment (thousands) . . . . .	3,599	3,653	3,674	3,701	3,753	3,795
Change from Prior Year . . . . .	49.0	53.9	20.8	27.0	51.3	42.7
CPI-All Urban NY-NJ Area (1982-84=100) . . . . .	212.7	220.2	225.9	230.8	235.6	240.5
Percent Change . . . . .	3.9	3.5	2.6	2.2	2.1	2.1
Wage Rate (\$ per year) . . . . .	67,912	72,391	73,382	75,039	78,455	81,907
Percent Change . . . . .	4.7	6.6	1.4	2.3	4.6	4.4
Personal Income (\$ billions) . . . . .	345.7	368.2	381.0	397.2	420.2	443.6
Percent Change . . . . .	5.0	6.5	3.5	4.3	5.8	5.6
<b>NEW YORK REAL ESTATE MARKET</b>						
<i>Manhattan Primary Office Market</i>						
Asking Rental Rate (\$ per square foot) . . .	47.75	50.81	52.27	53.28	54.64	58.24
Percent Change . . . . .	1.4	6.4	2.9	1.9	2.5	6.6
Vacancy Rate – Percent . . . . .	9.4	7.7	8.1	8.4	7.9	6.9

Source: OMB.

**2. REAL ESTATE TAX**

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

The increase in average tax rate to \$12.283 per \$100 of assessed value enacted November 25, 2002 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 \$49 million net revenue in fiscal year 2007 and \$37 million net revenue in each of fiscal years 2008 through 2010 from the sale of real property tax liens.

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 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 \$294 million, \$309 million, \$323 million and \$338 million in 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 fiscal year 2007. The Tax Reduction Program proposes the extension of this rebate through fiscal year 2010.

The delinquency rate was 2.4% for each of fiscal years 2004 and 2005 and 2.0% in fiscal 2006. The Financial Plan projects delinquency rates of 2.3%, 2.5%, 2.6% and 2.6% in fiscal years 2007 through 2010, respectively. For information concerning the delinquency rates for prior years, see "SECTION IV: SOURCES OF CITY REVENUES—Real Estate Tax—*Collection of the Real Estate Tax.*" For a description of proceedings seeking real estate tax refunds from the City, see "SECTION IX: OTHER INFORMATION—Litigation—*Taxes.*"

### 3. OTHER TAXES

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)			
Personal Income(1)(2) . . . . .	\$ 6,469	\$ 6,543	\$ 6,333	\$ 6,764
General Corporation . . . . .	2,593	2,599	2,637	2,729
Banking Corporation . . . . .	656	646	658	693
Unincorporated Business Income . . . . .	1,382	1,380	1,418	1,505
Sales(2) . . . . .	4,538	4,600	4,804	5,040
Commercial Rent . . . . .	502	520	536	553
Real Property Transfer . . . . .	1,269	1,113	1,065	1,084
Mortgage Recording . . . . .	1,288	995	956	972
Utility . . . . .	374	363	378	393
Cigarette . . . . .	120	117	113	111
Hotel . . . . .	332	332	338	350
All Other(3) . . . . .	<u>1,439</u>	<u>1,485</u>	<u>1,506</u>	<u>1,540</u>
Total . . . . .	<u>\$20,961</u>	<u>\$20,692</u>	<u>\$20,742</u>	<u>\$21,734</u>

Note: Totals may not add due to rounding.

- (1) Personal Income does not include \$745 million, \$778 million, \$1.166 billion and \$1.165 billion 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 includes \$229 million and \$350 million of additional personal income tax revenues in fiscal years 2007 and 2008, respectively, reflecting the early payment of debt service to the TFA otherwise expected to be made in those fiscal years. These projections include the effects of the State's STAR Program, which will reduce personal income tax revenues by an estimated \$668 million, \$709 million, \$731 million and \$759 million in the 2007 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 \$62 million, \$67 million, \$72 million and \$77 million in fiscal years 2007 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 \$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 \$166 million in fiscal year 2007.
- (3) All Other includes, among others, OTB surtax revenues, beer and liquor taxes, and the automobile use tax. All Other also includes \$836 million, \$856 million, \$880 million and \$907 million in fiscal years 2007 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 baseline revenues from Other Taxes: (i) with respect to personal income tax, a slight decline in growth in fiscal year 2007 reflecting the expiration of the temporary tax increase and other State actions in calendar year 2006, coupled with a forecast increase in capital gains from commercial real estate transaction activity in calendar year 2006, near zero growth in fiscal year 2008 reflecting lower bonuses and a slowdown in real estate transaction activity in calendar year 2007 and moderate growth in fiscal years 2009 and 2010 reflecting moderate growth in both wage income and the local economy; (ii) with respect to the general corporation tax, strong growth in fiscal year 2007, reflecting robust Wall Street revenue growth and national corporate profits in calendar year 2006, near zero growth in fiscal year 2008 reflecting a forecast decline in New York Stock Exchange (“NYSE”) member firm profits in calendar year 2007 and a slowdown in the national economy, increased growth in fiscal year 2009 reflecting a forecast rebound in NYSE member-firm profits in calendar year 2008 and modest growth in fiscal year 2010; (iii) with respect to the banking corporation tax, a slight decline in growth in fiscal years 2007 and 2008 reflecting higher interest expenses, a slowdown in the real estate market and the liquidation of large overpayments accumulated on account during the prior few years of extraordinary payments and modest growth in fiscal years 2009 and 2010 reflecting the maturing national economic recovery; (iv) with respect to the unincorporated business tax, strong growth in fiscal year 2007 reflecting robust Wall Street revenue growth in calendar year 2006 and continued strength in real estate transactions, near zero growth in fiscal year 2008 reflecting a forecast decline in NYSE member firm profits in calendar year 2007 and a slowdown in the national economy, and moderate growth in fiscal years 2009 and 2010 paralleling growth in the national and local economies; (v) with respect to sales tax revenues, moderate growth in fiscal year 2007 reflecting the reinstatement of the exemption for clothing and footwear under \$110, a further slowing in growth in fiscal year 2008 with moderate growth in fiscal years 2009 and 2010 paralleling wage earnings growth and the local economic expansion; (vi) with respect to the real property transfer tax, a slight decline in fiscal year 2007 with the decline in the number of residential transactions and a slowdown in average sales price growth, offset partially by a stronger commercial market, further decline in fiscal years 2008 and 2009 from the decline in the number and average sale price of residential and commercial real estate transactions and resumption of growth in fiscal year 2010 as the national and local recoveries continue; (vii) with respect to the mortgage recording tax, a decline in fiscal year 2007 reflecting a slowdown in refinancing, further decline in fiscal years 2008 and 2009 from the decline in the number and average sale price of residential and commercial real estate transactions and resumption of growth in fiscal year 2010 as the national and local recoveries continue; and (viii) with respect to the commercial rent tax, strong growth in fiscal year 2007 reflecting lower vacancy rates and increases in asking rents paralleling growth in the local economy and with growth slowing in fiscal years 2008 through 2010.

#### 4. MISCELLANEOUS REVENUES

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)			
Licenses, Permits and Franchises . . . . .	\$ 395	\$ 396	\$ 402	\$ 405
Interest Income . . . . .	351	135	137	144
Charges for Services . . . . .	553	534	535	533
Water and Sewer Payments(1) . . . . .	1,096	1,087	1,097	1,115
Rental Income . . . . .	176	173	172	171
Fines and Forfeitures . . . . .	721	737	735	736
Other . . . . .	545	806	375	376
Intra-City Revenues . . . . .	<u>1,395</u>	<u>1,326</u>	<u>1,328</u>	<u>1,328</u>
Total . . . . .	<u>\$5,232</u>	<u>\$5,194</u>	<u>\$4,781</u>	<u>\$4,808</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 2007, 2008, 2009 and 2010, respectively, for lease payments for the City’s airports.

Miscellaneous Revenues—Other reflects \$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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)			
State Revenue Sharing.....	\$327	\$327	\$327	\$327
Other Aid.....	<u>13</u>	<u>13</u>	<u>13</u>	<u>13</u>
Total .....	<u>\$340</u>	<u>\$340</u>	<u>\$340</u>	<u>\$340</u>

The Other Aid category consists of \$13 million in prior year claims settlements 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, 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)			
Federal				
Community Development.....	\$ 260	\$ 253	\$ 253	\$ 253
Welfare.....	2,362	2,348	2,351	2,353
Education .....	1,717	1,717	1,717	1,717
Other .....	<u>1,125</u>	<u>794</u>	<u>789</u>	<u>790</u>
Total.....	<u>\$5,464</u>	<u>\$5,112</u>	<u>\$5,110</u>	<u>\$ 5,113</u>
State				
Welfare.....	\$1,763	\$1,765	\$1,755	\$ 1,755
Education .....	7,048	7,147	7,227	7,358
Higher Education.....	188	188	188	188
Health and Mental Hygiene.....	447	417	416	412
Other .....	<u>426</u>	<u>340</u>	<u>342</u>	<u>341</u>
Total.....	<u>\$9,872</u>	<u>\$9,857</u>	<u>\$9,928</u>	<u>\$10,054</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 September 30, 2006, approximately 15.0% 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 increased from \$124 million in the 1977 fiscal year to \$542 million in the 2006 fiscal year. The reserve was increased in part in anticipation of federal audits of Medicaid reimbursement for special education programs. 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 Financial Plan forecasts lower Medicaid payments for special education programs. The federal government has released its audit reports on the portion of such claims relating to speech and transportation services, respectively. For additional information see "SECTION IX: OTHER INFORMATION—Litigation—*Miscellaneous*." As of June 30, 2006, the City had an accumulated reserve of \$899 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)			
Wages and Salaries .....	\$19,135	\$18,983	\$18,889	\$18,820
Pensions.....	4,869	5,595	5,960	5,972
Other Fringe Benefits .....	7,085	6,349	6,669	6,928
Reserve for Collective Bargaining				
Department of Education.....	30	164	408	408
Other .....	<u>459</u>	<u>907</u>	<u>1,198</u>	<u>1,548</u>
Reserve Subtotal .....	<u>489</u>	<u>1,071</u>	<u>1,606</u>	<u>1,956</u>
Total .....	<u>\$31,578</u>	<u>\$31,998</u>	<u>\$33,124</u>	<u>\$33,676</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 decrease from an estimated level of 259,399 on June 30, 2007 to an estimated level of 256,167 by June 30, 2010.

Other Fringe Benefits includes \$1.4 billion, \$1.5 billion, \$1.7 billion and \$1.8 billion in fiscal years 2007 through 2010, respectively, for OPEB expenditures for current retirees, which costs are currently paid by the City on a pay-as-you-go basis. For its fiscal year 2006, the City reported an accrued amount of \$53.5 billion for OPEB liability in its government-wide financial statements, based upon an actuarial valuation and in accordance with GASB 45. Though there is no requirement to fund such liability, Other Fringe Benefits includes deposits into a trust of \$1 billion in fiscal year 2007 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*," and "APPENDIX B—FINANCIAL STATEMENTS—Notes to Financial Statements—Note A.2."

The Financial Plan reflects the costs of all labor contract settlements in the 2002-2005 round of bargaining covering the vast majority of City employees. 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 a 3% increase in the third year for unsettled uniform forces unions. The Reserve for Collective Bargaining also contains funds to provide all employees who do not have a four-year settlement in place with a 3.15% wage increase in a fourth contract year under the 2002-2005 round of collective bargaining. The Financial Plan reflects the recent contract settlement with DC 37, which covers the period from July 1, 2005 through March 2, 2008. That agreement provides for a retroactive increase of 3.15% effective July 1, 2005, followed by increases of 2% effective August 1, 2006 and 4% effective February 1, 2007. The settlement also provides funding equivalent to .34% of total annual DC 37 wages to be used to fund salary increases for specific titles. In addition, the settlement provides for an increase in the City's annual contribution to the union welfare fund of \$100 for each active and retired employee and a one-time contribution to such fund by the City in November 2006 of \$166.67 for each active and retired employee. The Reserve for Collective Bargaining contains funding sufficient for all employees to receive a settlement patterned on this agreement. The Reserve for Collective Bargaining does not contain funding for the additional cost associated with the recent tentative settlement with the UFT. This settlement is expected to increase City expenditures by approximately \$70 million, \$60 million, \$101 million and \$85 million in fiscal years 2007 through 2010, respectively. For additional information, see "SECTION I: RECENT FINANCIAL DEVELOPMENTS."

In July 2006 the City filed a request for mediation with PERB in relation to the bargaining between the City and the Patrolmen's Benevolent Association ("PBA"). Three mediation sessions were held between the City and the PBA, the last of which was on October 20, 2006. The City filed a petition for arbitration with PERB on October 24, 2006 and a request for the appointment of an arbitrator with PERB on November 6, 2006. The City expects such appointment in December 2006. For additional information, see "SECTION V: CITY SERVICES AND EXPENDITURES—Employee and Labor Relations—*Labor Relations*."

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

2. OTHER THAN PERSONAL SERVICES COSTS

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
	(In Millions)			
Administrative OTPS.....	\$14,179	\$13,580	\$13,784	\$14,000
Public Assistance .....	1,355	1,355	1,355	1,355
Medical Assistance.....	4,935	5,083	5,222	5,376
HHC Support .....	189	201	287	289
Pay-As-You-Go Capital.....	200	200	200	200
Other.....	<u>2,297</u>	<u>2,243</u>	<u>2,325</u>	<u>2,420</u>
Total .....	<u>\$23,155</u>	<u>\$22,662</u>	<u>\$23,173</u>	<u>\$23,640</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 2007 fiscal year. Thereafter, to account for inflation, OTPS expenditures are projected to rise by 2.5% annually in fiscal years 2008 through 2010, respectively. Energy costs for each of the 2007 through 2010 fiscal years are assumed to vary annually, with total energy expenditures projected at \$916 million in fiscal year 2007 and decreasing to \$913 million by fiscal year 2010.

*Public Assistance*

The average number of persons receiving income benefits under public assistance programs is projected to average 411,120 per month in the 2007 fiscal year. Of total public assistance expenditures in

the City for the 2007 fiscal year, the City-funded portion is projected to be \$495.1 million and is projected to remain at that level through 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 \$3.019 billion for the 2007 fiscal year and is expected to increase to \$4.449 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.

#### *Health and Hospitals Corporation*

HHC operates under its own section of the Financial Plan as a Covered Organization. The HHC financial plan projects City-funded expenditures of \$968 million annually for the 2007 through 2010 fiscal years. In the 2007 fiscal year City-funded expenditures include \$52.6 million for the care of prisoners and uniformed personnel, \$103 million of intra-City payments and grants, and \$786 million for the City's share of HHC Medicaid payments.

HHC is projected to achieve balanced budgets in fiscal years 2007 through 2010 on an accrual basis. Total receipts before implementation of the HHC gap-closing program are projected to be \$4.1 billion in fiscal year 2007 increasing to \$4.7 billion in fiscal year 2010. Total disbursements before implementation of the HHC gap-closing program are projected to be \$5.3 billion, in fiscal year 2007 increasing to \$5.8 billion in fiscal year 2010. These projections assume: (i) increases in other than personal services costs and fringe benefits in fiscal years 2007 through 2010 and (ii) growth in Medicaid revenue between fiscal years 2007 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.

#### *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*

NYCT operates under its own section of the Financial Plan as a Covered Organization. The financial plan for NYCT covering its 2006 through 2010 fiscal years was prepared in July 2006. The NYCT fiscal year coincides with the calendar year. The NYCT financial plan projects City assistance to the NYCT operating budget of \$257 million in 2006 increasing to \$288.0 million in 2010, in addition to real estate tax revenue dedicated for NYCT use of \$500.1 million in 2006 decreasing to \$411.1 million in 2010.

For 2006, the NYCT financial plan projects \$6.2 billion in revenues and \$7.5 billion in expenses, leaving a budget gap of \$1.3 billion. This gap will be offset by a \$1.1 billion depreciation adjustment, approximately \$48.6 million in anticipated cash flow adjustments including reserve funds and additional receipts, \$15.4 million in an MTA gap-closing program, and funds made available from a \$432.8 million cash basis surplus in 2005, leaving a net surplus of \$253.1 million in 2006. It is expected that the NYCT cash basis budget will be balanced for 2006. The NYCT financial plan forecasts operating budget gaps of \$342.2 million, \$1.2 billion, \$2.4 billion and \$3.9 billion in 2007 through 2010, 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 2010 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 will be funded with proceeds of bonds issued by the Hudson Yards Infrastructure Corporation (“HYIC”), which are 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 will 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 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 case was appealed to the State Court of Appeals and on November 20, 2006,

the State Court of Appeals declared that the State should provide the City's schools with \$1.93 billion in additional operating funds adjusted for inflation since 2004 and in accordance with a geographic cost index. The ultimate cost, if any, to the City is uncertain.

Additionally, the State Court of Appeals vacated the capital funding requirement in light of recent legislation designed to remedy inadequacies in City school facilities. Such legislation includes the provision of \$1.8 billion in State grants for the City's current five-year educational facilities capital plan and the authorization for the TFA to issue additional debt specifically for the City's five-year educational facilities capital plan payable from State building aid. For information on the five-year educational facilities capital plan funding by the State, see "SECTION VII: FINANCIAL PLAN—Long-Term Capital Program," and "—Financing Program."

#### *Judgments and Claims*

In the fiscal year ended on June 30, 2006, the City expended \$516.8 million for judgments and claims, \$162.8 million of which was reimbursed by HHC. The Financial Plan includes provisions for judgments and claims of \$601.5 million, \$644.8 million, \$697.7 million and \$748.2 million for the 2007 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 2007 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, 2006 amounted to approximately \$5.0 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, 2006 include an estimate that the City's liability in the *certiorari* proceedings, as of June 30, 2006, could amount to approximately \$568 million. Provision has been made in the Financial Plan for estimated refunds of \$215 million, \$210 million, \$205 million and \$210 million for the 2007 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.4."

#### 3. DEBT SERVICE

Debt service estimates for the 2007 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 November 29, 2006, the staff of the OSDC issued a report on the Financial Plan. The report identified net benefits of approximately \$415 million in fiscal year 2007, \$380 million in fiscal year 2008,

\$125 million in fiscal year 2009 and \$80 million in fiscal year 2010, which, when added to the results projected in the Financial Plan, would produce an additional surplus of \$415 million in fiscal year 2007 and, after an assumed transfer to fiscal year 2008 of that additional surplus, result in a surplus of \$285 million in fiscal year 2008 and gaps of \$3.9 billion and \$3.5 billion in fiscal years 2009 and 2010, respectively.

The risks to the Financial Plan identified in the report include: (i) possible additional costs of the UFT collective bargaining settlement of \$70 million in fiscal year 2007, \$60 million in fiscal year 2008, \$100 million in fiscal year 2009 and \$85 million in fiscal year 2010; (ii) increased spending for uniformed agency overtime of \$75 million in each of fiscal years 2008 through 2010; and (iii) increased debt service of \$35 million in fiscal year 2010. The report noted that such risks could be offset by possible additional resources, including: (i) increased tax revenues in the amount of \$300 million in fiscal year 2007, \$250 million in fiscal year 2008 and \$200 million in each of fiscal years 2009 and 2010; (ii) debt service savings of \$85 million in fiscal year 2007, \$50 million in fiscal year 2008 and \$25 million in fiscal year 2009; (iii) decreased Medicaid expenses of \$75 million in each of fiscal years 2007 through 2010; (iv) \$25 million savings from delayed hiring in fiscal year 2007; and (v) \$140 million from a refund from the Internal Revenue Service in fiscal year 2008.

In addition to the benefits and risks presented as quantified adjustments to the Financial Plan projections, the OSDC identified other risks that could have a significant impact on the City. These include: (i) the possibility that wages increase, after the expiration of current or tentative agreements, at the projected rate of inflation rather than the 1.25% per annum provided for in the Financial Plan, which would increase costs by \$40 million, \$180 million and \$400 million in fiscal years 2008 through 2010, respectively; and (ii) the possibility that the City could incur penalties with respect to recently-adjusted federal work participation rates for public assistance recipients, with an annual impact of up to \$130 million beginning in fiscal year 2008. The report did not include either additional risk in its risk assessment totals. Other significant issues identified by the OSDC in the report include: (i) the possibility that the State might require additional City resources to be directed to the City's public schools as a result of the final resolution of the CFE litigation; and (ii) that certain City-related public entities face financial challenges that could draw on City resources. The OSDC report did not quantify the potential financial impact on the City from these issues. In addition, the report notes that the City's debt service burden is projected to increase annually and consume 14.7 percent of City fund revenues in fiscal year 2010, and that while the rapid growth in pension contributions will ease by fiscal year 2010, contributions will remain at a level almost four times larger than the average contribution during the 1990s.

The report further noted that the City's OPEB obligation at the end of fiscal year 2006 totaled \$53.5 billion. The report also noted that though the new accounting rules do not require governmental entities to fund the OPEB obligation, the credit rating agencies, when determining their ratings, will consider the size of these liabilities and how they are addressed.

The OSDC noted that, while one of the greatest risks to the City budget would come from a prolonged economic downturn, the City has prudently increased its reserves during the current economic expansion, which would mitigate the impact of any short-term adverse development.

On December 12, 2006, the staff of the Control Board issued a report on the Financial Plan. The report quantified possible additional resources, partially offset by certain risks. The report identified possible net additional resources of \$233 million, \$347 million, \$213 million and \$221 million in fiscal years 2007 through 2010, respectively. When combined with the results projected in the Financial Plan, these net additional resources would result in an estimated surplus of \$233 million in fiscal year 2007 and estimated gaps of \$163 million, \$3.9 billion, and \$3.4 billion in fiscal years 2008 through 2010, respectively. The possible additional resources identified in the report result from: (i) increased non-property tax revenues of \$250 million in each of fiscal years 2007 and 2008 and \$300 million in each of fiscal years 2009 and 2010; (ii) increased miscellaneous revenues of \$100 million in fiscal year 2007 and \$150 million in each of fiscal years 2008 through 2010; and (iii) a refund from the Internal Revenue Service of \$140 million in fiscal year 2008. The risks identified are: (i) increased uniformed services overtime expenses of \$45 million, \$131 million, \$135 million and \$143 million in fiscal years 2007 through 2010, respectively; and (ii) additional costs of the United Federation of Teachers contract settlement of \$72 million, \$62 million, \$102 million and \$86 million in fiscal years 2007 through 2010, respectively.



In addition to the risks quantified in the report, the report noted that although debt service is projected to grow at an annual rate of 8.1% percent between fiscal years 2007 and 2010, the ratio of such costs to tax revenues is expected to be within the range maintained by the City over the last ten years. The report further noted, however, that because tax revenue expectations have been volatile, if debt service is not kept under control it could easily start to consume record high proportions of tax revenues. The report also reviewed the sources of City revenues, expected City expenditures for pensions, retiree health care benefits, Medicaid, public assistance, uniformed overtime, education and collective bargaining agreements, and the City's capital program.

On December 14, 2006, the City Comptroller released a report on the Financial Plan. The report noted that the Financial Plan revenue expectations significantly exceed the revenue expectations in the adopted budget for fiscal year 2007, and that fiscal year 2007 will be the fifth consecutive fiscal year in which revenues will significantly exceed the projections made at the time of budget adoption. The report attributed most of the revenue improvement to economic growth and real estate activity that are well above earlier expectations. The report linked the remaining outyear gaps in the Financial Plan to rapid growth in non-discretionary spending.

In his report, the City Comptroller identified possible additional resources, partially offset by certain risks. The report identified possible net additional resources of \$125 million, \$305 million, \$90 million and \$270 million in fiscal years 2007 through 2010, respectively. When combined with the results projected in the Financial Plan, these net additional resources result in an estimated surplus of \$125 million in fiscal year 2007 and estimated gaps of \$205 million, \$4.0 billion, and \$3.3 billion in fiscal years 2008 through 2010, respectively. The possible additional resources result from: (i) increased property tax revenues of \$85 million in fiscal year 2009 and \$220 million in fiscal year 2010; (ii) increased personal income tax revenues of \$120 million in fiscal year 2007 and \$90 million in fiscal year 2008; (iii) increased business tax revenues of \$20 million in fiscal year 2007 and \$70 million in fiscal year 2008; (iv) increased sales tax revenues of \$20 million in fiscal year 2007 and \$40 million in fiscal year 2008; (v) increased real-estate-related taxes of \$100 million in each of fiscal years 2009 and 2010; (vi) a refund from the Internal Revenue Service of \$140 million in fiscal year 2008; and (vii) savings from reduced Medicaid expenditures of \$125 million in each of fiscal years 2007 through 2010. The offsets identified are: (i) reduced property tax revenues of \$30 million in fiscal year 2008; (ii) reduced personal income tax revenues of \$10 million in fiscal year 2009; (iii) reduced sales tax revenues of \$30 million in fiscal year 2009; (iv) increased overtime expenses of \$87 million in fiscal year 2007 and \$75 million in each of fiscal years 2008 through 2010; and (v) additional labor costs of \$73 million, \$55 million, \$105 million and \$100 million in fiscal years 2007 through 2010, respectively.

The report noted that an actuarial consultant hired by the City has completed a biennial review of the methodologies and assumptions used to calculate the City's annual pension contributions, and has proposed changes in a number of assumptions, which, if adopted in their entirety, would require annual pension contributions to increase. The City Comptroller indicated that if these changes had been applied to fiscal year 2006 contributions, the required increase would have been \$339 million. The report also noted that the City might be required by the State to contribute significantly to the additional funding for the City's public schools of \$1.93 billion annually required by the November 20, 2006 Court of Appeals ruling in the CFE litigation.

The report projected that the City's Gross City Product ("GCP") will grow 3.1 percent in calendar year 2006, which would be below the 3.4 percent pace in 2005. The report forecast 1.9 percent growth of GCP in calendar year 2007, and forecast job growth in the City of 55,000 jobs in 2006 and 25,000 in 2007, on an average annual basis.

## 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 \$9.8 billion in fiscal year 2007. City-funded expenditures are forecast at \$5.5 billion in fiscal year 2007; total expenditures are forecast at \$8.4 billion in fiscal year 2007. For additional information concerning the City's capital expenditures and the Ten-Year Capital Strategy covering fiscal years 2007 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 2007 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.*"

### 2007-2010 CAPITAL COMMITMENT PLAN

	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
	(In Millions)									
Mass Transit(1) . . . . .	\$ 104	\$ 290	\$ 81	\$ 89	\$ 89	\$ 89	\$ 90	\$ 90	\$ 364	\$ 558
Roadway, Bridges. . . . .	1,148	1,546	1,087	1,378	1,003	1,354	448	465	3,686	4,742
Environmental Protection(2) . . . . .	3,229	3,406	1,946	1,974	1,222	1,250	1,145	1,170	7,542	7,800
Education(3) . . . . .	1,024	3,097	1,014	3,018	1,210	3,214	1,097	1,097	4,344	10,427
Housing . . . . .	578	757	349	464	338	438	329	430	1,593	2,089
Sanitation . . . . .	427	431	719	719	135	135	311	311	1,592	1,597
City Operations/Facilities . . . . .	7,100	7,419	2,587	2,713	1,560	1,596	694	724	11,940	12,452
Economic and Port Development . . . . .	1,402	1,551	295	375	78	78	4	4	1,779	2,008
Reserve for Unattained Commitments . . . . .	(5,254)	(5,254)	589	589	1,060	1,060	903	903	(2,703)	(2,702)
Total Commitments(4) . . . . .	<u>\$ 9,757</u>	<u>\$13,244</u>	<u>\$8,666</u>	<u>\$11,319</u>	<u>\$6,695</u>	<u>\$9,215</u>	<u>\$5,021</u>	<u>\$5,194</u>	<u>\$30,139</u>	<u>\$38,972</u>
Total Expenditures(5) . . . . .	<u>\$ 5,465</u>	<u>\$ 8,393</u>	<u>\$6,943</u>	<u>\$ 9,415</u>	<u>\$7,399</u>	<u>\$9,510</u>	<u>\$7,132</u>	<u>\$8,207</u>	<u>\$26,939</u>	<u>\$35,525</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) All Funds reflects recent legislation that will provide State funding for the current five-year educational facilities capital plan in the amount of \$6.5 billion. This includes \$1.8 billion to be provided in the form of State grants as well as \$4.7 billion of debt to be issued by the TFA that is expected to be paid from State aid to education.
- (4) Commitments represent contracts registered with the City Comptroller, except for certain projects which are undertaken jointly by the City and State.
- (5) Expenditures represent cash payments and appropriations planned to be expended for capital costs, excluding amounts for original issue discount.

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 December 2006, 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 \$5.14 billion in capital investment would be needed for fiscal years 2008 through 2011 to bring the assets to a state of good repair. The report also estimated that \$299 million, \$153 million, \$182 million and \$156 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 2006, concluded that the capital investment in the Four-Year Capital Plan for the specifically identified inventoried assets funds 49% of the total investment recommended in the preceding AIMS Report issued in October 2005. 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 40% 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 2007 through 2010 fiscal years to implement the Four-Year Capital Program. See “SECTION VIII: INDEBTEDNESS—Indebtedness of the City and Certain Other Entities.”

<b>2007-2010 FINANCING PROGRAM</b>					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>TOTAL</u>
	(IN MILLIONS)				
CITY GENERAL OBLIGATION BONDS . . .	\$2,260	\$4,415	\$4,654	\$5,657	\$16,986
TFA BONDS (1)(2) . . . . .	2,000	—	—	—	2,000
WATER AUTHORITY BONDS (1)(3) . . . . .	<u>2,001</u>	<u>1,738</u>	<u>1,813</u>	<u>1,501</u>	<u>7,053</u>
TOTAL . . . . .	<u>\$6,261</u>	<u>\$6,153</u>	<u>\$6,467</u>	<u>\$7,158</u>	<u>\$26,039</u>

Note: Totals may not add due to rounding.

- (1) Figures include notes and exclude refunding bonds.
- (2) TFA Bonds shown above are to be issued for general City capital purposes and are payable from City personal income tax revenues and, if necessary, City sales tax revenues. In addition, the TFA has issued \$650 million of Building Aid Revenue Bonds (as described below) in fiscal year 2007 and expects to issue an additional \$628 million of Building Aid Revenue Bonds in fiscal year 2007. The TFA also expects to issue \$1.394 billion, \$1.394 billion and \$635 million of such bonds in fiscal years 2008 through 2010, respectively.
- (3) Water Authority Bonds includes a total allocation for reserve funds and costs of issuance of \$570 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 2007 through 2010 reflects total anticipated City-funded water and sewer commitments of \$7.5 billion which are expected to be financed with the proceeds of Water Authority debt.

The City's financing program also includes the issuance of bonds by the TFA. The TFA is authorized to issue \$13.5 billion of obligations for general City capital purposes and to have outstanding \$2.5 billion of obligations to pay Recovery Costs. Such obligations are secured by the City's personal income tax revenues and, to the extent such revenues do not satisfy specified debt ratios, sales tax revenues. To date, the TFA has issued \$12.9 billion of obligations for general City capital purposes and has outstanding \$1.8 billion of bonds issued for Recovery Costs. The City expects annually to seek legislation to increase the statutory cap on the TFA's indebtedness for general City capital purposes. In addition, the TFA is authorized to have outstanding \$9.4 billion of Building Aid Revenue Bonds to pay for a portion of the City's five-year educational facilities capital plan. Building Aid Revenue Bonds are secured by State building aid, which the Mayor has assigned to the TFA. To date, the TFA has issued \$650 million of Building Aid Revenue Bonds.

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 September 30, 2006, the total marked-to-market value of the City's interest rate exchange agreements was (\$12,421,737).

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. The City is obligated, subject to appropriation, to make lease payments to DASNY reflecting DASNY's obligations under these interest rate exchange agreements. 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 ("BMA") 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 pays a fixed rate of 3.017% and receives payments based on a LIBOR-indexed variable rate. As of September 30, 2006, the total marked-to-market value of the DASNY agreements was \$5,579,426.

In addition, in connection with its Special Revenue Bonds, Fiscal 2004 Series A and B (New York Stock Exchange Project), the IDA entered into eight interest rate exchange agreements with Morgan Stanley Capital Services Inc., each with an effective date of August 21, 2003. The City is obligated, subject to appropriation, to make payments to the IDA reflecting the IDA's obligations under these interest rate exchange agreements. Pursuant to an agreement with a notional amount of \$18,520,000 and a termination date of May 29, 2008 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 4.8%. Pursuant to an agreement with a notional amount of \$2,580,000 and a termination date of March 1, 2012 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5%. Pursuant to an agreement with a notional amount of \$2,710,000 and a termination date of December 14, 2012 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.125%. Pursuant to an agreement with a notional amount of \$2,850,000 and a termination date of October 3, 2013 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.2%. Pursuant to an agreement with a notional amount of \$3,000,000 and a termination date of July 24, 2014 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.3%. Pursuant to an agreement with a notional amount of \$3,155,000 and a termination date of May 14, 2015 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.4%. Pursuant to an agreement with a notional amount of \$3,325,000 and a termination date of February 26, 2016 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.4%. Pursuant to an agreement with a notional amount of \$41,820,000 and a termination date of August 20, 2020 (subject to certain early termination events), the IDA makes payments based on BMA and receives a fixed rate of 5.625%. As of September 30, 2006, the total marked-to-market value of these IDA interest rate exchange agreements was \$2,821,782.

### **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 2002, 2003 and 2004. No short-term obligations were required to be issued in fiscal years 2005 and 2006. The City regularly reviews its cash position and the need for short-term borrowing. The Financial Plan does not include the issuance of short term obligations in fiscal year 2007. The Financial Plan reflects the issuance of short term obligations in the amount of \$2.4 billion in each of fiscal years 2008 through 2010.

## **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 September 30, 2006. "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.

<b>(In Thousands)</b>		
Gross City Long-Term Indebtedness(1)	.....	\$35,725,622
Less: Assets Held for Debt Service(2)	.....	<u>(464,056)</u>
Net City Long-Term Indebtedness	.....	\$35,261,566
<b>PBC Indebtedness</b>		
Bonds Payable	.....	345,272
Capital Lease Obligations	.....	<u>1,581,264</u>
Gross PBC Indebtedness	.....	1,926,536
Less: Assets Held for Debt Service	.....	<u>(289,964)</u>
Net PBC Indebtedness	.....	<u>1,636,572</u>
Combined Net City and PBC Indebtedness	.....	<u><u>\$36,898,138</u></u>

(1) Reflects capital appreciation bonds at accreted values as of June 30, 2006

(2) Assets Held for Debt Service consists of General Debt Service Fund assets.

*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 1997 through 2006 and at September 30, 2006.

	<u>City Indebtedness</u>		<u>PBC Indebtedness</u>	<u>Total</u>
	<u>Long-Term</u>	<u>Short-Term</u>		
	<b>(In Millions)</b>			
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
2006	34,076	—	1,751	35,827
September 30, 2006	35,262	—	1,637	36,898

*Rapidity of Principal Retirement*

The following table details, as of September 30, 2006, 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	19.78%
10 years	44.30
15 years	66.52
20 years	84.97
25 years	94.83
30 years	99.64

*City and PBC Debt Service Requirements*

The following table summarizes future debt service requirements, as of September 30, 2006, 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)			
2007(1).....	\$ 1,645,847	\$ 1,640,180	\$ 84,071	\$ 3,370,098
2008 .....	1,758,516	1,579,543	88,367	3,426,426
2009 .....	1,820,570	1,511,998	58,630	3,391,198
2010 .....	1,830,795	1,431,452	71,955	3,334,202
2011 through 2147 .....	<u>28,669,894</u>	<u>12,582,357</u>	<u>1,623,513</u>	<u>42,875,764</u>
Total.....	<u>\$35,725,622</u>	<u>\$18,745,530</u>	<u>\$1,926,536</u>	<u>\$56,397,688</u>

(1) Does not reflect discretionary transfers in fiscal year 2006 to pay debt service due in fiscal year 2007.

*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 1997 through 2006.

<u>Fiscal Year</u>	<u>City Long-Term Indebtedness</u> (In Millions)	<u>Percentage of Actual Taxable Value of Property(1)</u>	<u>Per Capita</u>
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
2006.....	35,844	29.26	4,402

Source: CAFR for the fiscal year ended June 30, 2006.

(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 1997 through 2006. 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.

<b>Fiscal Year</b>	<b>General Obligation Bonds(1)</b>	<b>ECF</b>	<b>MAC</b>	<b>TFA (In Millions)</b>	<b>TSASC</b>	<b>STAR</b>	<b>SFC(2)</b>	<b>PBC Indebtedness and Other(3)</b>	<b>IDA Stock Exchange</b>
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
2006	35,844	84	—	12,233	1,334	2,470	—	2,925	104

Source: CAFR for the fiscal year ended June 30, 2006.

- (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 \$391 million, \$365 million, \$299 million, \$230 million, \$168 million, \$116 million, \$64 million, \$52 million and \$39 million in fiscal years 1997 through 2005, respectively. All of such general obligation “mirror” bonds have been paid.
- (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. None of Water Authority, TFA, TSASC indebtedness or 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. 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. TSASC has issued approximately \$1.3 billion of bonds that are payable from TSRs. TSASC does not intend to issue additional bonds. The TFA is authorized to issue \$13.5 billion of obligations for general City capital purposes and has issued \$12.9 billion of obligations for such purposes. Such 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.

The following table sets forth the calculation of the debt-incurring power of the City as of November 30, 2006.

(In Thousands)		
Total City Debt-Incurring Power under General Debt Limit . . . .		\$53,335,500
Gross Debt-Funded . . . . .	\$34,222,335	
Less: Excluded Debt . . . . .	<u>(403,311)</u>	
	33,819,024	
Less: Appropriations for Payment of Principal . . . . .	<u>(363,333)</u>	
	33,455,691	
Contracts and Other Liabilities, Net of Prior Financings		
Thereof. . . . .	<u>6,778,085</u>	
Total Indebtedness . . . . .		<u>40,233,776</u>
Less: TFA Debt-Incurring Power for General City Capital		
Purposes (1) . . . . .	(600,000)	
City Debt-Incurring Power (2). . . . .		<u>\$13,701,723</u>

Note: Numbers may not add due to rounding.

- (1) Does not include the TFA’s capacity to issue Building Aid Revenue Bonds or bonds for Recovery Costs.
- (2) Without the creation of TFA and TSASC, the debt-incurring capacity of the City under the general debt limit, as of November 30, 2006, would have been exceeded by \$845 million.

*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 September 30, 2006, \$84.0 million principal amount of ECF bonds to finance costs related to the school portions of combined occupancy structures was outstanding. Under ECF’s leases with the City, debt service on the ECF bonds is payable by the City to the extent third party revenues are not sufficient to pay such debt service.

### *New York State Housing Finance Agency*

As of September 30, 2006, \$79.8 million principal amount of HFA refunding bonds relating to hospital and family care facilities leased to the City was outstanding. HFA does not receive third party revenues to offset the City’s capital lease obligations with respect to these bonds. Lease payments, which are made by the City seven months in advance of payment dates of the bonds, are intended to cover development and construction costs, including debt service, of each facility plus a share of HFA’s overhead and administrative expenses.

*Dormitory Authority of the State of New York*

As of September 30, 2006, \$615.2 million principal amount and \$846.9 million principal amount of DASNY bonds issued to finance the design, construction and renovation of court facilities and health facilities, respectively, in the City were outstanding. The court facilities and health facilities are leased to the City by DASNY, with lease payments made by the City in amounts sufficient to pay debt service on DASNY bonds and certain fees and expenses of DASNY.

*City University Construction Fund*

As of September 30, 2006, approximately \$504.4 million principal amount of DASNY bonds, relating to Community College facilities, subject to capital lease arrangements was outstanding. The City and the State are each responsible for approximately one-half of the CUCF's annual rental payments to DASNY for Community College facilities which are applied to the payment of debt service on the DASNY's bonds issued to finance the leased projects plus related overhead and administrative expenses of the DASNY.

*New York State Urban Development Corporation*

As of September 30, 2006, \$39.5 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 2006, 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 \$3.919 billion. Expense projections for fiscal years 2007 through 2010 are estimated at \$4.869 billion, \$5.595 billion, \$5.960 billion and \$5.972 billion, respectively. These projections are based on actuarial valuation estimates and reflect funding assumptions formulated by the Chief Actuary. 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 slight investment gains in each of fiscal years 2004, 2005 and 2006. 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 Chief Actuary's funding assumptions.

An independent actuarial firm has recently concluded a statutory audit of the actuarial assumptions and methods governing City pension contributions. The report calls for changing certain actuarial

assumptions such as life expectancy which, with other recommendations, could result in net increased annual pension contributions of between \$250 million and \$500 million. The Chief Actuary of the City is reviewing the report and may recommend revised funding assumptions to the trustees of the City's pension funds.

The City funds its pensions consistent with one of the six methodologies accepted by GASB, which has resulted in the City's pensions being 99.7% funded. In the last three comprehensive annual financial reports for each of the pension systems, the Chief Actuary has included two alternative measures of funded status, along with the required calculation, for the purpose of providing additional insight on the funded status of each plan. One of the alternative measures utilizes different assumptions including a conservative investment rate based on government securities rather than the actuarial assumed rate of 8%, which results in increased liability of approximately \$49 billion. The second of the two alternative measures results in approximately the same funded status as the required calculation.

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 2006 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 29% 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 \$543.9 million and approximately \$220.1 million, respectively, were recorded as of June 30, 2006.

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>	<u>Unfunded Pension Liability Amount(1)</u> (In Billions)
1995 .....	\$4.03
1996 .....	4.29
1997 .....	4.28
1998 .....	4.64
1999 .....	.15
2000 .....	.17
2001 .....	.21
2002 .....	.19
2003 .....	.33
2004 .....	.27
2005 .....	.21

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

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

**Litigation**

The following paragraphs describe certain material legal proceedings and claims involving the City and Covered Organizations other than routine litigation incidental to the performance of their governmental and other functions and certain other litigation arising out of alleged constitutional violations, torts, breaches of contract and other violations of law and condemnation proceedings. 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, 2006 amounted to approximately \$5.0 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 \$568 million at June 30, 2006. 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.4.”

*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’ 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. The City has moved to dismiss the Article 78 proceeding and has submitted an answer in the action. By decision dated October 17, 2006, the Court denied the City's motion to dismiss the Article 78 proceeding but granted the City's motion to dismiss the petitioners' contract claims. 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' System with regard to a component of the Teachers' System consisting of member contributions and earnings thereon known as the Variable B Fund. Plaintiff alleges that the trustees of the Teachers' 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 Teachers' 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. On November 19, 2003, the defendants again moved for summary judgment. On May 2, 2005, the Supreme Court denied defendants' second motion for summary judgment and ordered the matter to trial. On January 26, 2006, following a trial, the Supreme Court held that the Teachers' System and its individual trustees had not breached their fiduciary duty in establishing and operating the Variable B Fund as a stable value fund. On June 2, 2006, plaintiff served a notice of appeal of the judgment. If the plaintiff were to 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, among others, Department of Sanitation employees, firefighters, police officers, construction workers and building clean-up workers. Currently, 642 of the proceedings are confirmed actions against the City. Several summonses with notice filed on behalf of a total of approximately 7,000 plaintiffs and alleging similar causes of action have also been filed naming the City and dozens of other defendants. However, only 642 of these plaintiffs have served complaints on the City. 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), which grants exclusive federal jurisdiction for all claims related to or resulting from the September 11 attack. The City's motion to dismiss these actions was denied on October 17, 2006 and a motion to appeal has been filed. On December 4, 2006, the court confirmed federal jurisdiction in the action brought on behalf of building clean-up workers. A not-for-profit "captive" insurance company, WTC Captive Insurance Company, Inc. (the "WTC Insurance Company") has been formed 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 the original 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, 179 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. The motion is pending.

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 DOE (then known as BOE) with respect to speech services for students with disabilities. The audit states generally that the State 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 State Department of Health has formally submitted a response to the Centers for Medicare and Medicaid Services ("CMS") raising objections, based in law and policy, to the audit findings and requesting that CMS 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 State Medicaid program by DOE 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 CMS to resolve approximately \$12 million in additional claims. DOE and the State Department of Health have formally submitted responses to the transportation audit to CMS; the responses take the position that the audit was flawed and unlawfully conducted and, as in the case of the speech audit, request that CMS takes no further action with respect to the audit. In both audits, CMS has not imposed any disallowances of FFP to date. Both the speech and transportation audits 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 DOE for services that are the subject of such disallowances, or may attempt to offset amounts owed to DOE.

6. In 2002, more than sixteen thousand police officers and detectives 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. The matter is currently in discovery. 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"), 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 applicable bond proceedings 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.

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Bonds made after March 31, 2007 to be subject to backup withholding if such interest is paid to registered owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. 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 federal income tax liability provided the required information is furnished to the IRS.

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**

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### *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.

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### *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 have been rated “A1” by Moody’s Investors Service (“Moody’s”), “AA-” by Standard & Poor’s Ratings Services (“Standard & Poor’s”) and “A+” by Fitch, Inc. (“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 D 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.

Certain legal matters will be passed upon by Clifford Chance US LLP, New York, New York, counsel for the Underwriters. Such firm is also acting as counsel for and against the City in certain unrelated matters.

### **Verification**

The accuracy of (i) the mathematical computations of the adequacy of the maturing principal of and interest earned on the government obligations to be held in escrow to pay principal, interest not otherwise paid and redemption premiums, if any, on the bonds identified in Appendix C hereof and (ii) certain mathematical computations supporting the conclusion that the Bonds are not "arbitrage bonds" under the Code, will be verified by a verification agent selected by the City.

### **Underwriting**

The Tax-Exempt Bonds are being purchased for reoffering by the Underwriters for whom Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear, Stearns & Co. Inc., Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated are acting as lead managers. The compensation for services rendered in connection with the underwriting of the Tax-Exempt Bonds shall be \$5,256,344.53.

The Taxable Bonds will be purchased for reoffering by Morgan Stanley & Co. Incorporated. The compensation for services rendered in connection with the Taxable Bonds shall be \$23,100.00.

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

### **Continuing Disclosure Undertaking**

As authorized by the Act, and to the extent that (i) Rule 15c2-12 (the "Rule") of the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended (the "1934 Act") requires the underwriters (as defined in the Rule) of securities offered hereby (under this caption, if subject to the Rule, the "securities") to determine, as a condition to purchasing the securities, that the City will covenant to the effect of the Undertaking, and (ii) the Rule as so applied is authorized by a federal law that as so construed is within the powers of Congress, the City agrees with the record and beneficial owners from time to time of the outstanding securities (under this caption, if subject to the Rule, "Bondholders") to provide:

(a) within 185 days after the end of each fiscal year, to each nationally recognized municipal securities information repository and to any New York State information depository, core financial information and operating data for the prior fiscal year, including (i) the City's audited general purpose financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data on the City's revenues, expenditures, financial operations and indebtedness generally of the type found herein in Sections IV, V and VIII and under the captions "2002-2006 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 1994 to 2004 (the most recent year for which City personal income data are available). From 1994 to 2004, personal income in the City averaged 4.7% growth compared to 5.2% for the nation. After increasing by 7.9% in 2004, total personal income is estimated by OMB to have increased in 2005. The following table sets forth information regarding personal income in the City from 1994 to 2004.

## PERSONAL INCOME(1)

<u>Year</u>	<u>Total NYC Personal Income (\$ billions)</u>	<u>Per Capita Personal Income NYC</u>	<u>Per Capita Personal Income U.S.</u>	<u>NYC as a Percent of U.S.</u>
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	36,911	29,847	123.7
2001.....	302.7	37,485	30,571	122.6
2002.....	299.8	36,984	30,813	120.0
2003.....	305.2	37,535	31,478	119.2
2004.....	329.4	40,342	33,108	121.9

Sources: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census. Data as of October 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 October 2006, total employment in the City was approximately 3,684,800 compared to approximately 3,633,800 in October 2005, an increase of approximately 1.4%.

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

### EMPLOYMENT DISTRIBUTION

	<u>Average Annual Employment (in thousands)</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>
<b>Goods Producing Sectors</b>											
Construction .....	90	91	93	101	112	120	122	116	113	112	113
Manufacturing .....	208	200	201	196	187	177	156	139	127	121	114
<b>Service Producing Sectors</b>											
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
<b>Total Private</b> .....	2,779	2,823	2,890	2,966	3,053	3,154	3,127	3,015	2,975	2,995	3,044
<b>Government</b> .....	560	546	552	561	567	569	565	569	557	555	555
<b>Total</b> .....	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 2004, the City's service producing sectors provided approximately 2.8 million jobs and accounted for approximately 78% 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 2004, 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 48%. In the nation, those same service producing sectors accounted for only approximately 19% of employment and 25% of earnings in 2004. 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 2004 are set forth in the following table.

### Sectoral Distribution of Employment and Earnings in 2004(1)

	Employment		Earnings(2)	
	NYC	U.S.	NYC	U.S.
<b>Goods Producing Sectors</b>				
Mining.....	0.0%	0.4%	0.1%	0.9%
Construction .....	3.1	5.3	2.9	6.2
Manufacturing.....	<u>3.4</u>	<u>10.9</u>	<u>2.7</u>	<u>13.0</u>
<b>Total Goods Producing</b> .....	6.6	16.6	5.8	20.2
<b>Service Producing Sectors</b>				
Trade, Transportation and Utilities .....	15.2	19.4	9.3	16.3
Information .....	4.5	2.4	8.0	3.9
Financial Activities.....	12.3	6.1	28.6	10.2
Professional and Business Services .....	15.3	12.5	19.1	14.9
Education and Health Services .....	18.7	12.9	10.6	10.7
Leisure & Hospitality.....	7.6	9.5	3.9	3.8
Other Services.....	<u>4.2</u>	<u>4.1</u>	<u>2.5</u>	<u>3.0</u>
<b>Total Service Producing</b> .....	77.8	66.9	81.8	62.8
<b>Total Private Sector</b> .....	84.4	83.6	88.9	83.3
<b>Government(3)</b> .....	15.6	16.4	11.1	16.7

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 2004 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)**

	<b>Employment</b>				<b>Earnings(2)</b>			
	<b>1980</b>		<b>2000</b>		<b>1980</b>		<b>2000</b>	
	<b>NYC</b>	<b>U.S.</b>	<b>NYC</b>	<b>U.S.</b>	<b>NYC</b>	<b>U.S.</b>	<b>NYC</b>	<b>U.S.</b>
<b>Private Sector:</b>								
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
<b>Total Private Sector</b> .....	84.3	82.0	84.7	84.3	85.2	82.1	89.8	84.6
<b>Government(3)</b> .....	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 October 2006, the total unemployment rate in the City was 4.1% compared to 5.8% in October 2005. The annual unemployment rate of the City's resident labor force is shown in the following table.

**ANNUAL UNEMPLOYMENT RATE(1)**

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
New York City .....	8.2%	8.8%	9.4%	7.9%	6.9%	5.8%	6.1%	8.1%	8.3%	7.0%	5.8%
United States .....	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 October 2006, the number of persons receiving public assistance in the City was 386,992 compared to 417,988 in October 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 2004. The following table illustrates the volume of sales and purchases subject to the sales tax from 1993 to 2003.

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

<u>Year(1)</u>	<u>Retail(2)</u>	<u>Utility &amp; Communication Sales(3)</u>	<u>Services(4)</u>	<u>Manufacturing</u>	<u>Other(5)</u>	<u>All Total</u>
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) .....	25.6	11.9	20.7	2.0	15.2	75.5
2003(6) .....	26.2	11.4	21.0	1.9	14.9	75.4

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

- (1) For 1993 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 2007 fiscal year, the billable assessed valuation of real estate of utility corporations is \$11.5 billion. The following table presents the 40 non-utility properties having the greatest assessed valuation in the 2007 fiscal year as indicated in the tax rolls.

<u>Property</u>	<u>2007 Fiscal Year Assessed Valuation</u>	<u>Property</u>	<u>2007 Fiscal Year Assessed Valuation</u>
Met Life Building .....	\$285,224,000	Chase World Headquarters .....	\$162,980,000
General Motors Building.....	277,340,000	399 Park Avenue .....	159,587,910
International Building .....	258,790,000	Simon & Schuster Building .....	158,670,000
McGraw-Hill Building .....	258,120,000	Morgan Stanley Building .....	153,040,000
Solow Building.....	256,520,000	595 Lexington Avenue .....	150,640,000
Credit Lyonnais Building.....	240,799,998	Kalikow Building .....	150,480,000
Sperry Rand Building.....	238,860,000	One Astor Plaza.....	149,780,000
Stuyvesant Town .....	236,160,000	Morgan Guaranty.....	149,640,000
Time & Life Building.....	227,140,000	617 Lexington Avenue .....	147,707,100
Bear Stearns Bldg (Park Ave.).....	221,419,997	Carpet Center.....	145,440,000
Celanese Building.....	218,500,000	One Liberty Plaza .....	142,494,871
One Penn Plaza.....	209,970,000	Waldorf-Astoria .....	142,363,000
Alliance Capital Building.....	205,340,000	IBM Tower .....	137,850,000
Empire State Building .....	196,200,000	Time Warner Center .....	137,090,611
Paramount Plaza .....	195,920,000	Continental Illinois .....	136,600,000
UBS Financial Services Bldg.....	193,439,993	1 Chase Manhattan Plaza.....	135,395,000
Worldwide Plaza .....	190,830,000	Park Avenue Plaza.....	127,940,000
Bristol Meyers Building.....	187,160,000	The Port of New York .....	125,910,000
666 Fifth Avenue.....	180,359,000	Park Avenue Atrium.....	125,265,000
Equitable Tower .....	171,112,000	W.R. Grace Building.....	124,290,000

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

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**FINANCIAL STATEMENTS**

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**Basic Financial Statements  
of  
The City of New York  
June 30, 2006 and 2005**

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### Independent Auditors' Report

The People of The City of New York:

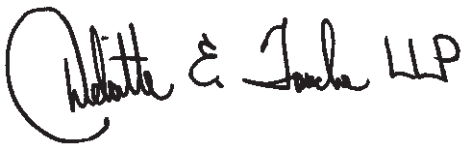
We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining governmental fund information of The City of New York (The "City") as of and for the years ended June 30, 2006 and 2005, 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'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 16 percent and 35 percent and 17 percent, as of and for the years ended June 30, 2006 and 2005 respectively, of the assets and revenues of the government-wide financial statements and 21 percent and 17 percent and 21 percent and 15 percent, as of and for the years ended June 30, 2006 and 2005 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 opinions, insofar as they relate to the amounts included for those entities disclosed in Note E.1, are based on the reports of our auditors. The report of the independent auditor for the New York City-Off Track Betting Corporation contained an explanatory paragraph regarding its ability to continue as a going concern (see Note A.1).

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 governmental fund information of The City, as of June 30, 2006 and 2005, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the General Fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A.2 to the basic financial statements, in 2006, The City adopted Governmental Accounting Standards Board Statement (GASB) No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, GASB Statement No.47, *Accounting for Termination Benefits*, GASB Technical Bulletin (TB) No. 2004-2, *Recognition of Pension and Other Post Retirement Benefit Expenditures and/Expense and Liabilities by Cost sharing Employers*, and GASB TB No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*.

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 2006 and 2005 supplementary information. However, we did not audit the information and express no opinion on it.



October 26, 2006

Member of  
Deloitte Touche Tohmatsu

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Overview of the Financial Statements*

The following is a narrative overview and analysis of the financial activities of The City of New York (City) for the fiscal years ended June 30, 2006 and 2005. 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.

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (GASB No. 43). GASB No. 43 establishes financial reporting standards for other postemployment benefits (OPEB) plans that are administered by a trust. The City also established the New York City Retiree Health Benefits Trust (RHBT), for the administration of the City's OPEB Plan (Plan). The RHBT is reported in the City's financial statement as a

fiduciary component unit. The RHBT was established for the exclusive benefit of the City's retired employees and their dependents in providing the following current postemployment benefits: a health insurance program, Medicare Part B premium reimbursements and welfare fund contributions. The City is not required to provide funding for the Plan other than the "pay-as-you-go" amount necessary to provide these benefits to current eligible retirees and their dependents. The City contributed \$1 billion to RHBT during fiscal year 2006.

*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 and OPEB benefits to its employees and retirees and their dependents.

*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)
- Hudson Yards Group (HYG)
  - Hudson Yards Development Corporation (HYDC)
  - Hudson Yards Infrastructure Corporation (HYIC)

*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)  
 New York City Capital Resource Corporation (CRC)

**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 \$53.7 billion during fiscal year 2006, and decreased net assets by \$671 million during fiscal year 2005 and increased net assets by \$83 million during fiscal year 2004.

As mentioned previously, the basic financial statements include a reconciliation between the fiscal year 2006 governmental funds statement of revenues, expenditures, and changes in fund balances which reports a decrease of \$736 million in fund balances and the reported decrease in the excess of liabilities over assets reported in the government-wide statement of activities \$53.7 billion, a difference of \$53.0 billion. A similar reconciliation is provided for fiscal year 2005 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:

	<b>Governmental Activities</b>		
	<b>for the fiscal years ended June 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(in thousands)		
<b>Revenues:</b>			
Program revenues:			
Charges for services . . . . .	\$ 3,345,160	\$ 4,143,436	\$ 3,286,407
Operating grants and contributions . . .	15,126,979	15,936,907	14,507,980
Capital grants and contributions . . . . .	475,674	366,432	477,280
General revenues:			
Taxes . . . . .	35,381,695	31,708,689	28,493,546
Investment income . . . . .	465,685	232,109	49,677
Unrestricted Federal and State aid . . .	973,766	1,258,399	1,254,101
Other . . . . .	311,847	581,497	348,915
Total revenues . . . . .	<u>56,080,806</u>	<u>54,227,469</u>	<u>48,417,906</u>
<b>Expenses:</b>			
General government . . . . .	3,854,068	3,374,268	2,602,630
Public safety and judicial . . . . .	38,107,802	12,696,849	9,566,889
Education . . . . .	34,564,249	15,613,925	14,539,644
City University . . . . .	907,472	646,397	668,841
Social services . . . . .	13,025,782	10,882,448	10,283,512
Environmental protection . . . . .	6,906,033	2,375,604	2,453,205
Transportation services . . . . .	2,155,180	1,827,871	1,702,394
Parks, recreation and cultural activities . .	974,610	628,807	560,670
Housing . . . . .	1,711,951	1,007,341	745,544
Health (including payments to HHC) . . .	4,699,686	3,186,166	2,853,898
Libraries . . . . .	301,342	389,739	263,976
Debt service interest . . . . .	2,573,905	2,269,181	2,093,597
Total expenses . . . . .	<u>109,782,080</u>	<u>54,898,596</u>	<u>48,334,800</u>
Change in net assets . . . . .	(53,701,274)	(671,127)	83,106
Net Deficit—Beginning . . . . .	(27,192,541)	(26,521,414)	(26,604,520)
Net Deficit—Ending . . . . .	<u>\$ (80,893,815)</u>	<u>\$ (27,192,541)</u>	<u>\$ (26,521,414)</u>



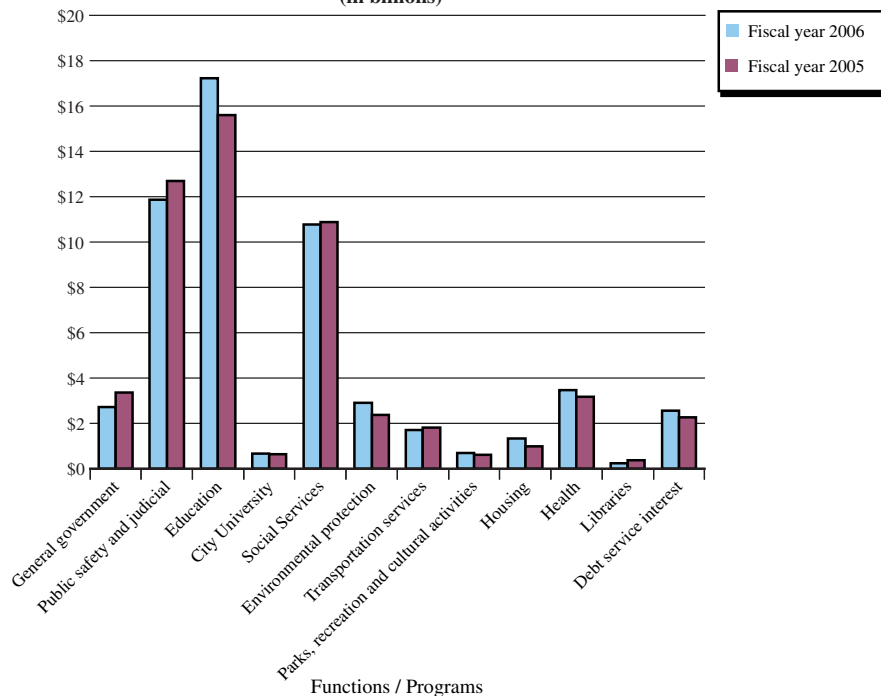
In fiscal year 2006, the government-wide revenues increased from fiscal year 2005 levels by approximately \$1.9 billion, while government-wide expenses grew by approximately \$54.9 billion.

The City implemented GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB No. 45) in fiscal year 2006. GASB No. 45 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. Postemployment benefits are part of an exchange of current salaries and benefits for employee services rendered. Prior to GASB No. 45, most OPEB Plans were reported on a pay-as-you-go basis and a government's financial statements did not report the financial effects of these postemployment benefits until paid.

GASB No. 45 requires the financial reports of governments to provide a systematic, accrual-basis measurement of an annual OPEB cost. The following schedule displays the effect of the GASB No. 45 expenses as they appear in the Statement of Activities for fiscal year 2006 and a comparison to fiscal year 2005:

Functions/Programs	Fiscal Year 2006 (in thousands)			Fiscal Year 2005
	Expenses per Statement of Activities	GASB 45 Expenses	Expenses excluding GASB 45	Expenses per Statement of Activities
General government	\$ 3,854,068	\$ 1,118,835	\$ 2,735,233	\$ 3,374,268
Public safety and judicial	38,107,802	26,228,204	11,879,598	12,696,849
Education	34,564,249	17,319,446	17,244,803	15,613,925
City University	907,472	231,978	675,494	646,397
Social services	13,025,782	2,256,234	10,769,548	10,882,448
Environmental protection	6,906,033	3,996,576	2,909,457	2,375,604
Transportation services	2,155,180	450,137	1,705,043	1,827,871
Parks, recreation and cultural activities	974,610	273,514	701,096	628,807
Housing	1,711,951	358,978	1,352,973	1,007,341
Health (including payments to HHC)	4,699,686	1,222,566	3,477,120	3,186,166
Libraries	301,342	50,983	250,359	389,739
Debt service interest	2,573,905	—	2,573,905	2,269,181
<b>Total expenses</b>	<b>\$109,782,080</b>	<b>\$53,507,451</b>	<b>\$56,274,629</b>	<b>\$54,898,596</b>

Expenses — Governmental Activities<sup>(1)</sup>  
for the fiscal years ending June 30, 2005 and 2006  
(in billions)



(1) Fiscal year 2006 expenses exclude GASB 45.

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 taxable sales due to increased employment (the addition of 52,000 jobs) and an increase in wage rate. In addition, an increase in sales tax from construction related taxable sales related to the strong housing market as well as continued strength in tourist spending.
- An increase in personal income tax resulting from strong installment payments resulting from a 37% growth in non-wage income, as well as increased employment and the overall wage rate.
- An increase in business income taxes (the general corporation, banking corporation and the unincorporated business tax) resulting from increased tax payments from large Wall Street firms. In addition, national corporate profits posted double digit growth over the period lifting payments from the City's non-finance sectors of the business taxes.
- 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 23% in 2006 while the mortgage recording tax grew 8%. The 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.
- Decreases in charges for services results primarily because fiscal year 2005 included a one time settlement of a dispute over back rent with the Port Authority of New York and New Jersey.
- A decrease in operating grants because fiscal year 2005 included a one-time pass through of Federal funds to capitalize the WTC Captive.
- An increase in capital grants, primarily as a result of increased Federal funds used for Housing.

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

- Recognition of \$53.5 billion of unfunded retirement health and related benefits earned by employees in fiscal year 2006 and prior years as part of the City's implementation of GASB No. 45. These costs disproportionately impact uniform employees whose average length of retirement is longer than the general civilian workforce.
- An increase in salaries and wages City-wide of approximately \$300 million in fiscal year 2006, reflecting collective bargaining increases.
- An increase in pension and fringe benefit payments for active and retired employees, including a \$1 billion contribution to the New York City Retiree Health Benefits Trust.
- An increase in education spending resulting primarily from increased cost for pupil transportation and payments to contract schools.
- An increase in Medicaid payments to the Health and Hospitals Corporation of \$645 million, offset by a decrease in subsidy payments in fiscal year 2005 to the Corporation of \$172 million, and a one-time \$120 million subsidy to the New York City Housing Authority.
- A decrease of general government spending because fiscal year 2005 included a one-time pass through of Federal funds to capitalize the WTC Captive.

In fiscal year 2005, the government-wide revenues increased from fiscal year 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:

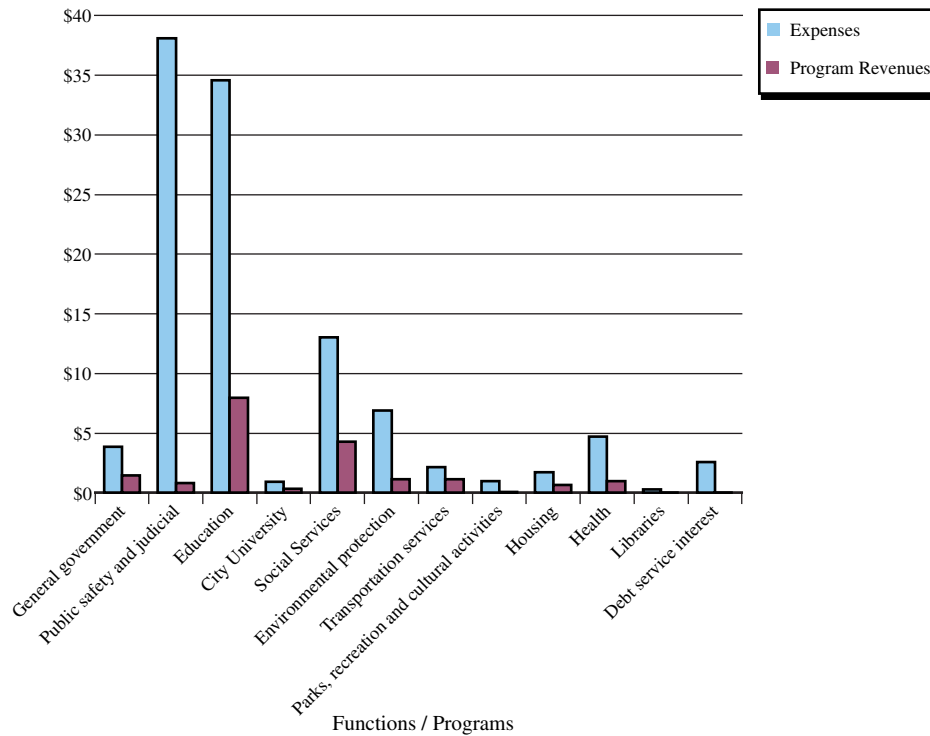
- An increase in the real estate tax resulting primarily from the continuing increase in billable assessed value.
- An increase in the sales tax from the boom in construction based taxable sales related to the new housing construction boom, the home refinancing boom and the sale of durable goods related 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:

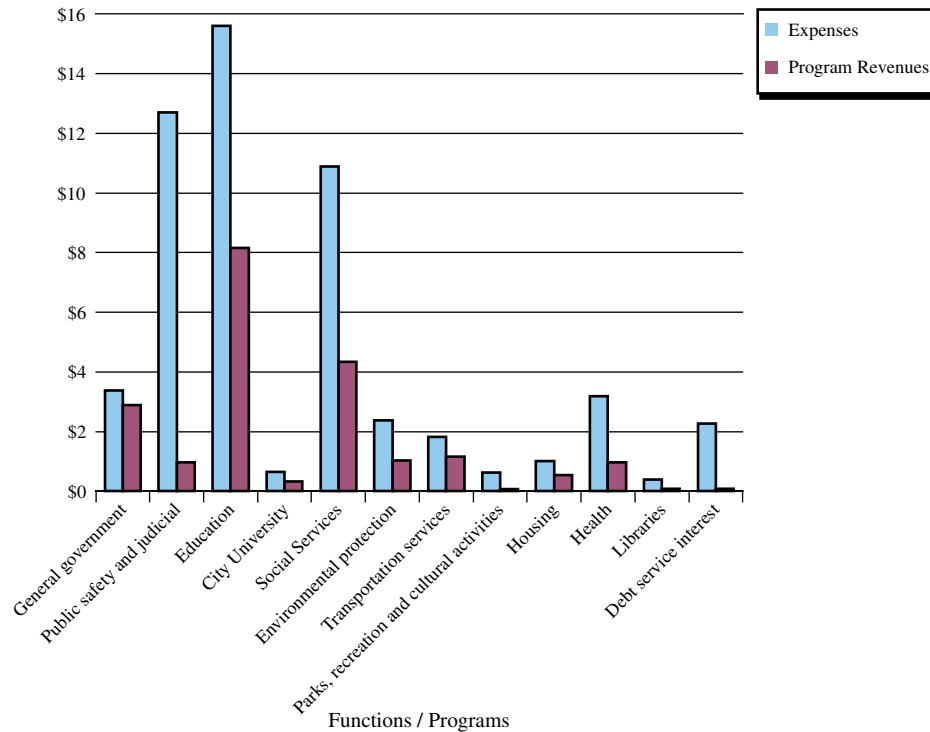
- An increase in general government expenditures, primarily as a result of the one-time pass through of Federal funds to the WTC Captive.
- An increase in public safety expenses reflecting a wage increase for police officers, as well as the increased pension and health benefits costs.
- An increase in 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 pupil transportation also contributed significantly to education expenditure growth.

The following charts compare the amounts of expenses and program revenues for fiscal years 2006 and 2005:

**Expenses and Program Revenues — Governmental Activities**  
**June 30, 2006**  
(in billions)

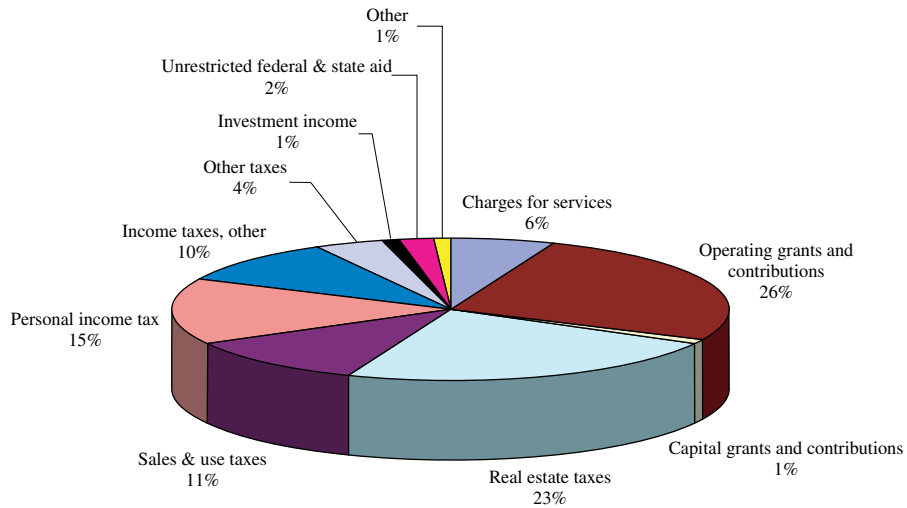


**Expenses and Program Revenues — Governmental Activities**  
**June 30, 2005**  
(in billions)

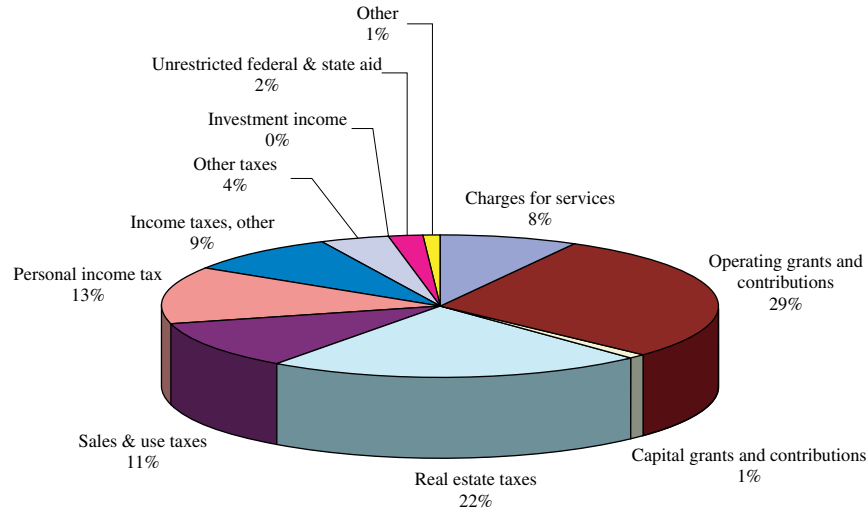


The following charts compare the amounts of program and general revenues for fiscal years 2006 and 2005:

**Revenues by Source — Governmental Activities  
for the Year Ended June 30, 2006**



**Revenues by Source — Governmental Activities  
for the Year Ended June 30, 2005**



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 \$80.9 billion at the close of the most recent fiscal year, an increase of \$53.7 billion from June 30, 2005, compared with an increase in the excess of liabilities over net assets of \$671 million in the prior fiscal year.

	<b>Governmental Activities</b>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
		<b>(in thousands)</b>	
Current and other assets . . . . .	\$ 27,878,882	\$ 27,783,430	\$ 19,691,909
Capital assets (net of depreciation) . .	<u>32,170,950</u>	<u>30,682,882</u>	<u>29,958,556</u>
Total assets . . . . .	<u>60,049,832</u>	<u>58,466,312</u>	<u>49,650,465</u>
Long-term liabilities . . . . .	121,963,394	66,590,911	61,288,787
Other liabilities . . . . .	<u>18,980,253</u>	<u>19,067,942</u>	<u>14,883,092</u>
Total liabilities . . . . .	<u>140,943,647</u>	<u>85,658,853</u>	<u>76,171,879</u>
Net assets:			
Invested in capital assets, net of related debt . . . . .	(5,373,813)	(6,611,918)	(6,157,298)
Restricted . . . . .	5,246,663	4,640,370	2,239,532
Unrestricted . . . . .	<u>(80,766,665)</u>	<u>(25,220,993)</u>	<u>(22,603,648)</u>
Total net deficit . . . . .	<u><u>\$(80,893,815)</u></u>	<u><u>\$(27,192,541)</u></u>	<u><u>\$(26,521,414)</u></u>

The excess of liabilities over assets reported on the government-wide statement of net assets is a result of several factors. The largest components of the net deficit is the result of the City having long-term debt with no corresponding capital assets and the City's OPEB liability. The following summarizes the main components of the net deficit as of June 30, 2006 and 2005:

<u>Components of Net Deficit</u>	<u>2006</u>	<u>2005</u>
	(in billions)	
<b>Net Assets Invested in Capital Assets</b>		
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 one of the largest components of this difference . . . . .	\$ (5.3)	\$ (6.6)
<b>Net Assets Restricted for:</b>		
Debt Service . . . . .	4.8	3.8
Capital Projects . . . . .	<u>.5</u>	<u>.9</u>
Total net assets restricted . . . . .	<u>5.3</u>	<u>4.7</u>
<b>Unrestricted Net Assets</b>		
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 . . . . .	(1.8)	(2.0)
STAR issued debt related to the defeasance of the MAC issued debt . . . . .	(2.5)	(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. . . . .	(12.1)	(11.4)
Certain long-term obligations do not require current funding:		
OPEB liability . . . . .	(53.5)	—
Judgments and claims . . . . .	(5.0)	(4.8)
Vacation and sick leave . . . . .	(2.8)	(2.6)
Pension liability . . . . .	(0.8)	(0.8)
Landfill closure and postclosure costs . . . . .	(1.7)	(1.3)
Other: . . . . .	<u>(.7)</u>	<u>.2</u>
Total unrestricted net assets . . . . .	<u>(80.8)</u>	<u>(25.3)</u>
<b>Total net deficit . . . . .</b>	<b><u>\$(80.9)</u></b>	<b><u>\$(27.2)</u></b>

**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.

	<b>Governmental Funds</b>					<b>Total</b>
	<b>General Fund</b>	<b>New York City Capital Projects Fund</b>	<b>General Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Adjustments/ Eliminations</b>	
	(in thousands)					
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 . . . . .	\$ 417,841	\$(1,460,885)	\$ 2,088,280	\$ 2,973,638	\$ 1,829	\$ 4,020,703
Revenues . . . . .	53,900,778	2,155,522	27,350	2,550,523	(1,717,466)	56,916,707
Expenditures . . . . .	(49,508,064)	(6,594,587)	(3,160,474)	(3,684,546)	1,715,637	(61,232,034)
Other financing sources (uses) . . . . .	(4,388,072)	3,696,009	4,288,516	(17,340)	—	3,579,113
Fund balances (deficit), June 30, 2006 . . . . .	<u>\$ 422,483</u>	<u>\$(2,203,941)</u>	<u>\$ 3,243,672</u>	<u>\$ 1,822,275</u>	<u>\$ —</u>	<u>\$ 3,284,489</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 \$3.756 billion and \$3.534 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2006 and 2005, respectively. After these certain expenditures and transfers (discretionary and other), the General Fund reported an operating surplus of \$5 million in both fiscal years 2006 and 2005, 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, 2006, can be attributed principally to transfers (discretionary transfer and other, as described above) from the General Fund totaling \$3.205 billion in fiscal year 2006. Similar transfers in fiscal year 2005 of \$1.849 million also primarily account for the General Debt Service Fund fund balance at June 30, 2005.

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, 2006 and 2005, 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.

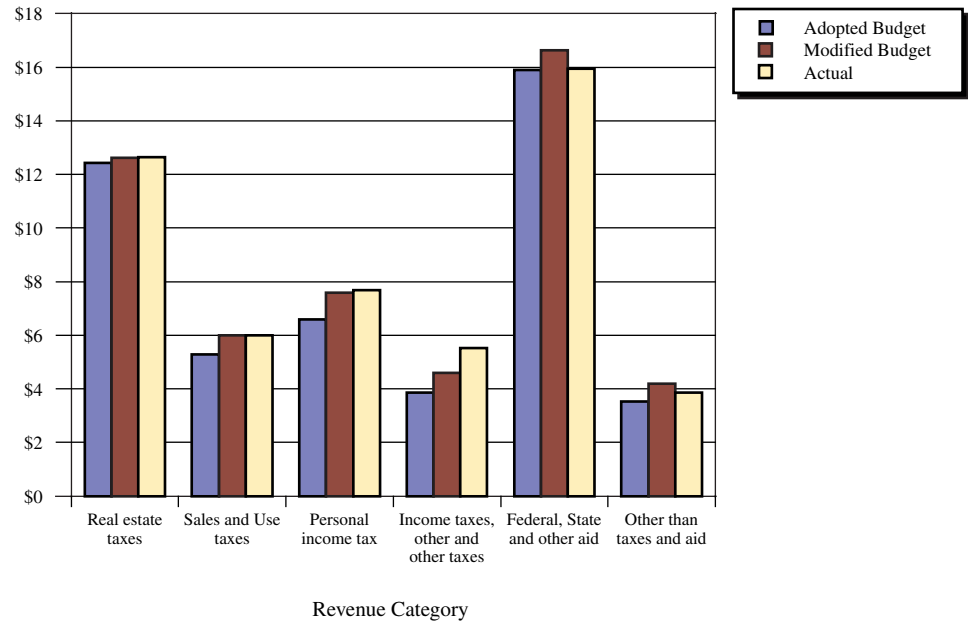
**General Fund  
Budgetary Highlights**

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 2006 and 2005 and compare revenues with each fiscal year's Adopted Budget and Modified Budget.

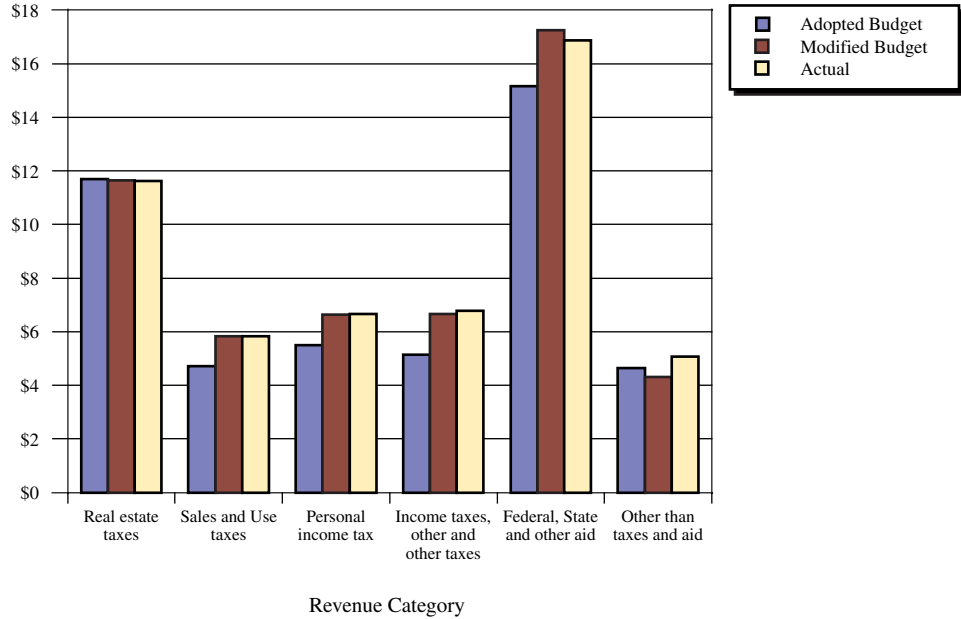
**General Fund Revenues  
Fiscal Year 2006  
(in billions)**



**General Fund Revenues  
Fiscal Year 2006  
(in millions)**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
<b>Taxes (net of refunds):</b>			
Real estate taxes	\$12,438	\$12,612	\$12,636
Sales and use taxes	5,282	5,999	5,987
Personal income tax	6,586	7,589	7,676
Income taxes, other	3,867	4,603	5,532
Other taxes	2,210	3,141	2,381
<b>Taxes (net of refunds)</b>	<u>30,383</u>	<u>33,944</u>	<u>34,212</u>
<b>Federal, State and other aid:</b>			
Categorical	15,340	16,135	15,437
Unrestricted	562	489	494
<b>Federal, State and other aid</b>	<u>15,902</u>	<u>16,624</u>	<u>15,931</u>
<b>Other than taxes and aid:</b>			
Charges for services	1,706	1,786	1,837
Other revenues	1,783	2,334	1,921
Transfers from Nonmajor Debt Service Fund	48	76	103
<b>Other than taxes and aid</b>	<u>3,537</u>	<u>4,196</u>	<u>3,861</u>
<b>Total revenues</b>	<u>\$49,822</u>	<u>\$54,764</u>	<u>\$54,004</u>

**General Fund Revenues**  
**Fiscal Year 2005**  
(in billions)

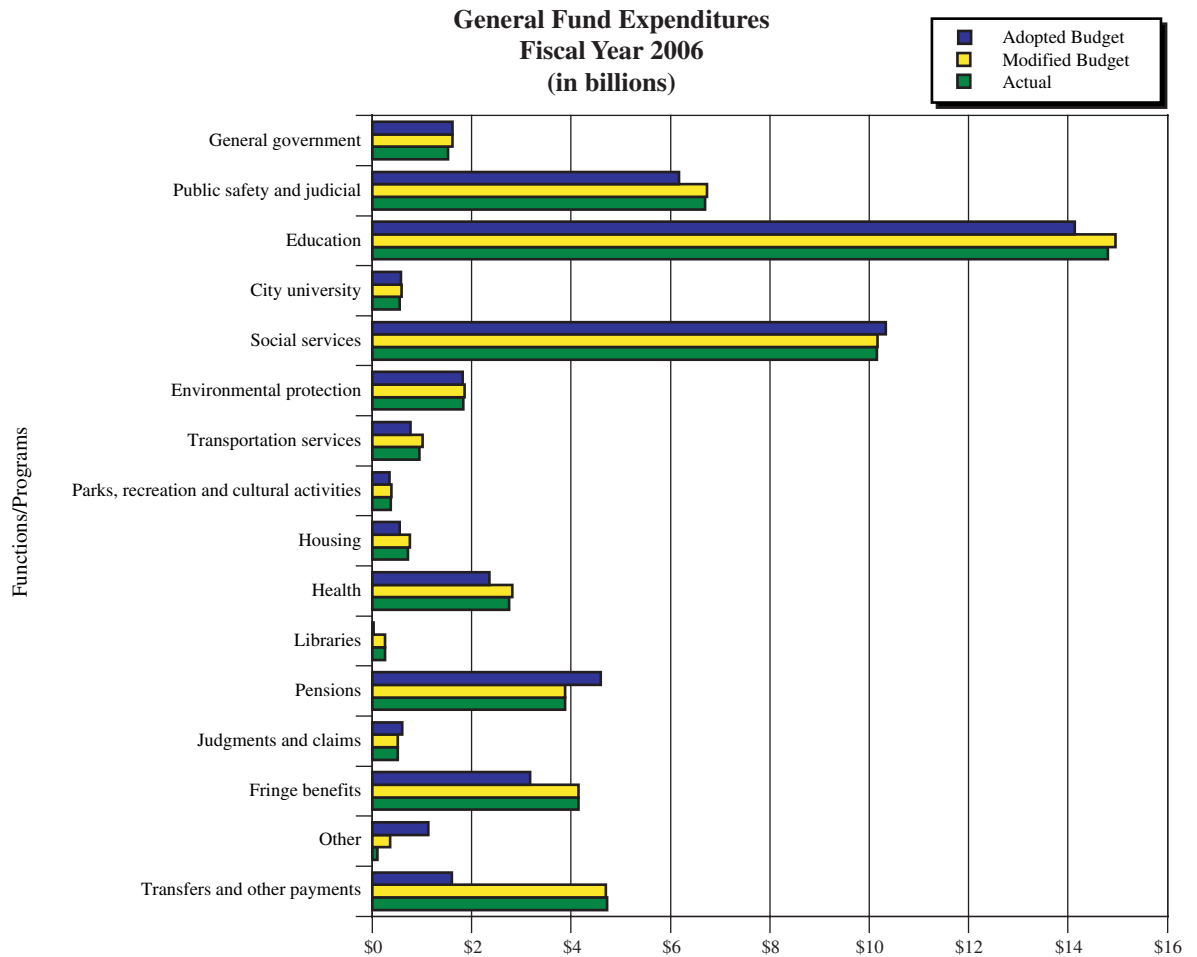


**General Fund Revenues**  
**Fiscal Year 2005**  
(in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
<b>Taxes (net of refunds):</b>			
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>
<b>Federal, State and other aid:</b>			
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>
<b>Other than taxes and aid:</b>			
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 Expenditures**

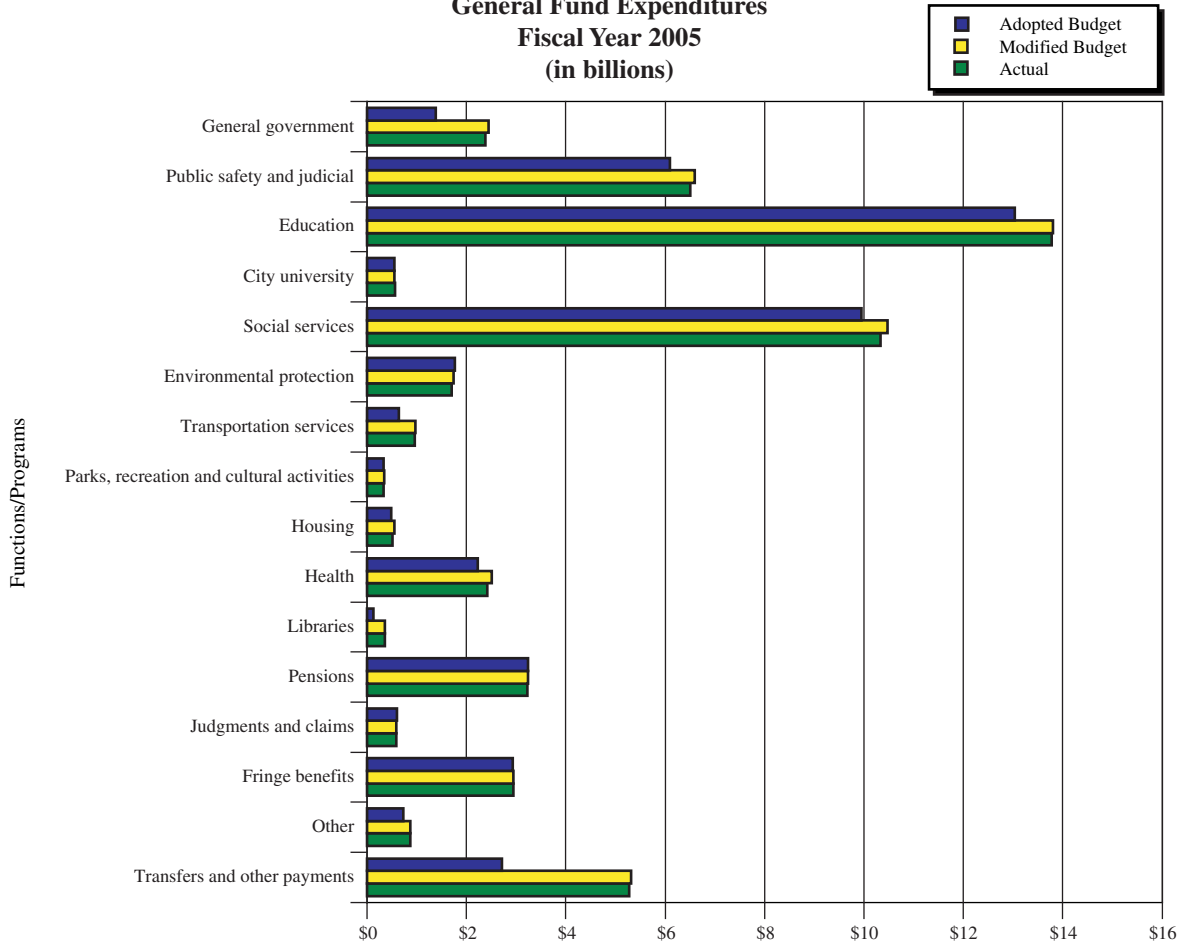
The following charts and tables summarize actual expenditures by function/program for fiscal years 2006 and 2005 and compare expenditures with each fiscal year's Adopted Budget and Modified Budget.



**General Fund Expenditures  
Fiscal Year 2006  
(in millions)**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
General government . . . . .	\$1,618	\$1,620	\$1,530
Public safety and judicial . . . . .	6,167	6,738	6,694
Education . . . . .	14,136	14,950	14,794
City university . . . . .	580	588	550
Social services . . . . .	10,332	10,164	10,148
Environmental protection . . . . .	1,826	1,857	1,836
Transportation services . . . . .	765	1,017	954
Parks, recreation and cultural activities . . . . .	354	385	377
Housing . . . . .	550	754	721
Health (including HHC) . . . . .	2,363	2,820	2,758
Libraries . . . . .	33	261	261
Pensions . . . . .	4,599	3,882	3,879
Judgments and claims . . . . .	601	517	517
Fringe benefits and other benefit payments . . . . .	3,172	4,154	4,154
Other . . . . .	1,126	360	106
Transfers and other payments for debt service . . . . .	1,600	4,697	4,720
<b>Total expenditures . . . . .</b>	<b><u>\$49,822</u></b>	<b><u>\$54,764</u></b>	<b><u>\$53,999</u></b>

**General Fund Expenditures  
Fiscal Year 2005  
(in billions)**



**General Fund Expenditures  
Fiscal Year 2005  
(in millions)**

	<b>Adopted Budget</b>	<b>Modified Budget</b>	<b>Actual</b>
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
<b>Total expenditures . . . . .</b>	<b><u>\$46,862</u></b>	<b><u>\$53,352</u></b>	<b><u>\$52,790</u></b>

**General Fund Surplus**

The City had General Fund operating surpluses of \$3.756 billion, \$3.534 billion and \$1.928 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2006, 2005 and 2004, respectively. For the fiscal years 2006, 2005 and 2004, 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 2006, 2005, and 2004 budgets follow:

	<u>2006</u>	<u>2005</u>	<u>2004</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 . . . . .	\$ 98	\$ 341	\$ 307
Discretionary transfers to the General Debt			
Service Fund . . . . .	3,106	1,507	662
Net equity contribution in bond refunding that			
accrued to future years debt service savings . . . . .	1	1	3
Debt service prepayments for lease purchase			
debt service due in the fiscal year . . . . .	74	88	71
Grant to TFA . . . . .	—	947	400
Advance cash subsidies to the Public Library system . .	224	225	112
Advance cash subsidies to the Transit Authority (TA)			
and Metropolitan Transportation Authority (MTA) . .	248	248	209
Advance cash subsidies to the HHC . . . . .	<u>—</u>	<u>172</u>	<u>159</u>
Total expenditures and transfers			
(discretionary and other) . . . . .	3,751	3,529	1,923
Reported operating surplus . . . . .	<u>5</u>	<u>5</u>	<u>5</u>
Total operating surplus . . . . .	<u>\$3,756</u>	<u>\$3,534</u>	<u>\$1,928</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 2006 Adopted Budget:

	<u>2006</u>
	(in millions)
Additional resources:	
Greater than expected personal income tax collections . . . . .	\$1,110
Greater than expected general corporation tax collections . . . . .	832
Greater than expected mortgage tax collections . . . . .	617
Greater than expected sales tax collections . . . . .	294
Greater than expected banking corporation tax collections . . . . .	428
Greater than expected unincorporated business tax collections . . . . .	289
Greater than expected real estate tax collections . . . . .	47
Greater than expected all other tax collections (net of projected audit revenue) . . . . .	260
Federal categorical aid . . . . .	135
State categorical aid . . . . .	265
Greater than expected charges for services . . . . .	131
Greater than expected revenues from licenses, permits, privileges, and franchises . . . . .	39
Greater than expected fines and forfeitures . . . . .	32
Greater than expected MAC proceeds . . . . .	54
Greater than expected interest income . . . . .	203
Greater than expected non-grant revenues . . . . .	223
Lower than expected Medicaid spending . . . . .	381
Lower than expected supplies and materials costs . . . . .	93
Lower than expected all other general administrative OTPS spending . . . . .	589
Lower than expected debt service costs . . . . .	145
Lower than expected all other health insurance expenditures . . . . .	130
Lower than expected public assistance spending . . . . .	62
Lower than expected judgments and claims expenditures . . . . .	104
Lower than expected pension costs . . . . .	720
General Reserve . . . . .	<u>300</u>
Total . . . . .	<u>7,483</u>
Enabled the City to provide for:	
Higher than expected personal services spending (net of pension, health insurance and overtime) . . . . .	\$ 237
Higher than expected spending for contractual services . . . . .	667
Higher than expected overtime costs . . . . .	314
Higher than expected all other fixed and miscellaneous charges . . . . .	99
Higher than expected property and equipment costs . . . . .	52
Higher than expected provisions for disallowance reserve . . . . .	527
Higher than expected fuel and energy costs . . . . .	50
Payment to the RHBT . . . . .	1,000
Higher than expected all other social services spending (net of Medicaid and Public Assistance) . . . . .	18
Higher than expected payments to the Health and Hospitals Corporation (including Medicaid) . . . . .	507
Additional prepayment of certain debt service costs and subsidies due in fiscal year 2007 . . . . .	3,751
Lower than expected unrestricted Federal and State aid . . . . .	68
Lower than expected all other miscellaneous revenues . . . . .	135
Lower than expected Federal and State revenue actions . . . . .	50
All other net overspending and revenues below budget . . . . .	<u>3</u>
Total . . . . .	<u>7,478</u>
Reported Surplus . . . . .	<u><u>\$ 5</u></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>
Additional resources:	(in millions)
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 . . . . .	<u>300</u>
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 . . . . .	<u>3</u>
Total . . . . .	<u>6,953</u>
Reported surplus . . . . .	<u>\$ 5</u>

## Capital Assets

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

	Governmental Activities		
	2006	2005	2004
	(in millions)		
Land .....	\$ 968	\$ 948	\$ 761
Buildings .....	19,319	19,006	17,652
Equipment .....	1,393	1,574	2,289
Infrastructure .....	7,537	7,101	6,569
Construction work-in-progress .....	2,954	2,054	2,688
Total .....	<u>\$32,171</u>	<u>\$30,683</u>	<u>\$29,959</u>

The net increase in the City's capital assets during fiscal year 2006 was \$1.488 billion, a 4.9% increase. Capital assets additions in fiscal year 2006 were \$4.982 billion, a decrease of \$470 million from fiscal year 2005. Capital assets additions in the Education program totaling \$988 million and total new construction work-in-progress (the majority of which are in the Education program) totaling \$2.359 billion accounted for 67% of the capital assets additions in fiscal year 2006.

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% of the capital assets additions in fiscal year 2005.

Additional information on the City's capital assets can be found in Note D.2 of the financial statements.

## Debt Administration

The City through 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 2006, 2005, and 2004.

	New York City and City-Related Debt		
	2006	2005	2004
	(in millions)		
General Obligation Bonds <sup>(a)</sup> .....	\$35,844	\$33,903	\$31,378
1991 General Resolution Bonds (MAC) .....	—	—	1,758
Future Tax Secured Bonds (TFA) .....	10,392	11,022	11,337
TSASC, Inc. ....	1,334	1,283	1,256
IDA Bonds .....	104	106	108
STAR Bonds .....	2,470	2,552	—
FSC Bonds .....	387	460	—
Revenue Bonds (ECF) .....	84	135	107
Recovery Bonds (TFA) .....	1,841	1,955	2,027
Total bonds and notes payable .....	<u>52,456</u>	<u>51,416</u>	<u>47,971</u>
Less treasury obligations .....	—	39	51
Outstanding debt .....	<u>\$52,456</u>	<u>\$51,377</u>	<u>\$47,920</u>

(a) Does not include capital contract liabilities.



## *General Obligation*

On June 30, 2006, the City's outstanding General Obligation (GO) debt, including capital contract liabilities, totaled \$39.7 billion (compared with \$37.9 and \$33.8 billion as of June 30, 2005 and 2004, 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, 2006, the City's 10% general limitation was \$53 billion (compared with \$47 and \$43 billion as of June 30, 2005 and 2004 respectively). The combined City and TSASC remaining GO debt incurring power as of June 30, 2006, after providing for capital contract liabilities, totaled \$13.6 billion.

As of June 30, 2006, the City's outstanding GO variable and fixed rate debt totaled \$6.79 billion and \$29.05 billion, respectively. During fiscal year 2006, the City's GO tax exempt daily and weekly variable rate debt averaged 2.974% and 3.031%, respectively. Of the \$4.83 billion in GO bonds issued by the City in fiscal year 2006, a total of \$1.42 billion was issued to refund certain outstanding bonds and a total of \$3.41 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 \$1.56 million, \$92.20 million and \$1.07 million in fiscal years 2006, 2007, and 2008, respectively. The refundings will generate approximately \$91.16 million in net present value savings throughout the life of the bonds.

In fiscal year 2006, a total of \$585 billion of the bonds refunded were second advance refunding bonds, additional advance refunding capacity of \$727 million was provided by the Governor of New York State, charged against the States limit for bonds designated as advance refunding bonds.

A total of \$180 billion of the \$4.83 billion GO bonds issued during fiscal year 2006 were issued as taxable debt. The taxable debt issued in fiscal year 2006 was sold on a competitive basis.

On May 22, 2006, Standard & Poor's (S&P) improved its rating on New York City General Obligation bonds from A+ to AA-. Moody's Investors Service (Moody's) maintained its rating on New York City General Obligation bonds at A1. Fitch Ratings (Fitch) maintained its rating on New York City General Obligation debt at A+.

## *Short-term Financing*

In fiscal year 2006, the City had no short-term borrowings.

### *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. 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 TFA a total debt incurring capacity of \$11.5 billion. As of June 30, 2004, TFA had reached its debt limit and did not have the authority to issue new money bonds pursuant to this authorization. On July 26, 2006, the debt incurring authorization was increased by \$2 billion to a total of \$13.5 billion.

TFA issued \$597.24 million of refunding during fiscal year 2006. This refunding included \$140.53 million of subordinate bonds. The refinancing produced debt service savings totaling \$31.51 million. This refinancing will generate approximately \$20.62 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 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, TFA issued \$2 billion in Recovery Bonds pursuant to this authorization.

In fiscal year 2006, the New York State Legislature authorized TFA to issue bonds and notes or other obligations in an amount outstanding of up to \$9.4 billion to finance a portion of the City's educational facilities capital plan and authorized the City to assign to TFA all or any portion of the state aid payable to the City or its school district pursuant to section 3602.6 of the New York State Education Law. The City is expected to assign the building aid portion of the state aid to TFA for this purpose.

TFA's fixed rate debt outstanding, including \$74.3 million of recovery bonds, was \$9.41 billion as of June 30, 2006. This amount includes \$261 million of bonds economically defeased through previous refundings, but that remain legally as outstanding debt. TFA's variable rate debt outstanding, including recovery bonds, was \$2.82 billion. During fiscal year 2006, TFA's tax exempt daily and weekly variable rate debt averaged 2.89% and 2.96%, respectively.

In March, 2005, S&P upgraded TFA's bonds from AA+ to AAA. Moody's upgraded its rating on 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.

In February, 2006, TSASC issued \$1.35 billion of refunding bonds. The proceeds of the refunding issue 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. In connection with the refunding, certain Tobacco Settlement Revenues which had accumulated in a trapping account were released to TSASC free and clear of the lien of TSASC's original indenture. A portion of the refunding proceeds, \$158.94 million, was used to pay off the outstanding balance on a Transportation Infrastructure Finance and Innovation Act of 1998 loan. As of June 30, 2006, TSASC had approximately \$1.33 billion of bonds outstanding.

As of June 30, 2006, TSASC's bonds are rated BBB by both S&P and Fitch.

Additional information on the City's long-term debt can be found in Note D.4 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 receipts 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.

As of June 30, 2006, STAR has \$2.47 billion bonds outstanding.

#### *Fiscal Year 2005 Securitization Corporation*

In fiscal year 2005, \$498.85 million of taxable bonds were issued by the Fiscal Year 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 of \$49.84 million saving to the City.

As of June 30, 2006, Fiscal Year 2005 Securitization Corporation has \$386.6 million bonds outstanding.

#### *Interest Rate Exchange Agreements*

In an effort to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has entered into several interest rate exchange agreements (swaps). The City received specific authorization to enter into these agreements, or swaps, under Section 54.90 of the New York State Local Finance Law. No new agreements were initiated in fiscal year 2006. As of June 30, 2006, the City's outstanding notional amount on various swap agreements was \$3.05 billion.

#### *Subsequent Events*

Subsequent to June 30, 2006, the City and TFA completed the following long-term financing:

On August 17, 2006, the City sold its Series A and B bonds of \$850 million for refunding purposes.

On October 16, 2006, TFA sold its Series A Federal Tax Secured bonds of \$800 million for capital purposes.

***Commitments***

At June 30, 2006, 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 \$55.8 billion over the remaining fiscal years 2007 through 2015. To help meet its capital spending program, the City borrowed \$3.4 billion in the public credit market in fiscal year 2006.

***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, 2006  
(in thousands)

	<b>Primary Government</b>		<b>Component</b>
	<b>Governmental</b>		<b>Units</b>
	<b>Activities</b>		<b>Units</b>
<b>ASSETS:</b>			
Cash and cash equivalents . . . . .	\$ 10,097,096		\$ 2,268,908
Investments, including accrued interest . . . . .	1,975,921		2,164,852
Receivables:			
Real estate taxes (less allowance for uncollectible amounts of \$380,276) . . . . .	610,317		—
Federal, State and other aid . . . . .	4,801,976		—
Taxes other than real estate . . . . .	4,260,489		—
Other . . . . .	1,130,376		2,855,359
Mortgage loans and interest receivable, net . . . . .	101		4,589,845
Inventories . . . . .	243,868		38,933
Due from Primary Government . . . . .	—		8,506
Due from Component Units . . . . .	1,248,261		—
Restricted cash and investments . . . . .	2,197,224		2,237,996
Deferred charges . . . . .	1,172,211		—
Capital assets:			
Land and construction work-in-progress . . . . .	3,921,932		4,992,385
Other capital assets (net of depreciation):			
Property, plant and equipment . . . . .	20,712,461		19,624,510
Infrastructure . . . . .	7,536,557		—
Other . . . . .	141,042		313,950
Total assets . . . . .	60,049,832		39,095,244
<b>LIABILITIES:</b>			
Accounts payable and accrued liabilities . . . . .	11,057,803		1,865,272
Accrued interest payable . . . . .	631,506		97,878
Unearned revenues:			
Prepaid real estate taxes . . . . .	3,722,964		—
Other . . . . .	2,374,653		213,088
Due to Primary Government . . . . .	—		1,248,261
Due to Component Units . . . . .	8,506		—
Estimated disallowance of Federal, State and other aid . . . . .	898,858		—
Payable for investment securities purchased . . . . .	257,000		—
Other . . . . .	28,963		65,024
Noncurrent Liabilities:			
Due within one year . . . . .	5,527,130		843,801
Due in more than one year . . . . .	116,436,264		25,563,618
Total liabilities . . . . .	140,943,647		29,896,942
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt . . . . .	(5,373,813)		8,792,877
Restricted for:			
Capital projects . . . . .	506,564		120,593
Debt service . . . . .	4,740,099		776,200
Loans/security deposits . . . . .	—		70,220
Donor/statutory restrictions . . . . .	—		43,684
Operations . . . . .	—		157,806
Unrestricted (deficit) . . . . .	(80,766,665)		(763,078)
Total net assets (deficit) . . . . .	\$(80,893,815)		\$ 9,198,302

See accompanying notes to financial statements.

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

JUNE 30, 2005  
(in thousands)

	<u>Primary Government</u>	
	<u>Governmental</u>	<u>Component</u>
	<u>Activities</u>	<u>Units</u>
<b>ASSETS:</b>		
Cash and cash equivalents . . . . .	\$ 12,837,451	\$ 2,380,003
Investments, including accrued interest . . . . .	841,084	2,556,322
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 . . . . .	594,217	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 . . . . .	711,088	—
Restricted cash and investments . . . . .	2,687,790	1,787,922
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 . . . . .	<u>58,466,312</u>	<u>36,009,234</u>
<b>LIABILITIES:</b>		
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 . . . . .	<u>85,658,853</u>	<u>25,012,917</u>
<b>NET ASSETS:</b>		
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) . . . . .	<u>(25,220,993)</u>	<u>1,022,342</u>
Total net assets (deficit) . . . . .	<u><u>\$(27,192,541)</u></u>	<u><u>\$10,996,317</u></u>

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**STATEMENT OF ACTIVITIES**  
FOR THE YEAR ENDED JUNE 30, 2006  
(in thousands)

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	
					<u>Governmental Activities</u>	<u>Component Units</u>
<b>Primary Government:</b>						
General government . . . . .	\$ 3,854,068	\$ 579,356	\$ 843,680	\$ 30,220	\$ (2,400,812)	\$ —
Public safety and judicial . . . . .	38,107,802	254,835	562,163	21,394	(37,269,410)	—
Education . . . . .	34,564,249	65,288	7,909,702	10,775	(26,578,484)	—
City University . . . . .	907,472	189,293	156,367	—	(561,812)	—
Social services . . . . .	13,025,782	54,595	4,218,203	3,205	(8,749,779)	—
Environmental protection . . . . .	6,906,033	1,101,564	23,424	31,266	(5,749,779)	—
Transportation services . . . . .	2,155,180	783,563	152,945	214,943	(1,003,729)	—
Parks, recreation and cultural activities . . . . .	974,610	64,856	16,442	7,706	(885,606)	—
Housing . . . . .	1,711,951	194,468	323,761	154,423	(1,039,299)	—
Health (including payments to HHC) . . . . .	4,699,686	57,342	920,292	1,742	(3,720,310)	—
Libraries . . . . .	301,342	—	—	—	(301,342)	—
Debt service interest . . . . .	2,573,905	—	—	—	(2,573,905)	—
Total primary government . . . . .	<u>\$109,782,080</u>	<u>\$ 3,345,160</u>	<u>\$15,126,979</u>	<u>\$ 475,674</u>	<u>(90,834,267)</u>	<u>—</u>
<b>Component Units</b> . . . . .	<u>\$ 13,920,126</u>	<u>\$ 9,023,077</u>	<u>\$ 1,954,404</u>	<u>\$ 831,956</u>	<u>—</u>	<u>(2,110,689)</u>
<b>General revenues:</b>						
Taxes (Net of Refunds):						
Real estate taxes . . . . .					12,723,800	—
Sales and use taxes . . . . .					5,974,655	—
Personal income tax . . . . .					8,533,813	—
Income taxes, other . . . . .					5,768,620	—
Other taxes . . . . .					2,380,807	—
Investment income . . . . .					465,685	213,981
Unrestricted Federal and State aid . . . . .					973,766	8,231
Other . . . . .					311,847	90,462
Total general revenues . . . . .					<u>37,132,993</u>	<u>312,674</u>
Change in net assets . . . . .					(53,701,274)	(1,798,015)
Net Assets (Deficit) — Beginning . . . . .					<u>(27,192,541)</u>	<u>10,996,317</u>
Net Assets (Deficit) — Ending . . . . .					<u>\$(80,893,815)</u>	<u>\$ 9,198,302</u>

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>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	
					<u>Governmental Activities</u>	<u>Component Units</u>
<b>Primary Government:</b>						
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>
<b>Component Units</b> . . . . .	<u>\$11,016,520</u>	<u>\$ 7,198,394</u>	<u>\$ 2,116,813</u>	<u>\$ 964,921</u>	<u>—</u>	<u>(736,392)</u>
<b>General revenues:</b>						
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
Unrestricted Federal and State aid . . . . .					1,258,399	3,384
Other . . . . .					581,497	497,201
Total general revenues . . . . .					<u>33,780,694</u>	<u>670,295</u>
Change in net assets . . . . .					(671,127)	(66,097)
Net Assets (Deficit) — Beginning . . . . .					<u>(26,521,414)</u>	<u>11,062,414</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**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**

JUNE 30, 2006  
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
<b>ASSETS:</b>						
Cash and cash equivalents . . . . .	\$ 7,936,278	\$ 54,871	\$1,790,997	\$ 314,950	\$ —	\$10,097,096
Investments, including accrued interest	258,405	—	1,459,987	257,529	—	1,975,921
Accounts receivable:						
Real estate taxes (less allowance for uncollectible amounts of \$380,276) . . . . .	610,317	—	—	—	—	610,317
Federal, State and other aid . . . . .	4,211,299	590,677	—	—	—	4,801,976
Taxes other than real estate . . . . .	3,678,014	—	—	582,475	—	4,260,489
Other . . . . .	1,136,038	—	—	—	—	1,136,038
Mortgage loans and interest receivable (less allowance for uncollectible amounts of \$314,550) . . . . .	—	—	—	101	—	101
Due from other funds . . . . .	2,289,648	—	—	200,733	(200,733)	2,289,648
Due from Component Units . . . . .	922,137	326,124	—	—	—	1,248,261
Restricted cash and investments . . . . .	—	680,148	—	1,517,076	—	2,197,224
Other . . . . .	—	49,531	—	47,961	—	97,492
Total assets . . . . .	\$21,042,136	\$ 1,701,351	\$3,250,984	\$2,920,825	\$ (200,733)	\$28,714,563
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities . . . . .	\$ 9,517,809	\$ 1,276,179	\$ 7,312	\$ 256,503	\$ —	\$11,057,803
Accrued tax refunds:						
Real estate taxes . . . . .	29,257	—	—	—	—	29,257
Personal income tax . . . . .	33,672	—	—	38,475	—	72,147
Other . . . . .	25,898	—	—	—	—	25,898
Accrued judgments and claims . . . . .	394,244	138,732	—	—	—	532,976
Deferred revenues:						
Prepaid real estate taxes . . . . .	3,722,964	—	—	—	—	3,722,964
Uncollected real estate taxes . . . . .	561,308	—	—	—	—	561,308
Taxes other than real estate . . . . .	3,202,691	—	—	—	—	3,202,691
Other . . . . .	2,224,446	—	—	546,572	—	2,771,018
Due to other funds . . . . .	—	2,490,381	—	—	(200,733)	2,289,648
Due to Component Units . . . . .	8,506	—	—	—	—	8,506
Estimated disallowance of Federal, State and other aid . . . . .	898,858	—	—	—	—	898,858
Payable for investment securities purchased . . . . .	—	—	—	257,000	—	257,000
Total liabilities . . . . .	20,619,653	3,905,292	7,312	1,098,550	(200,733)	25,430,074
<b>Fund balances:</b>						
Reserved for:						
Capital projects . . . . .	—	501,828	—	4,736	—	506,564
Debt service . . . . .	—	—	3,243,672	1,496,326	—	4,739,998
Noncurrent mortgage loans . . . . .	—	—	—	101	—	101
Unreserved (deficit), reported in:						
General Fund . . . . .	422,483	—	—	—	—	422,483
New York City Capital Projects Fund	—	(2,705,769)	—	—	—	(2,705,769)
Nonmajor Capital Projects . . . . .	—	—	—	16,079	—	16,079
Nonmajor Debt Service . . . . .	—	—	—	305,033	—	305,033
Total fund balances (deficit) . . . . .	422,483	(2,203,941)	3,243,672	1,822,275	—	3,284,489
Total liabilities and fund balances . . . . .	\$21,042,136	\$ 1,701,351	\$3,250,984	\$2,920,825	\$ (200,733)	\$28,714,563

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, 2005  
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
<b>ASSETS:</b>						
Cash and cash equivalents . . . . .	\$ 9,568,819	\$ 83,660	\$ 1,993,716	\$ 1,191,256	\$ —	\$12,837,451
Investments, including accrued interest . . . . .	390,258	—	103,248	387,625	(40,047)	841,084
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 . . . . .	600,310	—	—	—	—	600,310
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 . . . . .	422,952	288,136	—	—	—	711,088
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
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
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 tax . . . . .	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
<b>Fund balances:</b>						
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 Capital Projects . . . . .	—	—	—	8,179	—	8,179
Nonmajor Debt Service . . . . .	—	—	—	1,291,209	—	1,291,209
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**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL**  
**FUNDS TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2006  
(in thousands)

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

Total fund balances—governmental funds . . . . .	\$ 3,284,489
Inventories recorded in the Statement of Net Assets are recorded as expenditures in the governmental funds . . . . .	243,868
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds . . . . .	32,170,950
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds . . . . .	5,370,463
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds:	
Bonds payable . . . . .	(53,199,813)
OPEB liability . . . . .	(53,507,451)
Accrued interest payable . . . . .	(631,506)
Capital lease obligations . . . . .	(2,924,619)
Accrued vacation and sick leave . . . . .	(2,840,213)
Pension liability . . . . .	(764,000)
Landfill closure and post-closure care costs . . . . .	(1,652,000)
Other long-term liabilities . . . . .	(6,443,983)
Net assets (deficit) of governmental activities . . . . .	<u><u>\$(80,893,815)</u></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, 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)
Capital lease obligations . . . . .	(3,044,080)
Accrued vacation and sick leave . . . . .	(2,593,691)
Pension liability . . . . .	(806,200)
Landfill closure and post-closure care costs . . . . .	(1,300,082)
Other long-term liabilities . . . . .	(6,280,017)
Net assets (deficit) of governmental activities . . . . .	<u>\$ (27,192,541)</u>

See accompanying notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2006  
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
<b>REVENUES:</b>						
Real estate taxes	\$12,636,355	\$ —	\$ —	\$ —	\$ —	\$12,636,355
Sales and use taxes	5,986,655	—	—	—	—	5,986,655
Personal income tax	7,675,813	—	—	350,000	—	8,025,813
Income taxes, other	5,531,620	—	—	—	—	5,531,620
Other taxes	2,380,744	—	—	—	—	2,380,744
Federal, State and other categorical aid	15,436,591	438,021	—	170,000	—	16,044,612
Unrestricted Federal and State aid	494,154	—	—	—	—	494,154
Charges for services	1,836,959	—	—	—	—	1,836,959
Tobacco settlement	5,410	—	—	193,688	—	199,098
Investment income	362,197	—	27,350	67,018	(1,829)	454,736
Interest on mortgages, net	—	—	—	4,809	—	4,809
Other revenues	1,554,280	1,717,501	—	1,765,008	(1,715,637)	3,321,152
Total revenues	<u>53,900,778</u>	<u>2,155,522</u>	<u>27,350</u>	<u>2,550,523</u>	<u>(1,717,466)</u>	<u>56,916,707</u>
<b>EXPENDITURES:</b>						
General government	1,530,074	665,096	—	3,235	—	2,198,405
Public safety and judicial	6,693,911	212,111	—	—	—	6,906,022
Education	14,794,254	1,781,904	—	1,715,593	(1,715,637)	16,576,114
City University	550,366	13,780	—	—	—	564,146
Social services	10,147,669	39,308	—	—	—	10,186,977
Environmental protection	1,836,396	1,935,273	—	—	—	3,771,669
Transportation services	954,155	782,904	—	—	—	1,737,059
Parks, recreation and cultural activities	376,808	382,845	—	—	—	759,653
Housing	721,483	459,376	—	—	—	1,180,859
Health (including payments to HHC)	2,757,802	269,673	—	—	—	3,027,475
Libraries	261,140	52,317	—	—	—	313,457
Pensions	3,878,950	—	—	—	—	3,878,950
Judgments and claims	516,801	—	—	—	—	516,801
Fringe benefits and other benefit payments	4,154,015	—	—	—	—	4,154,015
Administrative and other	105,394	—	145,324	50,934	—	301,652
Debt Service:						
Interest	—	—	1,559,898	818,904	—	2,378,802
Redemptions	—	—	1,455,252	1,095,880	—	2,551,132
Lease payments	228,846	—	—	—	—	228,846
Total expenditures	<u>49,508,064</u>	<u>6,594,587</u>	<u>3,160,474</u>	<u>3,684,546</u>	<u>(1,715,637)</u>	<u>61,232,034</u>
Excess (deficiency) of revenues over expenditures	4,392,714	(4,439,065)	(3,133,124)	(1,134,023)	(1,829)	(4,315,327)
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers from (to) General Fund	—	200,000	4,281,010	(92,938)	—	4,388,072
Transfers to Nonmajor Capital Projects Funds	—	—	—	(1,500)	—	(1,500)
Principal amount of bonds issued	—	3,405,000	—	—	—	3,405,000
Bond premium	—	76,818	64,182	—	—	141,000
Capitalized leases	—	14,191	—	—	—	14,191
Refunding bond proceeds	—	—	1,421,810	1,942,974	—	3,364,784
Transfers to New York City Capital Projects Fund	(200,000)	—	—	—	—	(200,000)
Transfers from (to) General Debt Service Fund	(4,281,010)	—	—	198	—	(4,280,812)
Transfers from (to) Nonmajor Debt Service Funds, net	92,938	—	(198)	1,500	—	94,240
Payments to refunded bond escrow holder	—	—	(1,478,288)	(1,860,299)	—	(3,338,587)
Cost of termination of rate cap obligation	—	—	—	(7,275)	—	(7,275)
Total other financing sources (uses)	<u>(4,388,072)</u>	<u>3,696,009</u>	<u>4,288,516</u>	<u>(17,340)</u>	<u>—</u>	<u>3,579,113</u>
Net change in fund balances	4,642	(743,056)	1,155,392	(1,151,363)	(1,829)	(736,214)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	417,841	(1,460,885)	2,088,280	2,973,638	1,829	4,020,703
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 422,483</u>	<u>\$(2,203,941)</u>	<u>\$ 3,243,672</u>	<u>\$ 1,822,275</u>	<u>\$ —</u>	<u>\$ 3,284,489</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 Net Assets is presented in an accompanying schedule.  
See accompanying notes to financial statements.

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

FOR THE YEAR ENDED JUNE 30, 2005  
(in thousands)

	General	New York City Capital Projects	General Debt Service	Nonmajor Governmental Funds	Adjustments/ Eliminations	Total Governmental Funds
<b>REVENUES:</b>						
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>
<b>EXPENDITURES:</b>						
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>
<b>OTHER FINANCING SOURCES (USES):</b>						
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**  
**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, 2006  
(in thousands)

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

Net change in fund balances—governmental funds .....		\$ (736,214)
<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 .....	\$ 3,522,523	
Depreciation expense .....	<u>(2,018,812)</u>	1,503,711
<p>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 .....</p>		
		106,750
<p>The issuance of long-term debt (<i>i.e.</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 .....	(6,769,784)	
Principal payments of bonds .....	5,748,719	
Other .....	<u>(154,437)</u>	(1,175,502)
<p>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 .....</p>		
		(764,653)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds .....</p>		
		872,085
OPEB obligation .....		<u>(53,507,451)</u>
Change in net assets—governmental activities .....		<u><u>\$(53,701,274)</u></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, 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 (<i>i.e.</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 .....	(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**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
FOR THE YEAR ENDED JUNE 30, 2006  
(in thousands)

	Budget		Actual	Better (Worse) Than Modified Budget
	Adopted	Modified		
<b>REVENUES:</b>				
Real estate taxes . . . . .	\$12,438,204	\$12,611,904	\$12,636,355	\$ 24,451
Sales and use taxes . . . . .	5,282,250	5,998,700	5,986,655	(12,045)
Personal income tax . . . . .	6,586,000	7,589,000	7,675,813	86,813
Income taxes, other . . . . .	3,867,100	4,602,600	5,531,620	929,020
Other taxes . . . . .	2,210,082	3,141,369	2,380,744	(760,625)
Federal, State and other categorical aid . . . . .	15,339,889	16,135,156	15,436,591	(698,565)
Unrestricted Federal and State aid . . . . .	562,419	489,460	494,154	4,694
Charges for services . . . . .	1,705,641	1,786,421	1,836,959	50,538
Tobacco settlement . . . . .	238,291	5,410	5,410	—
Investment income . . . . .	159,390	360,140	362,197	2,057
Other revenues . . . . .	1,386,190	1,968,514	1,554,280	(414,234)
Total revenues . . . . .	<u>49,775,456</u>	<u>54,688,674</u>	<u>53,900,778</u>	<u>(787,896)</u>
<b>EXPENDITURES:</b>				
General government . . . . .	1,618,257	1,619,862	1,530,074	89,788
Public safety and judicial . . . . .	6,167,421	6,737,697	6,693,911	43,786
Education . . . . .	14,135,613	14,949,965	14,794,254	155,711
City University . . . . .	580,392	587,939	550,366	37,573
Social services . . . . .	10,332,445	10,163,688	10,147,669	16,019
Environmental protection . . . . .	1,825,670	1,856,843	1,836,396	20,447
Transportation services . . . . .	765,177	1,017,251	954,155	63,096
Parks, recreation and cultural activities . . . . .	353,509	385,211	376,808	8,403
Housing . . . . .	549,841	754,338	721,483	32,855
Health (including payments to HHC) . . . . .	2,363,032	2,819,471	2,757,802	61,669
Libraries . . . . .	32,577	261,292	261,140	152
Pensions . . . . .	4,599,415	3,881,905	3,878,950	2,955
Judgments and claims . . . . .	600,706	517,241	516,801	440
Fringe benefits and other benefit payments . . . . .	3,172,319	4,154,033	4,154,015	18
Interest on short—term borrowings . . . . .	26,250	—	—	—
Lease payments for debt service . . . . .	217,436	228,852	228,846	6
Other . . . . .	1,125,639	360,390	105,394	254,996
Total expenditures . . . . .	<u>48,465,699</u>	<u>50,295,978</u>	<u>49,508,064</u>	<u>787,914</u>
Excess of revenues over expenditures . . . . .	<u>1,309,757</u>	<u>4,392,696</u>	<u>4,392,714</u>	<u>18</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfer from Nonmajor Debt Service Fund . . . . .	47,902	75,721	102,938	27,217
Transfer to Nonmajor Debt Service Fund . . . . .	(10,000)	(5,000)	(10,000)	(5,000)
Transfer to New York City Capital Projects Fund . . . . .	(200,000)	(200,000)	(200,000)	—
Transfers and other payments for debt service . . . . .	(1,147,659)	(4,263,417)	(4,281,010)	(17,593)
Total other financing uses . . . . .	<u>(1,309,757)</u>	<u>(4,392,696)</u>	<u>(4,388,072)</u>	<u>4,624</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER</b>				
FINANCING USES . . . . .	\$ —	\$ —	4,642	\$ 4,642
FUND BALANCE AT BEGINNING OF YEAR . . . . .			417,841	
FUND BALANCE AT END OF YEAR . . . . .			<u>\$ 422,483</u>	

See accompanying notes to financial statements.



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

	<u>Budget</u>		<u>Actual</u>	<u>Better (Worse) Than Modified Budget</u>
	<u>Adopted</u>	<u>Modified</u>		
<b>REVENUES:</b>				
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>
<b>EXPENDITURES:</b>				
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>
<b>OTHER FINANCING SOURCES (USES):</b>				
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>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER</b>				
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**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**

JUNE 30, 2006  
(in thousands)

	<b>Pension and Other Employee Benefit Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS:</b>		
Cash and cash equivalents . . . . .	\$ 711,094	\$ 716,762
Receivables:		
Member loans . . . . .	1,313,092	—
Investment securities sold . . . . .	3,551,934	—
Accrued interest and dividends . . . . .	456,588	—
Investments:		
Other short-term investments . . . . .	2,954,289	—
Debt securities . . . . .	24,444,649	776,714
Equity securities . . . . .	53,735,093	—
Guaranteed investment contracts . . . . .	2,273,787	—
Management investment contracts . . . . .	104,297	—
Mutual funds . . . . .	25,438,964	—
Collateral from securities lending transactions . . . . .	18,163,920	—
Due from Pension Funds . . . . .	3,498	—
Other . . . . .	51,960	—
Total assets . . . . .	<u>133,203,165</u>	<u>1,493,476</u>
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities . . . . .	488,698	548,376
Payable for investment securities purchased . . . . .	7,122,561	—
Accrued benefits payable . . . . .	376,803	—
Due to VSF . . . . .	3,498	—
Securities lending transactions . . . . .	18,215,247	—
Other . . . . .	983	945,100
Total liabilities . . . . .	<u>26,207,790</u>	<u>1,493,476</u>
<b>NET ASSETS:</b>		
Held in Trust for Benefit Payments . . . . .	<u>\$106,995,375</u>	<u>\$ —</u>

See accompanying notes to financial statements.

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

JUNE 30, 2005  
(in thousands)

	<b>Pension and Other Employee Benefit Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS:</b>		
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 Pension Funds . . . . .	2,936	—
Other . . . . .	97,267	—
Total assets . . . . .	124,120,979	1,360,074
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities . . . . .	330,467	619,119
Payable for investment securities purchased . . . . .	6,116,650	—
Accrued benefits payable . . . . .	339,981	—
Due to VSF . . . . .	2,936	—
Securities lending transactions . . . . .	17,450,308	—
Other . . . . .	917	740,955
Total liabilities . . . . .	24,241,259	1,360,074
<b>NET ASSETS:</b>		
Held in Trust for Benefit Payments . . . . .	\$ 99,879,720	\$ —

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, 2006  
(in thousands)

	<u>Pension and Other Employee Benefit Trust Funds</u>
<b>ADDITIONS:</b>	
Contributions:	
Member contributions .....	\$ 1,339,584
Employer contributions .....	5,378,294
Other employer contributions .....	21,727
Total contributions .....	<u>6,739,605</u>
Investment income:	
Interest income .....	1,854,082
Dividend income .....	1,037,506
Net appreciation in fair value of investments .....	7,461,387
Less investment expenses .....	204,720
Investment income, net .....	<u>10,148,255</u>
Securities lending transactions:	
Securities lending income .....	768,826
Securities lending fees .....	<u>(709,760)</u>
Net securities lending income .....	59,066
Payments from Pension Funds .....	5,479
Other .....	35,972
Total additions .....	<u>16,988,377</u>
<b>DEDUCTIONS:</b>	
Benefit payments and withdrawals .....	9,753,958
Payments to VSF .....	5,479
Other .....	7,578
Administrative expenses .....	105,707
Total deductions .....	<u>9,872,722</u>
Increase in plan net assets .....	7,115,655
<b>NET ASSETS:</b>	
Held in Trust for Benefit Payments:	
Beginning of Year .....	99,879,720
End of Year .....	<u>\$106,995,375</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>
<b>ADDITIONS:</b>	
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 .....	1,504,581
Dividend income .....	1,098,519
Net appreciation in fair value of investments .....	6,751,931
Less investment expenses .....	168,249
Investment income, net .....	<u>9,186,782</u>
Securities lending transactions:	
Securities lending income .....	428,609
Securities lending fees .....	<u>(371,066)</u>
Net securities lending income .....	57,543
Payments from Pension Funds .....	4,963
Other .....	88,869
Total additions .....	<u>14,232,280</u>
<b>DEDUCTIONS:</b>	
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
<b>NET ASSETS:</b>	
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  
COMPONENT UNITS  
STATEMENT OF NET ASSETS**

JUNE 30, 2006  
(in thousands)

	Water and Sewer System	Housing Authority December 31, 2005	Housing Development Corporation October 31, 2005	Health and Hospitals Corporation	Economic Development Corporation	Off-Track Betting Corporation	Nonmajor Component Units	Total
<b>ASSETS:</b>								
Cash and cash equivalents . . . . .	\$ 966,959	\$ 459,057	\$ 242,950	\$ 446,058	\$ 44,565	\$ 18,595	\$ 90,724	\$ 2,268,908
Investments, including accrued interest . . . . .	515,317	525,035	95,520	53,562	237	—	975,181	2,164,852
Other receivables . . . . .	463,495	120,805	303,841	1,239,975	100,214	675	626,354	2,855,359
Mortgage loans and interest receivable, net . . . . .	—	100	4,546,842	—	42,903	—	—	4,589,845
Inventories . . . . .	—	11,435	—	27,498	—	—	—	38,933
Due from Primary Government . . . . .	8,506	—	—	—	—	—	—	8,506
Restricted cash and investments . . . . .	—	311,914	1,507,687	195,926	139,643	10,358	72,468	2,237,996
Capital assets:								
Construction work-in-progress . . . . .	4,546,209	—	—	446,176	—	—	—	4,992,385
Property, plant and equipment . . . . .	19,224,903	10,403,479	4,579	4,863,452	10,051	65,583	164,783	34,736,830
Accumulated depreciation . . . . .	(6,615,509)	(5,382,475)	(2,443)	(3,008,082)	(5,344)	(53,797)	(44,670)	(15,112,320)
Other . . . . .	130,728	67,603	54,913	21,933	31,951	—	6,822	313,950
Total assets . . . . .	<u>19,240,608</u>	<u>6,516,953</u>	<u>6,753,889</u>	<u>4,286,498</u>	<u>364,220</u>	<u>41,414</u>	<u>1,891,662</u>	<u>39,095,244</u>
<b>LIABILITIES:</b>								
Accounts payable and accrued liabilities . . . . .	15,361	638,752	240,355	847,932	81,090	33,724	8,058	1,865,272
Accrued interest payable . . . . .	33,558	9,955	42,070	12,295	—	—	—	97,878
Deferred revenues . . . . .	93,289	16,922	92,307	—	1,323	—	9,247	213,088
Due to Primary Government . . . . .	326,124	—	921,928	—	—	209	—	1,248,261
Other . . . . .	—	42,945	—	583	12,983	5,458	3,055	65,024
Noncurrent Liabilities:								
Due within one year . . . . .	566,061	53,702	55,352	141,257	—	6,644	20,785	843,801
Due in more than one year . . . . .	15,306,834	506,653	4,552,018	3,301,559	109,427	117,669	1,669,458	25,563,618
Total liabilities . . . . .	<u>16,341,227</u>	<u>1,268,929</u>	<u>5,904,030</u>	<u>4,303,626</u>	<u>204,823</u>	<u>163,704</u>	<u>1,710,603</u>	<u>29,896,942</u>
<b>NET ASSETS:</b>								
Invested in capital assets, net of related debt . . . . .	2,556,766	4,911,341	—	1,189,552	3,612	11,493	120,113	8,792,877
Restricted for:								
Capital projects . . . . .	—	—	—	38,646	73,568	8,379	—	120,593
Debt service . . . . .	171,859	—	420,095	113,596	—	—	70,650	776,200
Loans/security deposits . . . . .	—	—	—	—	67,849	—	2,371	70,220
Statutory reserve . . . . .	—	—	—	31,530	—	—	—	31,530
Donor restrictions . . . . .	—	—	—	12,154	—	—	—	12,154
Operations . . . . .	157,806	—	—	—	—	—	—	157,806
Unrestricted (deficit) . . . . .	12,950	336,683	429,764	(1,402,606)	14,368	(142,162)	(12,075)	(763,078)
Total net assets (deficit) . . . . .	<u>\$ 2,899,381</u>	<u>\$ 5,248,024</u>	<u>\$ 849,859</u>	<u>\$ (17,128)</u>	<u>\$159,397</u>	<u>\$(122,290)</u>	<u>\$ 181,059</u>	<u>\$ 9,198,302</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
<b>ASSETS:</b>								
Cash and cash equivalents . . . . .	\$ 1,099,053	\$ 497,026	\$ 188,060	\$ 470,357	\$ 49,296	\$ 17,709	\$ 58,502	\$ 2,380,003
Investments, including accrued interest . . . . .	868,302	555,463	90,820	42,209	236	—	999,292	2,556,322
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	1,235,548	260,061	135,110	8,268	139,568	1,787,922
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	63,665	149,405	32,889,030
Accumulated depreciation . . . . .	(6,181,283)	(5,081,693)	(1,992)	(2,846,214)	(4,627)	(50,580)	(37,366)	(14,203,755)
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>
<b>LIABILITIES:</b>								
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>
<b>NET ASSETS:</b>								
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 ACTIVITIES**  
FOR THE YEAR ENDED JUNE 30, 2006  
(in thousands)

	<u>Water and Sewer System</u>	<u>Housing Authority December 31, 2005</u>	<u>Housing Development Corporation October 31, 2005</u>	<u>Health and Hospitals Corporation</u>	<u>Economic Development Corporation</u>	<u>Off-Track Betting Corporation</u>	<u>Nonmajor Component Units</u>	<u>Total</u>
<b>EXPENSES</b> .....	\$2,428,339	\$2,774,499	\$178,558	\$ 7,456,772	\$624,094	\$ 382,973	\$74,891	\$13,920,126
<b>PROGRAM REVENUES:</b>								
Charges for services .....	1,978,930	676,545	180,915	5,533,361	319,790	257,911	75,625	9,023,077
Operating grants and contributions .....	—	1,669,448	—	258,309	26,647	—	—	1,954,404
Capital grants, contributions and other .....	—	330,538	—	223,174	266,018	—	12,226	831,956
Total program revenues .....	<u>1,978,930</u>	<u>2,676,531</u>	<u>180,915</u>	<u>6,014,844</u>	<u>612,455</u>	<u>257,911</u>	<u>87,851</u>	<u>11,809,437</u>
Net (expenses) program revenues .....	<u>(449,409)</u>	<u>(97,968)</u>	<u>2,357</u>	<u>(1,441,928)</u>	<u>(11,639)</u>	<u>(125,062)</u>	<u>12,960</u>	<u>(2,110,689)</u>
<b>GENERAL REVENUES:</b>								
Investment income .....	105,239	26,095	43,389	20,140	6,065	996	12,057	213,981
Unrestricted Federal and State aid .....	—	—	—	—	8,231	—	—	8,231
Other .....	88,447	57,343	—	(59,109)	1,245	2,418	118	90,462
General revenues, net .....	<u>193,686</u>	<u>83,438</u>	<u>43,389</u>	<u>(38,969)</u>	<u>15,541</u>	<u>3,414</u>	<u>12,175</u>	<u>312,674</u>
Change in net assets .....	<u>(255,723)</u>	<u>(14,530)</u>	<u>45,746</u>	<u>(1,480,897)</u>	<u>3,902</u>	<u>(121,648)</u>	<u>25,135</u>	<u>(1,798,015)</u>
Net Assets—Beginning .....	<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>
Net Assets (deficit)—Ending .....	<u>\$2,899,381</u>	<u>\$5,248,024</u>	<u>\$849,859</u>	<u>\$ (17,128)</u>	<u>\$159,397</u>	<u>\$(122,290)</u>	<u>\$181,059</u>	<u>\$ 9,198,302</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
<b>EXPENSES</b> .....	\$ 2,460,002	\$ 2,708,293	\$ 150,416	\$ 4,790,666	\$ 601,067	\$ 257,041	\$ 49,035	\$11,016,520
<b>PROGRAM REVENUES:</b>								
Charges for services .....	1,884,727	655,012	151,102	3,924,462	285,843	248,325	48,923	7,198,394
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>151,102</u>	<u>4,566,209</u>	<u>610,725</u>	<u>248,325</u>	<u>70,235</u>	<u>10,280,128</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>
<b>GENERAL REVENUES:</b>								
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 .....	78,834	64,075	—	349,295	644	2,458	1,895	497,201
General revenues, net .....	<u>176,196</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>670,295</u>
Change in net assets .....	<u>(399,079)</u>	<u>133,172</u>	<u>26,561</u>	<u>136,753</u>	<u>17,331</u>	<u>(5,775)</u>	<u>24,940</u>	<u>(66,097)</u>
Net Assets—Beginning .....	<u>3,554,183</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>11,062,414</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.

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**THE CITY OF NEW YORK**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006 and 2005**

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**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 that 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. All bonds of MAC have either been satisfied or defeased. The Act provides that MAC shall continue for a term of one year after all its liabilities have been fully paid and discharged. MAC’s liabilities will be fully discharged and paid no later than July 1, 2008.

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)**.

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, 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)**.

**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.

In addition to State legislative authorization to issue Future Tax Secured bonds for capital purposes, TFA is authorized to have outstanding Recovery bonds to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center and to issue bonds, notes, or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system. 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. Debt service requirements on the obligations to be issued for the school five-year capital plan will be funded from building aid to be received from the State.

TFA does not have any employees; its affairs are administered by employees of another component unit of the City, for which TFA pays a management fee based on its allocated share of personnel and overhead costs.

**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 (TSRs) 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 TSRs received by New York State.

The purchase price of the City's future right, title, and interest in the TSRs was financed by the issuance of a series of bonds and the Residual Certificate. Prior to the restructuring of TSASC's debt, the Residual Certificate represented the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs as set forth in the original Indenture.

On February 8, 2006, TSASC completed the total restructuring of all outstanding indebtedness by issuing Series 2006-1 bonds in the amount of \$1.353 billion. Under the Amended and Restated Indenture dated January 1, 2006, the Residual Certificate represents the entitlement to receive all amounts in excess of specified percentages of collections used to fund debt service and operating expenses of TSASC. The collections in excess of the specified percentages will be transferred to the TSASC Tobacco Settlement Trust (Trust), as owner of the Residual Certificate and then to the City as the beneficial owner of the Trust. The Indenture allows transfers to the Trust after December 6, 2007.

The restructuring relieved TSASC of its obligations under the original Indenture to deposit a portion of the TSRs and other revenue (Collections) into a trapping account. The new Indenture provides that a specified percentage of collections are pledged, and required to be applied to the payment of debt and operating costs. That percentage is initially 37.40% and is subject to reduction at June 1, 2024, and at each June 1st thereafter, depending on the magnitude of cumulative bond redemptions under the turbo redemption feature of Series 2006-1 bonds (which requires all pledged collections, after payment of operating costs, to be applied to payment of principal of and interest on Series 2006-1 bonds).

TSASC does not have any employees; its affairs are administered by employees of the City and of another component unit of the City, for which TSASC pays a management fee based on its allocated share of personnel and overhead costs.

**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 for the purpose of issuing bonds, a major portion of the proceeds of which were used to acquire securities held in an escrow account securing City general obligation bonds. The securities, which are held by the trustee for FSC, as they mature will fully fund the debt service and operational expenditures of FSC for the life of FSC's bonds. FSC does not have any employees; its affairs are administered by employees of the City and 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. The payment of the outstanding MAC bonds results in the receipt by the City of tax revenues that would otherwise be paid to MAC for the payment of debt service on MAC's bonds. 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 the City and of another component unit of the City, for which STAR pays a management fee based on its allocated share of personnel and overhead costs.

**Hudson Yards Development Corporation (HYDC) and Hudson Yards Infrastructure Corporation (HYIC).** The Hudson Yards Group (HYG), consisting of two legally separate and independent entities, HYDC and HYIC began operations in 2005. HYG finances and manages interrelated development and redevelopment activities (Project) in the City's Hudson Yards Area (Project Area).

HYDC is a local development corporation organized by the City under the not-for-profit corporation law of the State of New York to manage the implementation of the Project. HYDC is governed by a Board of Directors, a majority of whom are appointed by the Mayor. HYDC works with various City and State agencies and authorities and with private developers on the design and construction and implementation of the various elements of the Project, and to further private development and redevelopment of the Project Area. HYDC does not have any employees; its affairs are administered by employees of EDC. HYDC reimburses EDC for the cost of all salaries and benefits expended on its behalf by EDC employees.

HYIC is a local development corporation organized by the City under the not-for-profit corporation law of the State of New York to issue bonds to finance the Project, including the operations of HYDC, and to collect revenues, including payments in lieu of taxes and district improvement bonuses from private developers and appropriations from the City, to support its operations and pay principal and interest on its outstanding bonds. HYIC is governed by a Board of Directors elected by its five Members, all of whom are officials of the City. HYIC's Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor prior to any such actions. HYIC does not have any employees; its affairs are administered by employees of the City and of another component unit of the City, for which HYIC 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 (.50% 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.

OTB's current liabilities exceeded its current assets by \$24.5 million and coupled with an increase in the net asset deficit by \$121.6 million during fiscal year 2006 (principally caused by the recording of an OPEB expense and liability of \$115.5 million) raises questions concerning OTB's ability to operate as a "going concern." Operating initiatives instituted by OTB to reduce expenses, including a reduction in its workforce and maximizing branch profitability have not been sufficient to offset increases in operating expenses and statutory distributions. OTB has continued to seek legislative relief from the statutory distribution requirements of New York State laws. There is no assurance that the New York State legislature will adopt the necessary changes to New York State laws to provide relief to OTB.

**Jay Street Development Corporation (JSDC).** JSDC is a special purpose, 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 the Court Unit of 330 Jay Street Condominium located at 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."

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 of and interest (and redemption premium, if any) on JSDC's bonds, financing costs for the bonds, administrative expenses of JSDC, and certain other costs. The City also entered into a ground lease with the Developer for an undivided interest in the land appurtenant to the Courts Facility (Ground Lease). On April 1, 2005, JSDC purchased the Courts Facility from the Developer pursuant to its purchase option under the lease with the Developer. The City assigned to JSDC its purchase option under the Ground Lease, and on April 1, 2005, JSDC also purchased the undivided interest in the land appurtenant to the Courts Facility from the Developer, pursuant to that assigned option. 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 and agreement 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 and after October 31, 2005 will no longer be reported in HDC's combined financial statements. On September 20, 2004, the NYC HDC Real Estate Owned Corporation was established as a subsidiary of HDC and its limited activity as of October 31, 2005 has not given rise to any reportable financial events. It is treated as a blended component of HDC. HDC finances multiple dwelling mortgages substantially through issuance of HDC bonds and notes. The bonds and notes of HDC are not debts of either the State or the City. HDC has a fiscal year ending October 31.

HDC operates in a manner similar to a private business that includes activities such as financing of real estate development, investment banking, and commercial lending. HDC is supported by various loan and bond program fees that may include commitment, financing, and mortgage insurance and servicing fees on certain of its mortgage loans and for loans serviced for the City. Mortgage

loan earnings and other loan-related interests 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 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 (IDBs) and, in turn, the participating organizations must meet certain economic development criteria, the most important of which is job creation and/or retention. In addition, IDA assists participants who do not qualify for IDBs through a "straight lease" structure. The straight lease also provides tax benefits to the participants without having to issue IDBs or otherwise take part in the participants' financing. Whether IDA issues IDBs or merely enters into a straight lease, IDA may 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 provision of 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 were provided by owners/developers of certain residential projects which caused 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.

As required by the Zoning Resolution, developers/owners of specific City properties needed to pay a conversion contribution (BRAC payment) in order to receive a building permit for the conversion of space from commercial to residential use. As stipulated by the Zoning Resolution, in the event that such conversion resulted in the displacement of industrial and/or commercial firms located

within the City, the developer was required to establish an escrow account. The funds were released to the displaced firm once eligible relocation had taken place.

Contributions were deposited to the BRAC fund in the event that a displaced firm did not relocate within the City within one year of the establishment of the escrow agreement. In addition, if the space to be converted was vacant for less than five years, the conversion contribution was made to the BRAC fund.

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. In November, 2005, Craneway, Inc. was dissolved. 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 began operations 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 incorporated 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 the World Trade Center site or the Fresh Kills landfill during the 'exposure period' from September 11, 2001 to August 30, 2002. WTC Captive has a calendar year-end.

**New York City Capital Resource Corporation (CRC).** CRC is a local development corporation organized in 2006 under the not-for-profit corporation law of the State of New York to assist qualified not-for-profit institutions, small manufacturing companies, and other entities eligible under the Federal tax laws in obtaining tax-exempt bond financing. CRC will act as the conduit bond issuer for the Loan Enhanced Assistance Program (LEAP). LEAP's goal will be to facilitate access to private activity tax-exempt bond financing for qualified borrowers by simplifying the transaction structure, standardizing the required documentation, and achieving greater efficiency in marketing the tax-exempt debt.

CRC is a self-supporting entity and charges various program fees that may include application fees, financing fees, legal fees, and compliance fees. CRC 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.

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)
- New York City Retiree Health Benefits Trust (RHBT)

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 2006, the City adopted three new statements and two Technical Bulletins of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 43 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
- 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*
- Technical Bulletin No. 2006-1 *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*

Statement No. 43 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.

The early adoption of Statement No. 43 was prompted by the creation of the New York City Retiree Health Benefits Trust (RHBT) during fiscal year 2006 which is presented as an Other Employee Benefit Trust Fund in the City’s financial statements. The City contributed \$1 billion to RHBT to fund OPEB which is provided by the New York City Health Benefits Program (the Plan) to eligible retirees and beneficiaries (see Note E.3. for disclosure information relating to the OPEB trust fund).

Statement No. 45 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 financial reporting impact resulting from the implementation of Statement No. 45 is the recognition of a liability and expense totaling \$53.5 billion in the government-wide financial statements (see Note E.4. for disclosure information relating to the OPEB Plan and liability).

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. For all other termination benefits, Statement No. 47 was implemented in fiscal year 2005.

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 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.

The provisions of Technical Bulletin No. 2004-2 as it relates to the recognition of pension transactions was implemented in fiscal year 2005.

Technical Bulletin No. 2006-1 clarifies: (i) How an employer should account for and report Medicare Part D retiree drug subsidy payments from the Federal government to the employer; (ii) How such payments to an employer affect the accounting for the transaction and financial reporting by a defined benefit OPEB plan; (iii) How an employer should account for and report such payments to the plan; and (iv) How a defined benefit OPEB plan should account for and report such payments to the plan.

There was no impact on the City's financial statements as a result of the implementation of Technical Bulletin No. 2006-1.

### **3. Basis of Accounting**

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

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

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

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

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

#### **4. Encumbrances**

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

#### **5. Cash and Investments**

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

Cash and cash equivalents include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during fiscal years 2006 and 2005 were approximately \$785 million and \$946 million, respectively.

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

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

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

A description of the City's securities lending activities for the Pension and certain Other Employee Benefit Trust Funds in fiscal years 2006 and 2005 is included in Deposits and Investments (see Note D.1.).

#### **6. Inventories**

Inventories on hand at June 30, 2006 and 2005 (estimated at \$244 million and \$241 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 \$314.6 million and \$451.6 million for fiscal years 2006 and 2005, 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**

While the City did not enter into any derivative transactions during fiscal year 2006, certain disclosures have been made for the following derivatives contracted during fiscal year 2005 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, 2006 and 2005, the total notional amount of swaps and swaptions entered into by the City was \$3.053 billion and \$3.062 billion, respectively. The total marked to market value of the City's swaps and swaptions as of June 30, 2006 and 2005 was approximately \$(14.8) million and \$(73.8) 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	2006	2005			Prior Years Since 2003
	(a)	12	13	14	1-11
Corresponding Bond Series .....		2005A and 2005B	2002C, 2002D, 2003F, 2003I, 2004C, 2004D, and 2004F	2005J, 2005K, and 2005L	
Swap Type .....		CPI Swap to Fixed	Basis Swap	CPI Swap to Fixed	
<b>Notional Amount (000):</b>					
as of 6/30/06 .....	\$ —	\$50,000	\$500,000	\$44,145	\$2,459,300
as of 6/30/05 .....	\$ —	\$50,000	\$500,000	\$44,145	\$2,467,670
<b>Up-front Cash Payment to the City (000) .....</b>		\$ —	\$20,585	\$ —	\$ 20,000
<b>Effective Date .....</b>		7/29/04	8/1/04	3/3/05	
<b>Termination Date .....</b>		8/1/14	12/1/33	8/1/17	
<b>Final Bond Maturity .....</b>		8/1/14	12/15/33	8/1/17	
<b>Provider Cancel Option Date .....</b>		N/A	N/A	N/A	
<b>Option Premium (000) .....</b>		\$ —	\$ —	\$ —	\$ 19,860
<b>City Pays .....</b>		4.01%/ 4.12%	BMA	4.55%/ 4.63%/ 4.71%	
<b>Payments Made by the City (000):</b>					
as of 6/30/06 .....	\$ —	\$(3,060)	\$(22,118)	\$(1,867)	\$(164,147)
as of 6/30/05 .....	\$ —	\$(1,028)	\$( 7,752)	\$ —	\$( 94,113)
<b>City Receives .....</b>		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	
<b>Payments Received by the City (000):</b>					
as of 6/30/06 .....	\$ —	\$ 2,885	\$ 24,007	\$ 2,302	\$ 151,554
as of 6/30/05 .....	\$ —	\$ 747	\$ 8,330	\$ —	\$ 77,660
<b>First Counterparty Payment Date .....</b>		2/1/05	9/1/04	8/1/05	
<b>First City Payment Date .....</b>		2/1/05	9/1/04	8/1/05	
<b>Marked to Market Value (000):</b>					
as of 6/30/06 .....	\$ —	\$ (372)	\$(30,317)	\$ 778	\$ 15,083
as of 6/30/05 .....	\$ —	\$(1,828)	\$(11,427)	\$(1,257)	\$( 59,309)

(a) No swap transactions were entered into by the City during fiscal year 2006.

N/A Not applicable.

LIBOR London Interbank Offered Rate

BMA Bond Market Association Municipal Swap Index

CPI Consumer Price Index

*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).

*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*

While the City did not enter into any swap transactions during fiscal year 2006, below is a list of risks inherent in the types of swap transactions that the City had entered into during fiscal year 2005.

*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, 2006 were due July 1, 2005 and January 1, 2006 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 2006 taxes was June 29, 2005. The lien date is the date taxes are due.

Real estate tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first two months of the following fiscal year reduced by tax refunds for the fund financial statements.

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

The City offered an actual 1.5% discount for the prepayment of real estate taxes for fiscal years 2006 and 2005. Payment of real estate taxes before July 15, 2006, on properties with an assessed value of \$80,000 or less and before July 1, 2006, on properties with an assessed value over \$80,000 received the discount. Collections of these real estate taxes received on or before June 30, 2006 and 2005 were \$3.7 billion and \$3.3 billion, respectively. These amounts were recorded as deferred revenue.

The City sold approximately \$92.0 million of real property tax liens, fully attributable to fiscal year 2006, at various dates in fiscal year 2006. 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 \$7.3 million worth of liens sold in fiscal year 2006 will require replacement. The estimated refund accrual amount of \$9 million, including the surcharge and interest, resulted in fiscal year 2006 net sale proceeds of \$83.0 million.

In fiscal year 2006, \$21.8 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2005 sale. This resulted in a decrease to fiscal year 2006 revenue of \$10.8 million for the refund amount in excess of the fiscal year 2005 accrual of \$11 million and decreased the proceeds of the fiscal year 2005 sale to \$26.9 million down from the original fiscal year 2005 proceeds reported last year of \$37.7 million.

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 \$8.9 million worth of liens sold in fiscal year 2005 will require replacement. The estimated refund accrual amount of \$11 million, including the surcharge and interest, resulted in fiscal year 2005 net 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.

In fiscal years 2006 and 2005, \$380 million and \$358 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, 2006 and 2005, excess amounts of \$98 million and \$341 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. Other Postemployment Benefits**

Other Postemployment Benefits (OPEB) cost for healthcare is required to be measured and disclosed using the accrual basis of accounting (see Note E.4.), regardless of the amount recognized as OPEB expense on the modified accrual basis of accounting. Annual OPEB cost should be equal to the annual required contributions to the OPEB plan, calculated in accordance with certain parameters.

### **23. 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.

### **24. 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.

### **25. Pronouncements Issued But Not Yet Effective**

In September, 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The Statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent taxes, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements.

Statement No. 48 also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

In addition to clarifying guidance on accounting for sales and pledges of receivables and future revenues, Statement No. 48:

- Requires enhanced disclosures pertaining to future revenues that have been pledged or sold
- Provides guidance on sales of receivables and future revenues within the same financial reporting entity
- Provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues.

The City will be required to implement Statement No. 48 in fiscal year ending June 30, 2008.



**B. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

**C. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY****1. Budgets and Financial Plans***Budgets*

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

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

Expenditures made against the Expense Budget are controlled through the use of quarterly spending allotments and units of appropriation. A unit of appropriation represents a subdivision of an agency's budget and is the level of control at which expenditures may not legally exceed the appropriation. The number of units of appropriation and the span of operating responsibility which each unit represents, differs from agency to agency depending on the size of the agency and the level of control required. Transfers between units of appropriation and supplementary appropriations may be made by the Mayor subject to the approval provisions set forth in the City Charter. Supplementary appropriations increased the Expense Budget by \$4.941 billion and \$6.490 billion subsequent to its original adoption in fiscal years 2006 and 2005, 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 \$2.2 billion and \$1.5 billion at June 30, 2006 and 2005, 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, 2006 and 2005, the carrying amount of the City's unrestricted cash and cash equivalents was \$10.097 billion and \$12.837 billion, respectively, and the bank balances were \$2.204 billion and \$5.282 billion, respectively. Of the unrestricted bank balances, \$.008 billion and \$1.172 billion were exposed to custodial credit risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it) because the respective bank balances were uninsured and uncollateralized at June 30, 2006 and 2005, respectively. Neither the City's General Debt Service Fund nor the blended component units: SCA, HYG, and Private Housing Loan Programs have a deposit policy for custodial credit risk as of June 30, 2006. At June 30, 2006 and 2005, the carrying amount of the restricted cash and cash equivalents was \$1.055 billion and \$1.784 billion, respectively, and the bank balances were \$.7 million and \$3.665 million, respectively. Of the restricted bank balances, \$.6 million and \$3.347 million were exposed to custodial credit risk (this is the risk that in the event of a bank failure, the City's deposits may not be returned to it) because the respective bank balances were uninsured and uncollateralized at June 30, 2006 and 2005, respectively. TFA, a blended component unit does not have a deposit policy for custodial credit risk as of June 30, 2006.

*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, 2006 and 2005:

**Governmental activities:**

Investment Type	Investment Maturities			
	(in years)			
	2006	2005		
	Less than 1	1 to 5	Less than 1	1 to 5
	(in thousands)			
<b>Unrestricted</b>				
U.S. Government securities . . . . .	\$1,700,040	\$ 18,352	\$ 19,946	\$ 18,352
U.S. Government agency obligations . . . . .	257,529	—	679,038	19,894
Repurchase agreements . . . . .	—	—	103,854	—
Total unrestricted . . . . .	<u>\$1,957,569</u>	<u>\$ 18,352</u>	<u>\$802,838</u>	<u>\$ 38,246</u>
<b>Restricted</b>				
U.S. Government securities . . . . .	\$ 444,210	\$328,374	\$157,316	\$392,021
Commercial paper . . . . .	85,960	—	48,637	—
U.S. Government agency obligations . . . . .	—	266,351	18	306,091
Repurchase agreements . . . . .	17,475	—	—	—
Total restricted . . . . .	<u>\$ 547,645</u>	<u>\$594,725</u>	<u>\$205,971</u>	<u>\$698,112</u>

*Interest rate risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's portfolio is managed by limiting the weighted average maturity to a period of less than 2 years. The City's current weighted average is less than 90 days.

*Credit risk.* Investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment. As of June 30, 2006 and 2005, investments in Federal National Mortgage Association (FNMA or Fannie Mae), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac) and Federal Home Loan Bank (FHLB) were rated in the highest long-term or short-term ratings category (as applicable) by Standard & Poor's and/or Moody's Investor Service. These ratings were AAA and A-1+ by Standard & Poor's and Aaa and P-1 by Moody's for long-term and short-term instruments respectively. The majority of these investments were not rated by Fitch ratings, but those that were carried its highest long-term or short-term ratings of AAA or F1+, respectively. Investments in commercial paper were rated in the highest short-term category by at least two major rating agencies (A-1+ by Standard & Poor's, P-1 by Moody's, and/or F1+ by Fitch ratings). Repurchase agreements are not rated. Resolution Funding Strip investments are guaranteed by the U.S. Treasury.

*Concentration of credit risk.* The City's investment policy limits investments to no more than \$250 million invested at any time in either commercial paper of a single issuer or investment agreement with a single provider.

*Custodial credit risk-investments.* For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the name of the City.

The City manages custodial credit risk by limiting its investments to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the City.

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 25% 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 certain Other Employee Benefit Trust 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. In return, the Systems and Funds receive collateral in the form of cash and U.S. Government agency securities at 100% to 105% of the principal plus accrued interest for reinvestment. At year-end, the Systems and Funds had no credit risk exposure to borrowers because the amounts the Systems and Funds owe the borrowers exceed the amounts the borrowers owe the Systems and Funds. The contracts with the Systems' and Funds' custodian requires borrowers to indemnify the Systems and Funds if the borrowers fail to return the securities, if the collateral is inadequate, and if the borrowers fail to pay the Systems and Funds for income distributions by the securities' issuers while the securities are on loan.

The securities lending program in which the Systems and Funds participate only allows pledging or selling securities in the case of borrower default.

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. In fiscal year 2006, an additional \$4.6 million was recovered as an ongoing distribution of bankruptcy proceeds.

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, 2005 and 2006:

Primary Government	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
	(in thousands)						
<b>Governmental activities:</b>							
Capital assets, not being depreciated:							
Land .....	\$ 760,605	\$ 187,630	\$ —	\$ 948,235	\$ 35,362	\$ 15,643	\$ 967,954
Construction work-in-progress .....	2,687,733	1,706,981	2,340,583	2,054,131	2,358,965	1,459,118	2,953,978
Total capital assets, not being depreciated .....	3,448,338	1,894,611	2,340,583	3,002,366	2,394,327	1,474,761	3,921,932
Capital assets, being depreciated:							
Buildings .....	28,112,914	2,340,583	41,318	30,412,179	1,459,118	165,292	31,706,005
Equipment .....	5,698,114	170,562	343,773	5,524,903	186,148	251,772	5,459,279
Infrastructure .....	10,494,268	1,045,593	433,963	11,105,898	942,048	433,537	11,614,409
Total capital assets, being depreciated .....	44,305,296	3,556,738	819,054	47,042,980	2,587,314	850,601	48,779,693
Less accumulated depreciation:							
Buildings .....	10,460,843	981,157	35,940	11,406,060	1,128,775	147,934	12,386,901
Equipment .....	3,408,827	871,976	329,288	3,951,515	359,687	245,280	4,065,922
Infrastructure .....	3,925,408	513,443	433,962	4,004,889	530,350	457,387	4,077,852
Total accumulated depreciation .....	17,795,078	2,366,576 <sup>(1)</sup>	799,190	19,362,464	2,018,812 <sup>(1)</sup>	850,601	20,530,675
Total capital assets, being depreciated, net .....	26,510,218	1,190,162	19,864	27,680,516	568,502	—	28,249,018
Governmental activities capital assets, net .....	<u>\$29,958,556</u>	<u>\$3,084,773</u>	<u>\$2,360,447</u>	<u>\$30,682,882</u>	<u>\$2,962,829</u>	<u>\$1,474,761</u>	<u>\$32,170,950</u>

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2006 and 2005 as follows:

	2006	2005
	(in thousands)	
<b>Governmental activities:</b>		
General government .....	\$ 350,163	\$ 260,528
Public safety and judicial .....	223,287	644,899
Education .....	577,368	564,431
City University .....	10,487	10,870
Social services .....	73,874	49,554
Environmental protection .....	125,214	193,380
Transportation services .....	391,729	399,272
Parks, recreation and cultural activities .....	189,524	167,689
Housing .....	33,917	32,354
Health .....	30,363	31,761
Libraries .....	12,886	11,838
Total depreciation expense—governmental activities .....	<u>\$2,018,812</u>	<u>\$2,366,576</u>

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2006 and 2005. Sources of funding for capital assets are not available prior to fiscal year 1987.

	<u>2006</u>	<u>2005</u>
	(in thousands)	
<b>Capital Projects Funds:</b>		
Prior to fiscal year 1987 . . . . .	\$ 5,105,519	\$ 5,356,751
City bonds . . . . .	42,395,200	39,776,698
Federal grants . . . . .	1,050,947	881,652
State grants . . . . .	105,331	168,352
Private grants . . . . .	330,494	161,950
Capitalized leases . . . . .	<u>3,714,134</u>	<u>3,699,943</u>
Total funding sources . . . . .	<u>\$52,701,625</u>	<u>\$50,045,346</u>

At June 30, 2006 and 2005, 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 buildings at June 30, 2006 and 2005 are leased properties that have elements of ownership. These assets are recorded as capital assets as follows:

	<u>Capital Leases</u>	
	<u>2006</u>	<u>2005</u>
	(in thousands)	
<b>Governmental activities:</b>		
<b>Capital asset:</b>		
Buildings, gross . . . . .	\$3,714,134	\$3,699,943
Less accumulated amortization . . . . .	<u>789,515</u>	<u>655,863</u>
Buildings, net . . . . .	<u>\$2,924,619</u>	<u>\$3,044,080</u>

### *Capital Commitments*

At June 30, 2006, 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 \$55.8 billion over the remaining fiscal years 2007 through 2015. To help meet its capital spending program, the City borrowed \$3.5 billion in the public credit market in fiscal year 2006. The City and TFA plan to borrow \$4.2 billion in the public credit market in fiscal year 2007.

### **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, 2006 and 2005 were approximately \$587 million and \$556 million, respectively.

As of June 30, 2006, 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>
<b>Governmental activities:</b>			
Fiscal year ending June 30:			
2007 .....	\$ 258,140	\$ 348,615	\$ 606,755
2008 .....	255,008	326,498	581,506
2009 .....	229,375	309,763	539,138
2010 .....	237,025	287,246	524,271
2011 .....	236,302	262,103	498,405
2012-2016 .....	1,124,598	1,066,625	2,191,223
2017-2021 .....	969,652	682,703	1,652,355
2022-2026 .....	538,129	244,885	783,014
2027-2031 .....	334,793	17,193	351,986
2032-2036 .....	139,094	2,746	141,840
2037-2041 .....	56,552	135	56,687
Future minimum payments .....	<u>4,378,668</u>	<u>\$3,548,512</u>	<u>\$7,927,180</u>
Less interest .....	<u>1,454,049</u>		
Present value of future minimum payments .....	<u>\$2,924,619</u>		

The present value of future minimum lease payments includes approximately \$1.581 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, 2006 and 2005 was approximately \$209 million and \$944 million, respectively. As of June 30, 2006, the following future minimum rentals are provided for by the leases:

	<u>Capital Leases</u>	<u>Operating Leases</u> (in thousands)	<u>Total</u>
<b>Governmental activities:</b>			
Fiscal year ending June 30:			
2007 .....	\$ 4,202	\$ 156,526	\$ 160,728
2008 .....	4,266	146,832	151,098
2009 .....	4,295	144,780	149,075
2010 .....	4,334	142,727	147,061
2011 .....	4,184	135,897	140,081
2012-2016 .....	10,705	653,096	663,801
2017-2021 .....	12,528	623,279	635,807
2022-2026 .....	13,104	586,335	599,439
2027-2031 .....	14,122	565,362	579,484
2032-2036 .....	12,867	565,973	578,840
2037-2041 .....	3,225	530,042	533,267
2042-2046 .....	2,019	518,288	520,307
2047-2051 .....	1,822	469,397	471,219
2052-2056 .....	1,800	44,097	45,897
2057-2061 .....	1,800	44,097	45,897
2062-2066 .....	1,800	44,097	45,897
2067-2071 .....	1,800	43,460	45,260
2072-2076 .....	1,800	41,973	43,773
2077-2081 .....	1,260	30,221	31,481
2082-2086 .....	—	26,697	26,697
2087-2091 .....	—	2,670	2,670
2092-2096 .....	—	1	1
2097-2101 .....	—	1	1
Future minimum lease rentals .....	<u>\$101,933</u>	<u>\$5,515,848</u>	<u>\$5,617,781</u>
Less interest .....	<u>58,383</u>		
Present value of future minimum lease rentals .....	<u>\$ 43,550</u>		

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

In fiscal years 2005 and 2006, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005 <small>(in thousands)</small>	Additions	Deletions	Balance June 30, 2006	Due Within One Year
<b>Governmental activities:</b>								
Bonds payable:								
General obligation bonds . . . . .	\$31,378,385	\$ 6,775,250	\$4,250,356	\$33,903,279	\$4,826,810	\$ 2,885,657	\$ 35,844,432	\$1,632,881
1991 general resolution bonds . . . . .	1,758,015	—	1,758,015	—	—	—	—	—
Future tax secured bonds . . . . .	13,363,885	920,645	1,307,915	12,976,615	597,235	1,341,305	12,232,545	368,660
Tobacco flexible amortization bonds . . . . .	1,255,719	48,333	20,755	1,283,297	1,353,778	1,303,510	1,333,565	—
IDA bonds . . . . .	107,960	—	1,695	106,265	—	1,775	104,490	1,860
STAR bonds . . . . .	—	2,551,435	—	2,551,435	—	81,030	2,470,405	48,145
FSC bonds . . . . .	—	498,845	38,550	460,295	—	73,735	386,560	49,440
Revenue bonds(1) . . . . .	107,190	99,140	71,370	134,960	—	51,015	83,945	12,095
Total before treasury obligations and discounts . . . . .	47,971,154	10,893,648	7,448,656	51,416,146	6,777,823	5,738,027	52,455,942	2,113,081
Less treasury obligations . . . . .	51,516	—	12,664	38,852	—	38,852	—	—
Total before discounts . . . . .	47,919,638	10,893,648	7,435,992	51,377,294	6,777,823	5,699,175	52,455,942	2,113,081
Less premiums/discounts (net) . . . . .	(175,983)	37,933	477,453	(615,503)	97,728	226,096	(743,871)	—
Total bonds payable . . . . .	48,095,621	10,855,715	6,958,539	51,992,797	6,680,095	5,473,079	53,199,813	2,113,081
Capital lease obligations . . . . .	2,345,989	835,900	137,809	3,044,080	14,191	133,652	2,924,619	133,437
Other tax refunds . . . . .	1,169,867	81,538	(170,133)	1,421,538	98,045	31,538	1,488,045	98,045
Judgments and claims . . . . .	4,427,134	1,424,305	1,041,268	4,810,171	1,263,000	1,054,263	5,018,908	1,360,426
Real estate tax certiorari . . . . .	634,379	125,323	137,350	622,352	92,374	146,381	568,345	115,265
Vacation and sick leave . . . . .	2,556,665	237,811	200,785	2,593,691	494,459	247,937	2,840,213	247,937
Pension liability . . . . .	708,000	176,100	77,900	806,200	64,500	106,700	764,000	—
OPEB liability . . . . .	—	—	—	—	55,690,322	2,182,871	53,507,451	1,400,000
Landfill closure and post-closure care costs . . . . .	1,351,132	49,797	100,847	1,300,082	381,578	29,660	1,652,000	58,939
Total changes in governmental activities long-term liabilities . . . . .	<u>\$61,288,787</u>	<u>\$13,786,489</u>	<u>\$8,484,365</u>	<u>\$66,590,911</u>	<u>\$64,778,564</u>	<u>\$ 9,406,081</u>	<u>\$121,963,394</u>	<u>\$5,527,130</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, 2006 and 2005 summarized by type of issue are as follows:

Primary Government	2006			2005		
	General Obligations	Revenue	Total	General Obligations	Revenue	Total
	(in thousands)					
<b>Governmental activities:</b>						
Bonds payable:						
General obligation bonds	\$35,844,432	\$ —	\$35,844,432	\$33,864,427	\$ —	\$33,864,427
Future tax secured bonds	12,232,545	—	12,232,545	12,976,615	—	12,976,615
Tobacco flexible amortization bonds	1,333,565	—	1,333,565	1,283,297	—	1,283,297
IDA bonds	104,490	—	104,490	106,265	—	106,265
STAR bonds	2,470,405	—	2,470,405	2,551,435	—	2,551,435
FSC bonds	386,560	—	386,560	460,295	—	460,295
Revenue bonds	—	83,945	83,945	—	134,960	134,960
Total bonds payable	<u>\$52,371,997</u>	<u>\$ 83,945</u>	<u>\$52,455,942</u>	<u>\$51,242,334</u>	<u>\$134,960</u>	<u>\$51,377,294</u>

The following table summarizes future debt service requirements as of June 30, 2006:

Primary Government	Governmental Activities			
	General Obligation Bonds		Revenue Bonds	
	Principal	Interest(1)	Principal	Interest
	(in thousands)			
Fiscal year ending June 30:				
2007	\$ 2,100,986	\$ 2,402,043	\$ 12,095	\$ 3,365
2008	1,935,745	2,319,452	13,665	2,903
2009	2,327,091	2,230,938	7,220	2,364
2010	2,370,100	2,126,940	5,880	2,063
2011	2,326,376	2,019,570	5,810	1,887
2012-2016	11,975,342	8,876,702	17,545	6,344
2017-2021	11,421,663	5,989,846	9,770	3,919
2022-2026	9,574,674	3,254,577	11,960	1,623
2027-2031	5,514,532	1,285,634	—	—
2032-2036	2,255,212	336,448	—	—
2037-2041	11,203	143,892	—	—
2042-2046	559,028	28,666	—	—
Thereafter until 2147	45	155	—	—
	<u>52,371,997</u>	<u>31,014,863</u>	<u>83,945</u>	<u>24,468</u>
Less interest component	—	<u>31,014,863</u>	—	<u>24,468</u>
Total future debt service requirements	<u>\$52,371,997</u>	<u>\$ —</u>	<u>\$ 83,945</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, 2006 and 2005 were 4.7% and 4.8%, respectively, and both ranged from 0% to 10.0%, and the interest rates on outstanding MAC bonds as of June 30, 2005 ranged from 9% to 13.5%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2006 and 2005, the City issued \$1.422 billion and \$2.855 billion, respectively, of general obligation bonds to advance refund general obligation bonds of \$1.424 billion and \$2.741 billion, respectively, aggregate principal amounts. The net proceeds from the sales of the refunding bonds, together with other funds of \$.8 million and \$1.4 million, respectively, were irrevocably placed in escrow accounts and invested in United States Government securities. As a result of providing for the payment of the principal and interest to maturity, and any redemption premium, the advance refunded bonds are considered to be defeased and, accordingly, the liability is not reported in the government-wide financial statements. In fiscal year 2006, the refunding transactions will decrease the City's aggregate debt service payments by \$114.1 million and provide an economic gain of \$91.2 million. In fiscal year 2005, the refunding transactions decreased the City's aggregate debt service payments by \$174.7 million and provided an economic gain of \$126.6 million. At June 30, 2006 and 2005, \$10.279 billion and \$10.524 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, 2006, the 10% general limitation was approximately \$53.336 billion (compared with \$47.051 billion as of July 1, 2005). Also, as of July 1, 2006, the combined City and TSASC remaining debt-incurring power totaled \$13.621 billion, after providing for capital commitments.

Pursuant to State legislation on January 1, 1979, the City established a General Debt Service Fund administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this Fund. In fiscal year 2006, discretionary and other transfers of \$3.205 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2007 debt service. In addition, in fiscal year 2006, discretionary transfers of \$74 million were made to component units of the Debt Service Funds. 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.

#### *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, 2006. 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, 2006 remains constant over the life of the bonds.

Primary Government	Governmental Activities			Total
	General Obligation Bonds Principal	Interest	Interest Rate Swaps, Net	
	(in thousands)			
Fiscal year ending June 30:				
2007 .....	\$ 8,660	\$ 119,959	\$(9,050)	\$ 119,569
2008 .....	9,005	119,485	(9,042)	119,448
2009 .....	19,845	118,720	(9,027)	129,538
2010 .....	49,705	117,061	(8,946)	157,820
2011 .....	37,900	115,440	(8,812)	144,528
2012-2016 .....	313,700	540,670	(41,296)	813,074
2017-2021 .....	743,245	416,969	(33,689)	1,126,525
2022-2026 .....	559,140	263,809	(28,062)	794,887
2027-2031 .....	607,925	150,197	(18,943)	739,179
2032-2036 .....	256,350	15,994	(2,200)	270,144
Total .....	<u>\$2,605,475</u>	<u>\$1,978,304</u>	<u>\$(169,067)</u>	<u>\$4,414,712</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, 2006 and 2005, claims in excess of \$548 billion and \$529 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be \$5.0 billion and \$4.8 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 building clean-up workers. Currently, 491 of the proceedings are confirmed actions against the City 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 3000 plaintiffs have been served. The amount of damages has not yet been alleged. To date, fewer than 200 of these plaintiffs have served complaints on the City. Complaints so served are included in the 491 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 moved to dismiss these actions and oral argument was held on June 22, 2006. Oral argument was held on April 6, 2006 on a motion to confirm jurisdiction in the action brought on behalf of building clean-up workers and a decision on the motion is pending. 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 liabilities 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 in January, 2006, the City's motion for summary judgment was granted. 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.

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. The motion is pending.

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. On November 19, 2003, the defendants again moved for summary judgment. On May 2, 2005, the Supreme Court denied defendants' second motion for summary judgment and ordered the matter to trial. On January 26, 2006, following a trial, the Supreme Court held that TRS and its individual trustees had not breached their fiduciary duty in establishing and operating the Variable B Fund as a stable value fund. On June 2, 2006, plaintiff served a notice of appeal of the judgment. If the plaintiff were to ultimately prevail in this action, it could result in substantial costs to the City.

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. The City has moved to dismiss the Article 78 proceeding and has submitted an answer in the action. By decision dated October 17, 2006, the Court denied the City's motion to dismiss the Article 78 proceeding on the grounds of statute of limitations and laches, but granted the City's motion to dismiss petitioner's contract claims. 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 Department of Education and the State Department of Health 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 takes no further action with respect to the audit. In both audits, the Centers for Medicare and Medicaid Services has not imposed any disallowances of FFP to date. Both the speech and transportation audits 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 DOE for services that are the subject of such disallowances, or may attempt to offset amounts owed to DOE.

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. The matter is currently in discovery. An adverse determination in this case could result in substantial costs to the City.

In addition to the above claims and proceedings, numerous real estate tax certiorari proceedings are presently pending against the City on grounds of alleged overvaluation, inequality, and illegality of assessment. In response to these actions, in December, 1981, State legislation was enacted which, among other things, authorizes the City to assess real property according to four classes and makes certain evidentiary changes in real estate tax certiorari proceedings. Based on historical settlement activity, the City estimates its potential liability for outstanding certiorari proceedings to be \$568 million and \$622 million at June 30, 2006 and 2005, respectively, as reported in the government-wide financial statements.

*Pension Liability*

For fiscal years 2001 through 2005 inclusive, the City incurred a pension liability that was the result of Chapter 125 of the Laws of 2000 (Chapter 125/00) which provided for a five-year phase-in schedule for funding the additional actuarial liabilities created by providing eligible retirees and eligible beneficiaries with increased Supplementation as of September, 2000 and with automatic Cost-of-Living Adjustments (COLA) beginning September, 2001. Chapter 278 of the Laws of 2002 (Chapter 278/02) extended the phase-in period for funding the additional liabilities attributable to the benefits provided under Chapter 125/00 to ten years from five years. Chapter 152 of the Laws of 2006 eliminated for fiscal year 2006 and thereafter the ten-year phase-in period arising under Chapter 278/02 and instead, the additional actuarial liabilities created by the benefits provided by Chapter 125/00 are funded as part of the normal contribution (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, 2006 which equates to the total estimated current cost is \$1.425 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 2006, expenditures for landfill closure and postclosure care costs totaled \$34.5 million.

Resource Conservation and Recovery Act Subtitle D Part 258, which became effective April, 1997, requires financial assurance regarding closure and postclosure care. This assurance was most recently provided, on August 25, 2006, 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 .....	\$1,425,255
Hazardous waste sites .....	226,745
Total landfill and hazardous waste sites liability .....	<u>\$1,652,000</u>

## 5. Interfund Receivables and Payables

At June 30, 2006 and 2005, primary government and discretely presented component unit receivable and payable balances were as follows:

### Governmental activities:

Due from/to other funds:

Receivable Fund	Payable Fund	2006	2005
(in thousands)			
General Fund:	NYC Capital Projects Fund .....	\$2,289,648 <sup>(1)</sup>	\$1,715,766 <sup>(1)</sup>
Total due from/to other funds .....		<u>2,289,648</u>	<u>1,715,766</u>

### Component units:

Due from/to primary government and component units:

Receivable Entity	Payable Entity		
Primary government—General Fund:	Component units: HDC .....	921,928	422,726
	OTB .....	<u>209</u>	<u>226</u>
		922,137	422,952
Primary government—NYC Capital Projects Fund	Component unit—Water Authority .....	<u>326,124</u>	<u>288,136</u>
Total due from component units .....		1,248,261	711,088
Component unit—Water Board	Primary government—General Fund .....	<u>8,506</u>	<u>31,390</u>
Total due to component units .....		8,506	31,390
Total due from/to primary government and component units .....		<u>1,256,767</u>	<u>742,478</u>
Total primary government and component units receivable and payable balances .....		<u>\$3,546,415</u>	<u>\$2,458,244</u>

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

Note: During both fiscal years 2006 and 2005, 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 2006 and 2005, 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, Deferred Compensation Plans, and the WTC Captive Insurance Company, Inc. Fiscal year 2006 also includes the New York City Capital Resource Corporation and the New York City Educational Construction Fund.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2006 and 2005:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Pension and Other Employee Benefit Trust Funds	
	2006	2005	2006	2005	2006	2005	2006	2005
Total assets	3	6	83	83	58	60	6	6
Revenues / additions (deductions) and other financing sources	3	5	77	74	13	64	9	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, 2006, the City and TFA completed the following long-term financing and the statutory debt limit was increased for TFA.

### *Long-term Financing*

*City Debt:* On August 17, 2006, the City sold its Series A and B bonds of \$850 million for refunding purposes.

*TFA Debt:* On October 16, 2006, TFA sold its Series A Federal Tax Secured bonds of \$800 million for capital purposes.

### *Statutory Debt Limit*

In July, 2006, State legislation increased TFA's statutory debt limit capacity to issue Future Tax Secured bonds by \$2 billion to \$13.5 billion.

## 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 nine pre-arranged portfolios consisting of varying percentages of those investment options.

### *New York City Retiree Health Benefits Trust (RHBT)*

RHBT was established for the exclusive benefit of the City's retired employees and their dependents who meet the eligibility requirements to fund the postemployment benefits (other than those paid through the Management Benefits Fund) provided through the welfare benefit plans and welfare benefit funds and the reimbursement of certain Medicare premiums. RHBT was enacted by local law to afford the City the ability to address the ongoing liability of funding the costs of health benefits for the City's retired workers and their dependents covered under the City's health and welfare plans. Amounts contributed to RHBT by the City are held in trust and are irrevocable and may not be used for any other purpose than to fund the costs of health and welfare benefits of its eligible participants. Consequently, RHBT is presented as an Other Employee Benefit Trust Fund in the City's financial

statements. The separate annual financial statements of RHBT are available at: Office of the Comptroller, Bureau of Accountancy — Room 808, 1 Centre Street, New York, New York 10007.

*Summary of Significant Accounting Policies:*

*Basis of Accounting.* The measurement focus of RHBT is on the flow of economic resources. This focus emphasizes the determination of changes in trust net assets. With this measurement focus, all assets and liabilities associated with the operation of this fiduciary fund are included on the statement of fiduciary net assets. This fund uses the accrual basis of accounting whereby contributions from the employer are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

*Method Used to Value Investments.* Investments are reported on the statement of fiduciary net assets at fair value based on quoted market prices.

*Required Supplementary Information*

The schedule of funding progress presents the results of OPEB valuations as of June 30, 2005 for the fiscal year ending June 30, 2006. Looking forward, the schedule will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

	(1)	(2)	(3)	(4)	(5)	(6)
		Actuarial Accrued Liability (AAL)— Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets		(2)-(1)	(1)÷(2)		(3)÷(5)
(in thousands)						
6/30/05	\$0	\$50,543,963	\$50,543,963	0.0%	\$15,737,531	321.2%

#### 4. Other Postemployment Benefits

*Plan Description.* The New York City Health Benefits Program (Plan) is a single-employer defined benefit healthcare plan funded by the New York City Retiree Health Benefits Trust (RHBT), an Other Employee Benefit Trust Fund of the City, which provides Other Postemployment Benefits (OPEB) to eligible retirees and beneficiaries. OPEB includes: health insurance, Medicare Part B reimbursements, and welfare fund contributions. RHBT issues a publicly available financial report that includes financial statements and required supplementary information for funding the Plan's OPEB and the report is available at: Office of the Comptroller, Bureau of Accountancy—Room 808, 1 Centre Street, New York, New York 10007.

*Funding Policy.* The Administrative Code of The City of New York (ACNY) defines OPEB to include Health Insurance and Medicare Part B Reimbursements; Welfare Benefits stem from the City's various collective bargaining agreements all of which are to be funded by RHBT. The City is not required by law or contractual agreement to provide funding for RHBT other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the fiscal year ended June 30, 2006, the City paid \$2.2 billion on behalf of the Plan. Based on current practice (the Substantive Plan which is derived from ACNY), the City pays the full cost of basic coverage for non-Medicare-eligible/Medicare-eligible retiree participants. The costs of these benchmark plans are reflected in the actuarial valuations by using age-adjusted premium amounts. Plan retiree participants who opt for other basic or enhanced coverage must contribute 100% of the incremental costs above the premiums for the benchmark plans. The City also reimburses covered employees 100% of the Medicare Part B premium rate applicable to a given year and there is no retiree contribution to the Welfare Funds. The City pays per capita contributions to the Welfare Funds the amounts of which are based on negotiated contract provisions.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that was actuarially determined by using the Frozen Entry Age Actuarial Cost Method (one of the actuarial cost methods in accordance with the parameters of GASB Statement No. 45). Under this method, the excess of the Actuarial Present Value of Projected Benefits over the sum of: (i) the Actuarial Value of Assets plus (ii) the Unfunded Frozen Actuarial Accrued Liability is allocated on a level basis over the earnings of the covered active employees between the valuation date and assumed exit. This allocation is performed for the group as a whole. The Frozen Actuarial Accrued Liability



is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. Under this method, actuarial gains/losses, as they occur, reduce/increase future Normal Costs. The following table shows the elements of the City’s annual OPEB cost for the year, the amount actually paid on behalf of the Plan, and changes in the City’s net OPEB obligation to the plan for the year ended June 30, 2006:

	<u>Amount</u> (in thousands)
Annual required contribution . . . . .	\$55,690,322
Interest on net OPEB obligation . . . . .	—
Adjustment to annual required contribution . . . . .	—
Annual OPEB cost (expense) . . . . .	55,690,322
Payments made . . . . .	<u>2,182,871</u>
Increase in net OPEB obligation . . . . .	53,507,451
Net OPEB obligation—beginning of year . . . . .	—
Net OPEB obligation—end of year . . . . .	<u>\$53,507,451</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2006 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u> (in thousands)	<u>Percentage of Annual OPEB Cost Paid</u>	<u>Net OPEB Obligation</u>
06/30/06	\$55,690,322	3.9%	\$53,507,451

*Funded Status and Funding Progress.* As of June 30, 2005, the most recent (initial) actuarial valuation date, the Plan was 0.0% funded. The actuarial accrued liability for benefits was \$50.5 billion, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$50.5 billion. The covered payroll (annual payroll of active employees covered by the Plan) was \$15.7 billion, and the ratio of the UAAL to the covered payroll was 321.2%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The initial determined actuarial valuations of OPEB provided under the Plan incorporated the use of demographic and salary increase assumptions among others as reflected below. The use of estimating techniques and the reliance of available data were required to meet legally-imposed deadlines for early implementation of Statement No. 45 that in the future, equivalent results are expected to reflect refinements to the data and a reduction in the use of estimations. Amounts determined regarding the funded status of the Plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information in Note E.3, presents the results of OPEB valuations as of June 30, 2005 and looking forward, the schedule will eventually provide multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* The actuarial assumptions used in the June 30, 2005 OPEB actuarial valuations are classified as those used in the New York City Retirement Systems (NYCRS) valuations and those specific to the OPEB valuations. NYCRS consist of: (i) New York City Employees’ Retirement System; (ii) New York City Teachers’ Retirement System; (iii) New York City Board of Education Retirement System; (iv) New York City Police Pension Fund; and (v) New York City Fire Pension Fund. The OPEB actuarial valuations for NYCRS incorporate only the use of the demographic and salary increase assumptions. The demographic assumptions requiring NYCRS Board approval were adopted by each respective Board of Trustees during fiscal year 2006. Those actuarial assumptions and methods that required New York State legislation were enacted, effective for fiscal year 2006 and later, as Chapter 152 of the Laws of 2006 (Chapter 152/06). The OPEB-specific actuarial assumptions used in the June 30, 2005 OPEB actuarial valuations of the Plan are as follows:

- Valuation Date . . . . . June 30, 2005.
- Discount Rate . . . . . 4.0% per annum.<sup>1</sup>
- Per-Capita Claims Costs . . . . . Age Adjusted from assumed average age of covered population.

The HIP HMO premium rate is used for all non-Medicare-eligible retirees and dependents with basic medical coverage. The Mental Health/Substance Abuse rider is reflected for retirees in HIP HMO and GHI/EBCBS. The GHI/EBCBS Senior Care premium is used for all Medicare-eligible retirees and dependents with basic medical coverage except those in HIP HMO. The premiums are age adjusted for HIP HMO and GHI/EBCBS participants from assumed age 40 for non-Medicare-eligible retirees and from assumed age 73 for Medicare-eligible retirees.

Initial monthly premium rates are shown in the following table:

Plan	Monthly Rate for Fiscal Year 2006	
	Basic	MH/SA Rider <sup>2</sup>
HIP HMO		
Non-Medicare		
Single	\$286.86	\$ 5.04
Family	\$702.83	\$12.34
Medicare	\$ 58.15	N/A
GHI/EBCBS Senior Care	\$140.23	N/A

Welfare Funds . . . . . Reported contribution amounts for fiscal year 2006 were used for current retirees. Weighted average contribution rates for fiscal year 2006 were used for future retirees. Contributions assumed to increase by Medicare Plans trend rates.

Medicare Part B Premiums . . . . .	Calendar Year	Monthly Premium
		2005
	2006	\$88.50

2006 Medicare Part B premiums assumed to increase by Part B trend rates. No retiree assumed to have income in excess of the threshold which would result in increasing Part B premium above 25% of Medicare Part B costs.

The actual 2007 Medicare Part B premium, which was announced prior to the issuance of this Report, was not reflected in these analyses.

Health Care Cost Trend Rate (HCCTR) . . . Covered medical expenses are assumed to increase by the following percentages:

Year Ending*	HCCTR Assumptions		
	Pre-Medicare Plans	Medicare Plans	Part B Premium
2007	10.0%	8.0%	10.0%
2008	9.5%	7.0%	9.5%
2009	9.0%	6.0%	9.0%
2010	8.5%	5.0%	8.5%
2011	8.0%	5.0%	8.0%
2012	7.5%	5.0%	7.5%
2013	7.0%	5.0%	7.0%
2014	6.5%	5.0%	6.5%
2015	6.0%	5.0%	6.0%
2016	5.5%	5.0%	5.5%
2017 and later	5.0%	5.0%	5.0%

\* Fiscal year for Pre-Medicare Plans and Medicare Plans and calendar year for Medicare Part B premiums.

Age-Related Morbidity ..... Assumed increases in the claims costs per year of age for HIP HMO and GHI/EBCBS consistent with those set forth in a July, 2005 article in North American Actuarial Journal by Jeffrey R. Petertil.

<u>Age</u>	<u>Annual Increase</u>
Under 40	0.0%
40 – 49	3.0%
50 – 54	3.3%
55 – 59	3.6%
60 – 64	4.2%
65 – 69	3.0%
70 – 74	2.5%
75 – 79	2.0%
80 – 84	1.0%
85 – 89	0.5%
90 and over	0.0%

Medicare ..... Medicare is assumed to be the primary payer over age 65 and for retirees currently on Medicare. For future disability retirements, Medicare is assumed to start 2.5 years after retirement for the following portion of retirees:

NYCERS	35%
TRS	45%
BERS	45%
POLICE	15%
FIRE	25%

Participation ..... Active participation assumptions based on current retiree elections. Actual elections for current retirees. Portions of current retirees not eligible for Medicare were assumed to change elections upon attaining age 65 based on patterns of elections of Medicare-eligible retirees.

Dependent Coverage ..... Dependent coverage is assumed to terminate when a retiree dies except in the following situations:

- (i) Lifetime coverage is provided to the surviving spouse or domestic partner and coverage to age 19 (or 23 if full-time student) for children of uniformed members of the Police or Fire Departments who died in the Line-of-Duty.
- (ii) Effective November 13, 2001, other surviving spouses of retired uniformed members of the Police and Fire Departments may elect to continue coverage for life by paying 102% of stated premium.

For survivors of POLICE and FIRE who die other than in the Line-of-Duty (assumed to be all who terminate with Accidental Death Benefits) the valuation assumes that 30% of spouses eligible for survivor continuation will elect the benefit, with costs equal to 30% greater than the age-adjusted premiums for surviving spouses for HIP HMO and GHI/EBCBS participants. The valuation includes the entire cost of additional surviving spouse benefits, although the Office of the Actuary understands that some of this amount may be reimbursed through welfare funds.

Dependents . . . . . Dependent assumptions based on distribution of coverage of recent retirees which are shown in the following table. Wives assumed to be three years younger than husbands. Actual spouse data for current retirees. Child dependents of current retirees assumed to receive coverage until age 23. Child dependents of future retirees assumed to receive coverage for five years after retirement.

	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>
<u>Male</u>					
Single Coverage	30%	45%	35%	15%	10%
Spouse	40%	35%	55%	15%	35%
Child/No Spouse	5%	5%	2%	5%	5%
Spouse and Child	<u>25%</u>	<u>15%</u>	<u>8%</u>	<u>65%</u>	<u>50%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
<u>Female</u>					
Single Coverage	70%	60%	60%	45%	10%
Spouse	20%	32%	35%	10%	35%
Child/No Spouse	5%	3%	2%	25%	5%
Spouse and Child	<u>5%</u>	<u>5%</u>	<u>3%</u>	<u>20%</u>	<u>50%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Demographic Assumptions . . . . . The same assumptions that were used to value the pension benefits of the NYCERS for determining employer contributions for fiscal year 2006 were adopted by each respective Board of Trustees.

COBRA Benefits . . . . . Although COBRA beneficiaries pay 102% of “premiums”, typical claim costs for COBRA participants run about 50% greater than other participants. There is no cost to the City for COBRA beneficiaries in community-rated HMOs, including HIP, since these individuals pay their full community rate. On the other hand, the City’s costs under the experience-rated GHI coverage is affected by the claims for individuals who elect COBRA coverage.

In order to reflect the cost of COBRA coverage, the cost of excess claims for GHI covered individuals and families is estimated assuming 15% of employees not eligible for other benefits included in the valuation elect COBRA coverage for 15 months. These assumptions are based on experience of other large employers. This percentage is applied to the overall enrollment in the active plan and reflects a load for individuals not yet members of the retirement systems who are still eligible for COBRA benefits. This results in an assumed COBRA cost of \$450 per person who terminated without other benefits. The \$450 is increased by the Health Care Cost Trend Rates for future years but is not adjusted for age-related morbidity.

Stabilization Fund . . . . . .25% Load on all Benefit Costs.

Educational Construction Fund . . . . . The actuarial assumptions used for determining obligations for ECF are shown as follows:

- Eligibility for Benefits: ECF employees are eligible for retirement and OPEB at age 55 with 10 years of service. Termination after 10 years of service entitles employees to deferred pension benefits and OPEB. Disability retirement with OPEB is available after 10 years of service. Unlike the New York City Health Benefits Program, ECF is assumed to offer retiree health coverage that continues for dependents after the death of the retiree.
- Per Capita Plan Costs: As suggested as an alternative in the State Report<sup>3</sup>, ECF’s OPEB actuarial valuation uses premium amounts unadjusted for age. The premiums reported to the OA by ECF for health coverage are consistent with the Empire Plan medical

and drug core plus enhancement premiums shown on Exhibit 2-1 of the State Report. ECF also provided information for dental premiums of \$52.05 per quarter for single coverage and \$170.94 per quarter for family coverage. Calculations reflect actual coverage for current retirees, except that individuals now under age 65 are assumed to qualify for Medicare and receive Medicare Part B premium reimbursement when they reach age 65.

- Dependents: 80% of employees are assumed to cover a spouse at retirement with husbands 3 years older than their wives.
- Elections: Future retirees are assumed to continue in the health and dental insurance programs.
- Cost Sharing: No retiree contributions are assumed.
- Interest Rate: 4.155% per annum, consistent with the State Report.
- Trend: The trend recommended in the State Report for medical benefits are used for all benefits measured for ECF. The separately-stated, greater drug trend was not applied. The same trend was used for dental benefits. Medicare Part B premiums were assumed to increase by the trend and actual 2007 Part B premiums were not reflected.
- Demographic Assumptions: The NYSLERS<sup>4</sup> actuarial valuation assumptions, as modified in the State Report are used.
- Salary Scale: The NYSLERS salary scale, as described in the State Report is used.

<sup>1</sup> 2.5% CPI, 1.5% real rate of return on short-term investments.

<sup>2</sup> Included in OPEB obligations for both HIP HMO and GHI-CPB/EBCBS non-Medicare-eligible retirees but later determined to be provided only for HIP HMO retirees.

<sup>3</sup> A report on the “Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation — Participating Agency Version,” dated August 7, 2006, prepared by Buck Consultants, LLC.

<sup>4</sup> New York State and Local Employees’ Retirement System  
N/A: Not Applicable

## 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*

As of the June 30, 2004 (Lag) and June 30, 2004 actuarial valuations, the membership of NYCRS consisted of:

	2004 (Lag)					
	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
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>

	2004					
	NYCERS	TRS	BERS	POLICE	FIRE	TOTAL
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>

June 30, 2004 is the actuarial valuation date used for calculating fiscal year 2006 and 2005 employer contributions. Under the One-Year Lag methodology, the actuarial valuation determines the employer contributions for the second following fiscal year.

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

Member contributions are established by law and vary by Plan. In general, Tier I and Tier II member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier III and Tier IV members make basic contributions of 3.0% of salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000,

these members, except for certain Transit Authority employees, are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. Effective December, 2000, certain Transit Authority Tier III and Tier IV members make basic member 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 Supplementation benefits 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 certain Supplementation benefits and COLA, these enhancements are fully reflected in the actuarial valuations as of June 30, 2004, 2003, 2002, 2001, and 2000.

Chapter 152 of the Laws of 2006 (Chapter 152/06) implemented changes in the actuarial procedures for determining employer contributions beginning fiscal year 2006. In particular Chapter 152/06 provided the One-Year Lag methodology and Chapter 152/06 also eliminated the use of the ten-year phase-in of Chapter 278 of the Laws of 2002 (Chapter 278/02) for funding the additional actuarial liabilities created by Chapter 125 of the Laws of 2000 (Chapter 125/00) and these enhancements are fully reflected, without phase-in, in the June 30, 2004 (Lag) actuarial valuations.

*Annual Pension Costs*

NYCRS annual pension costs and the City's statutory contributions for fiscal year 2006 were determined as part of the June 30, 2004 (Lag) actuarial valuations on the basis of revised actuarial assumptions and methods including the Frozen Initial Liability Actuarial Cost Method.

The changes in actuarial assumptions and methods effective fiscal year 2006 results in somewhat lesser statutory contributions for fiscal years 2006 and 2007 and increased statutory contributions for future fiscal years.

The annual pension costs for NYCRS, for the fiscal years ended June 30, 2006, 2005, and 2004 were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		(in millions)	
NYCERS .....	\$1,024.4	\$1,020.4	\$ 542.2
TRS .....	1,316.6	1,304.0	1,015.3
BERS .....	90.8	106.4	95.0
POLICE .....	1,302.6	1,105.9	902.7
FIRE .....	<u>601.7</u>	<u>515.1</u>	<u>424.5</u>
Total annual pension costs .....	<u>\$4,336.1</u>	<u>\$4,051.8</u>	<u>\$2,979.7</u>

For fiscal year 2006, the City's statutory contributions for the NYCRS, based on the actuarial valuations performed as of June 30, 2004 (Lag), plus other pension expenditures, were approximately \$4,008.5 million. These statutory contributions for NYCERS, TRS and BERS were less than the annual pension costs computed in accordance with Governmental Accounting Standards Board Statement No. 27 (GASB27).

For fiscal year 2006, the annual pension costs for NYCERS, TRS and BERS computed in accordance with GASB27 and consistent with generally accepted actuarial principles are greater than the statutory contributions primarily because the City is only one of the participating employers in NYCERS, TRS, and BERS.

For fiscal year 2006, the annual pension costs for POLICE and FIRE computed in accordance with GASB27 and consistent with generally accepted actuarial principles are less than the statutory contributions primarily because of the interest on and amortization of the Net Pension Obligations for POLICE and FIRE.

For fiscal years 2005 and 2004, the annual pension costs for NYCRS 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 125/00, as later modified by 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 the 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 was required to recognize, on a theoretical basis, only 10% of the additional actuarial liabilities created by the benefits provided by Chapter 125/00 for determining fiscal year 2001 employer contributions.

For each of the next eight June 30 actuarial valuations (*i.e.*, June 30, 2001 to June 30, 2008), the Actuary was 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 was 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, 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 was to postpone funding of the additional actuarial liabilities attributable to Chapter 125/00 resulting in greater employer contributions in later years.

Chapter 152/06 eliminates the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by Chapter 125/00.



The City's statutory contributions for the fiscal years ended June 30, 2006, 2005, and 2004 were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
		(in millions)	
NYCERS* .....	\$ 584.8	\$ 455.7	\$ 166.0
TRS* .....	1,300.8	1,212.5	908.0
BERS* .....	87.1	92.6	80.9
POLICE .....	1,337.7	1,033.3	812.0
FIRE .....	608.8	489.5	392.7
OTHER** .....	95.8	86.3	84.9
Total actual pension contributions .....	<u>\$4,015.0</u>	<u>\$3,369.9</u>	<u>\$2,444.5</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 for fiscal years 2005 and 2004 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, 2006, 2005, and 2004 were:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
NYCERS .....	57.09%	55.38%	53.44%
TRS .....	98.80	98.71	98.67
BERS .....	95.86	95.85	96.28

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 statutory contributions. For fiscal year 2006 the actuarially-required contributions equal the statutory contributions.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for fiscal year 2006 are as follows:

	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
		(in millions)	
(1) Annual Required Contribution .....	\$1,337.7	\$608.8	\$1,946.5
(2) Interest on Net Pension Obligation .....	46.3	18.2	64.5
(3) Adjustment to Annual Required Contribution .....	81.4	25.3	106.7
(4) Annual Pension Cost=(1)+(2)-(3) .....	1,302.6	601.7	1,904.3
(5) Statutory Contribution .....	<u>1,337.7</u>	<u>608.8</u>	<u>1,946.5</u>
(6) Decrease in Net Pension Obligation=(4)-(5) .....	(35.1)	( 7.1)	(42.2)
(7) Net Pension Obligation Beginning of Year .....	579.0	227.2	806.2
(8) Net Pension Obligation End of Year=(6)+(7) .....	<u>\$ 543.9</u>	<u>\$220.1</u>	<u>\$ 764.0</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 .....	6/30/06	\$1,302.6	103%	\$543.9
	6/30/05	1,105.9	93	579.0
	6/30/04	902.7	90	506.4
FIRE .....	6/30/06	601.7	101	220.1
	6/30/05	515.1	95	227.2
	6/30/04	424.5	93	201.6

*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, 2006 and 2005 are as follows:

	2006	2005
<i>Valuation Date</i> .....	<i>June 30, 2004 (Lag).(1)</i>	<i>June 30, 2004.</i>
<i>Actuarial Cost Method</i> .....	<i>Frozen Initial Liability.(2)</i>	<i>Frozen Initial Liability.(2)</i>
<i>Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)</i> .....	<i>Increasing dollar for FIRE.(3) Level dollar for UAAL attributable to NYCERS 2000 Early Retirement Incentive (ERI); BERS, NYCERS, and TRS 2002 ERI (Part A only). (4) All outstanding components of UAAL are being amortized over closed periods.</i>	<i>Increasing dollar for FIRE. (3) 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). (4) All outstanding components of UAAL are being amortized over closed periods.</i>
<i>Remaining Amortization Period</i> ...	<i>5 years for FIRE(3), 1 year for 2000 ERI, and 3 years for 2002 ERI (Part A only).</i>	<i>6 years for FIRE(3) and 1 year for 1999 ERI, 2 years for 2000 ERI, and 4 years for 2002 ERI (Part A only).</i>
<i>Actuarial Asset Valuation Method</i> ..	<i>Modified 6-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(5) (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).</i>	<i>8.0% per annum(5) (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 Boards of Trustees during fiscal year 2006.</i>	<i>Tables adopted by Boards 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 2006.</i>	<i>Tables adopted by Boards 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.(5)</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year.(5)</i>
<i>Cost-of-Living Adjustments</i> .....	<i>1.3% per annum.(5)</i>	<i>1.3% per annum.(5)</i>

(1) Under One-Year Lag methodology, the actuarial valuation determines the employer contribution for the second following fiscal year.  
 (2) 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.

- (3) *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.*
- (4) *Laws established UAAL for Early Retirement Incentive Programs to be amortized on a level dollar basis over periods of 5 years.*
- (5) *Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.*

Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially-funded NYCERS are conducted by an independent actuarial firm every two years.

The most recent actuarial study, dated May 2006, analyzed experiences for fiscal years 2002 and 2003. The independent actuarial auditor intends to make recommendations to the actuarial assumptions and methods after the completion of the analysis of the experience for fiscal years 2004 and 2005 which should be completed in the winter 2006.

In accordance with the ACNY and with appropriate practice, the Boards of Trustees of the five actuarially-funded NYCERS are to periodically review and adopt actuarial assumptions as proposed by the Actuary for use in the determination of employer contributions.

Based upon a review of an October 2003 experience study, the Actuary issued in August 2005 reports for the NYCERS proposing changes in actuarial assumptions and methods for determining employer contributions for fiscal years beginning on and after July 1, 2005 (August 2005 Reports). Where required, the Boards of Trustees of the NYCERS adopted those changes to actuarial assumptions that required Board approval and the State Legislature and the Governor enacted Chapter 152/06 to provide for those changes to the actuarial assumptions and methods that required legislation, including the Actuarial Interest Rate (AIR) assumption of 8.0% per annum.

Chapter 152/06 provides for the changes in actuarial assumptions and methods that require legislation, including the continuation of the AIR assumption of 8.0% per annum and continuation of the current Frozen Initial Liability (FIL) Actuarial Cost Method and the existing Unfunded Actuarial Accrued Liability (UAAL). In addition, Chapter 152/06 provides for elimination of the use of the ten-year phase-in of Chapter 278/02 for funding the additional actuarial liabilities created by the benefits provided by Chapter 125/00.

Chapter 152/06 also established the One-Year Lag methodology to determine fiscal year 2006 employer contributions using a June 30, 2004 valuation date. This methodology requires technical adjustments to certain components used to determine fiscal year 2006 employer contributions.

For the June 30, 2004 (Lag) actuarial valuations, the Actuarial Asset Valuation Method (AAVM) was changed to a method which reset the Actuarial Asset Values (AAV) to Market Values (ie., Market Value Restart) as of June 30, 1999. As of each June 30 thereafter the AAVM recognizes investment returns greater or less than expected over a period of six years.

Under this revised AAVM, any (Unexpected Investment Returns (UIR)) for fiscal years 2000 and later are phased into the AAV beginning the following June 30 at a rate of 15%, 15%, 15%, 15%, 20% and 20% per year (or cumulative rates of 15%, 30%, 45%, 60%, 80% and 100% over a period of six years).

These revised averaging factors were applied against the UIR computed under the prior five-year AAVM used for fiscal years 2000 to 2004.

The revised AAV was utilized for the first time in the June 30, 2004 (Lag) actuarial valuations to determine the fiscal year 2006 employer contributions in conjunction with the One-Year Lag methodology and the revised economic and noneconomic assumptions.

For fiscal years 2000 through 2005, the AAVM was changed as of June 30, 1999 to reflect a market basis for investments held and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under this AAVM, any UIR for fiscal years 2000 through 2005 inclusive were 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 the UAAL, if any, be amortized over a period of 11 years beginning fiscal year 2000, where each annual payment after the first equals 103% of its preceding annual payment.

Chapter 70 of the Laws of 1999 established 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. As a result of insufficient fund assets to pay benefits as of June 30, 2006, NYCERS is required to transfer assets so that HPOVSF can meet its benefit obligations when due.

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, inclusive of prior year's cumulative deficiencies, sufficient to meet their annual benefit payments.

For fiscal years 2006 and 2005, excess earnings on equity investments, inclusive of prior year's cumulative deficiencies, are estimated to be equal to zero and, therefore, no transfers will be due to VSFs as of June 30, 2006 and June 30, 2005, respectively.

For both fiscal years 2006 and 2005, required transfers from NYCERS of approximately \$2.3 million were made to HPSOVSF.

For both fiscal years 2006 and 2005, required transfers from NYCERS of approximately \$2.4 million and \$1.9 million, respectively, were made to TPSOVSF.

As of June 30, 2006, NYCERS has accrued approximately \$.9 million, \$1.2 million, and \$1.2 million toward the amounts expected to be transferred to HPOVSF, HPSOVSF and TPSOVSF, respectively, to meet the December, 2006 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 the NYCERS: the actuarial valuation date, the actuarial asset value, the actuarial accrued liability, the unfunded actuarial accrued liability, the actuarial asset value as a percentage of the actuarial accrued liability (funded ratio), the annual covered payroll, and the ratio of the unfunded actuarial accrued liability to annual covered payroll. All actuarially determined information has been calculated in accordance with the actuarial assumptions and methods reflected in the actuarial valuations as of June 30, 2004 (Lag), 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) (2) - (1) (in millions)	Funded Ratio (1) ÷ (2)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (3) ÷ (5)
NYCERS .....	6/30/04(Lag)	\$40,638.6	\$40,786.6	\$148.0	99.6%	\$9,361.2**	1.6%
	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(Lag)	33,149.3	33,159.7	10.4	100.0	6,175.9**	0.2
	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(Lag)	1,843.8	1,850.6	6.8	99.6	624.9**	1.1
	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(Lag)	18,735.1	18,735.1	0.0	100.0	2,757.7**	0.0
	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(Lag)	6,277.3	6,382.5	105.2	98.4	864.8**	12.2
	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

\* Based on the Frozen Initial Liability Actuarial Cost Method.

\*\* The annualized covered payrolls as of June 30, 2004 under the One-Year Lag methodology used to compute fiscal year 2006 employer contributions differ from that as of June 30, 2004 to compute fiscal year 2005 employer contributions due to changes in actuarial assumptions and more recent information on labor contract settlements.

- (a) The AAVM in use for the June 30, 2004 (Lag) and later actuarial valuations resets the AAV to Market Value (*i.e.*, “Market Value Restart”) as of June 30, 1999. As of each June 30 thereafter the AAVM recognizes investment returns greater or less than expected over a period of six years.

Under this revised AAVM used for the fiscal year 2006 employer contributions, UIR for fiscal years 2000, 2001, etc., are phased into the AAV beginning June 30, 2000, 2001, etc., at rates of 15%, 15%, 15%, 15%, 20%, and 20% per year (*i.e.*, cumulative rates of 15%, 30%, 45%, 60%, 80% and 100% over a period of six years).

These revised averaging factors were applied against the UIR computed under the prior five-year AAVM used for fiscal years 2000 to 2004.

The revised AAV was utilized for the first time in the June 30, 2004 (Lag) actuarial valuation to determine the fiscal year 2006 employer contribution in conjunction with the One-Year Lag methodology and the revised economic and noneconomic assumptions in accordance with the August 2005 Reports.

As of June 30, 1999 the economic and noneconomic assumptions were revised due to experience review. The AAVM was changed as of June 30, 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1999.

Under the AAVM used for the June 30, 1999 to June 30, 2004 actuarial valuations, any UIR for Fiscal Years 2000 and later were phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25% and 30% per year (*i.e.*, cumulative rates of 10%, 25%, 45%, 70% and 100% over a period of five years).

- (b) To effectively assess the funding progress of a Plan, it is usually appropriate 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.

Note, however, that UAAL is the excess of AAL over AAV. Under the FIL Actuarial Cost Method, the initial UAAL is frozen at date of establishment and amortized over time. That UAAL is not adjusted from one actuarial valuation to the next to reflect actuarial gains and losses.

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**BONDS TO BE REDEEMED**

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

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

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

<u>Series</u>	<u>Dated Date</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>
1997L	June 10, 1997	August 1, 2009 August 1, 2011	5.250% 5.375	August 1, 2007 August 1, 2007	\$ 310,000 <sup>(P)</sup> 5,000 <sup>(P)</sup>
1997M	June 10, 1997	June 1, 2022	5.600	June 1, 2007	15,000 <sup>(P)(T)</sup>
1998B	July 15, 1997	August 1, 2009 August 1, 2014 August 1, 2015 August 1, 2016 August 1, 2017 August 1, 2020 August 1, 2022	5.200 5.250 5.250 5.250 5.250 5.250 5.375	August 1, 2007 August 1, 2007 August 1, 2007 August 1, 2007 August 1, 2007 August 1, 2007 August 1, 2007	10,000 <sup>(P)</sup> 585,000 <sup>(P)</sup> 620,000 <sup>(P)</sup> 650,000 <sup>(P)</sup> 685,000 <sup>(P)</sup> 1,125,000 <sup>(P)(T)</sup> 560,000 <sup>(P)(T)</sup>
1998C	November 18, 1997	November 15, 2021	5.250	November 15, 2007	15,000 <sup>(P)(T)</sup>
1998E	January 6, 1998	February 1, 2008 February 1, 2013	5.000 5.125	February 1, 2008 February 1, 2008	60,000 <sup>(P)</sup> 80,000 <sup>(P)</sup>
1998F	January 6, 1998	August 1, 2023	5.000	February 1, 2008	810,000 <sup>(P)(T)</sup>
1998H	April 1, 1998	August 1, 2010 August 1, 2012 August 1, 2018 August 1, 2025	4.800 5.000 5.125 5.125	August 1, 2008 August 1, 2008 August 1, 2008 August 1, 2008	280,000 <sup>(P)</sup> 465,000 <sup>(P)</sup> 2,150,000 <sup>(P)(T)</sup> 4,120,000 <sup>(P)(T)</sup>
1998I	June 11, 1998	May 15, 2018 May 15, 2023	5.000 5.000	May 15, 2008 May 15, 2008	1,560,000 <sup>(P)(T)</sup> 750,000 <sup>(P)(T)</sup>
1998J	June 1, 1998	August 1, 2010	4.625	August 1, 2008	1,435,000 <sup>(P)</sup>
1999C	August 20, 1998	August 15, 2014 August 15, 2015 August 15, 2022 August 15, 2028	5.000 5.000 5.000 5.000	August 15, 2008 August 15, 2008 August 15, 2008 August 15, 2008	965,000 <sup>(P)</sup> 5,185,000 <sup>(P)</sup> 7,720,000 <sup>(P)(T)</sup> 3,330,000 <sup>(P)(T)</sup>
1999D	August 20, 1998	August 1, 2010 August 1, 2012	4.875 5.000	August 1, 2008 August 1, 2008	1,590,000 <sup>(P)</sup> 1,475,000 <sup>(P)</sup>
1999F	January 26, 1999	August 1, 2010 August 1, 2011 August 1, 2012	4.875 5.125 5.125	February 1, 2009 February 1, 2009 February 1, 2009	540,000 <sup>(P)</sup> 600,000 <sup>(P)</sup> 630,000 <sup>(P)</sup>

<u>Series</u>	<u>Dated Date</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Payment Date</u>	<u>Amount</u>
1999H	March 18, 1999	March 15, 2009	5.000%	March 15, 2009	\$ 2,700,000 <sup>(P)</sup>
		March 15, 2011	4.750	March 15, 2009	1,680,000 <sup>(a)</sup>
		March 15, 2014	5.000	March 15, 2009	8,885,000 <sup>(P)</sup>
		March 15, 2016	5.000	March 15, 2009	5,735,000 <sup>(a)</sup>
		March 15, 2018	5.100	March 15, 2009	3,890,000 <sup>(P)</sup>
		March 15, 2018	5.250	March 15, 2009	735,000 <sup>(a)</sup>
		March 15, 2029	5.000	March 15, 2009	18,480,000 <sup>(P)(t)</sup>
1999I	April 21, 1999	April 15, 2011	4.500	April 15, 2009	965,000 <sup>(P)</sup>
1999J	June 15, 1999	May 15, 2012	5.000	May 15, 2009	6,400,000 <sup>(P)</sup>
		May 15, 2013	5.000	May 15, 2009	1,840,000 <sup>(P)</sup>
		May 15, 2029	5.125	May 15, 2009	18,190,000 <sup>(P)(t)</sup>
2000A	June 1, 2000	May 15, 2011	6.500	May 15, 2010	815,000 <sup>(P)</sup>
2000C	June 1, 2000	August 1, 2012	5.750	August 1, 2010	30,000 <sup>(P)</sup>
2001A	July 6, 2000	May 15, 2011	5.750	May 15, 2010	4,560,000 <sup>(a)</sup>
		May 15, 2012	5.875	May 15, 2010	15,000 <sup>(a)</sup>
		May 15, 2015	5.875	May 15, 2010	20,000 <sup>(a)</sup>
		May 15, 2019	5.750	May 15, 2010	20,000 <sup>(a)</sup>
2001B	October 10, 2000	August 1, 2013	5.750	August 1, 2010	4,980,000 <sup>(P)</sup>
		August 1, 2017	5.375	August 1, 2010	1,885,000 <sup>(P)</sup>
		August 1, 2018	5.375	August 1, 2010	7,660,000 <sup>(P)</sup>
2001H	March 29, 2001	March 15, 2008	4.500	March 15, 2008	5,000,000 <sup>(a)</sup>
		March 15, 2009	5.000	March 15, 2009	19,100,000 <sup>(a)</sup>
		March 15, 2010	5.000	March 15, 2010	3,120,000 <sup>(P)</sup>
		March 15, 2012	5.750	March 15, 2011	5,480,000 <sup>(P)</sup>
		March 15, 2013	5.750	March 15, 2011	8,615,000 <sup>(a)</sup>
		March 15, 2016	5.250	March 15, 2011	2,295,000 <sup>(P)</sup>
2002A	November 1, 2001	November 1, 2009	5.250	November 1, 2009	7,890,000 <sup>(P)</sup>
2002B	December 20, 2001	December 1, 2021	5.375	December 1, 2011	7,085,000 <sup>(P)</sup>
		December 1, 2026	5.375	December 1, 2011	5,000 <sup>(P)(t)</sup>
2002C	March 21, 2002	March 15, 2015	5.500	March 15, 2012	13,015,000 <sup>(a)</sup>
		March 15, 2017	5.625	March 15, 2012	10,000 <sup>(a)</sup>
		March 15, 2020	5.375	March 15, 2012	3,340,000 <sup>(P)</sup>
		March 15, 2021	5.250	March 15, 2012	15,280,000 <sup>(P)</sup>
		March 15, 2022	5.375	March 15, 2012	8,420,000 <sup>(P)</sup>
2002E	June 3, 2002	August 1, 2016	5.750	August 1, 2012	560,000 <sup>(P)</sup>
2002G	June 3, 2002	August 1, 2016	5.750	August 1, 2012	1,805,000 <sup>(P)</sup>
2003I	March 6, 2003	March 1, 2008	3.200	March 1, 2008	3,700,000 <sup>(P)</sup>
		March 1, 2017	5.750	March 1, 2013	13,115,000 <sup>(P)</sup>
		March 1, 2018	5.750	March 1, 2013	7,720,000 <sup>(P)</sup>
		March 1, 2019	5.750	March 1, 2013	1,030,000 <sup>(P)</sup>
		March 1, 2027	5.375	March 1, 2013	3,445,000 <sup>(P)(t)</sup>
2003J	June 4, 2003	June 1, 2019	5.500	June 1, 2013	8,840,000 <sup>(P)</sup>
		June 1, 2020	5.500	June 1, 2013	15,185,000 <sup>(P)</sup>
		June 1, 2023	5.500	June 1, 2013	1,780,000 <sup>(P)</sup>

<sup>(P)</sup> The amount shown is being defeased and is a portion of the bonds of this description.

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

<sup>(t)</sup> The defeased bonds will be credited against the following redemption dates:

<b>1997M</b>	
<b>2022 Term Bond</b>	
<u>June 1</u>	<u>Amount</u>
2020	\$ 15,000

<b>1998I</b>	
<b>2023 Term Bond</b>	
<u>May 15</u>	<u>Amount</u>
2021	\$ 750,000

<b>1998B</b>	
<b>2020 Term Bond</b>	
<u>August 1</u>	<u>Amount</u>
2018	\$ 550,000
2019	575,000

<b>1999C</b>	
<b>2022 Term Bond</b>	
<u>August 15</u>	<u>Amount</u>
2021	\$ 1,600,000
2022	6,120,000

<b>1998B</b>	
<b>2022 Term Bond</b>	
<u>August 1</u>	<u>Amount</u>
2022	\$ 560,000

<b>1999C</b>	
<b>2028 Term Bond</b>	
<u>August 15</u>	<u>Amount</u>
2024	\$ 3,330,000

<b>1998C</b>	
<b>2021 Term Bond</b>	
<u>November 15</u>	<u>Amount</u>
2019	\$ 15,000

<b>1999H</b>	
<b>2029 Term Bond</b>	
<u>March 15</u>	<u>Amount</u>
2024	\$ 6,600,000
2025	11,880,000

<b>1998F</b>	
<b>2023 Term Bond</b>	
<u>August 1</u>	<u>Amount</u>
2021	\$255,000
2022	270,000
2023	285,000

<b>1999J</b>	
<b>2029 Term Bond</b>	
<u>May 15</u>	<u>Amount</u>
2021	\$ 4,045,000
2022	3,860,000
2023	4,470,000
2024	4,700,000
2028	545,000
2029	570,000

<b>1998H</b>	
<b>2018 Term Bond</b>	
<u>August 1</u>	<u>Amount</u>
2017	\$ 2,150,000

<b>2002B</b>	
<b>2026 Term Bond</b>	
<u>December 1</u>	<u>Amount</u>
2025	\$ 5,000

<b>1998H</b>	
<b>2025 Term Bond</b>	
<u>August 1</u>	<u>Amount</u>
2023	\$2,920,000
2025	1,200,000

<b>2003I</b>	
<b>2027 Term Bond</b>	
<u>March 1</u>	<u>Amount</u>
2026	\$2,955,000
2027	490,000

<b>1998I</b>	
<b>2018 Term Bond</b>	
<u>May 15</u>	<u>Amount</u>
2016	\$1,560,000

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APPENDIX D



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BEIJING	GENEVA	SAN FRANCISCO
BRUSSELS	HONG KONG	SHANGHAI
CHICAGO	LONDON	SINGAPORE
DALLAS	LOS ANGELES	TOKYO
FRANKFURT	NEW YORK	WASHINGTON, DC

FOUNDED 1866

January 9, 2007

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 2007 Series C, Subseries C-1 and C-2, and Series D (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 C-1, and Series D 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,

